



GLOBALIZATION IN INDIA & EMERGENCE OF SERVICE SECTOR

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ABSTRACT

The trend of globalization touched to India relatively later than other countries of the world. It was appear in India around 1991. The process of globalization further delayed in our country due to democratic system of government. However this shield of close economy has broken by our Ex-Prime Minster, Mr. Narshima Rao. The Ex-Finance Minister Mr. Man Mohan Singh has taken a great measure. He introduced LPG (Liberalization, Privatization & Globalization) in our economy. In this way Indian economy has opened its boundaries for foreign trade & investment.

India has three major sectors in its economy- Agriculture & allied, Industry and Services. Out of the above mention three sectors, service has its largest share in our GDP growth rate. Services sector includes trade, tourism, hotels & restaurants, Transport, storage, communication & services related to broadcasting, Financial, real estate & professional services. This sector contributed around 53.8 per cent³ of its Gross Value Added growth in 2016-17, that why this sector is very important for forex earnings. The maximum number of foreign direct investment comes in this sector only.

Indian telecommunication industry is expected to grow by 10.3 per cent year-on-year to reach US\$ 103.9 billion⁴ by 2020. The Indian digital classified sector is expected to grow by three-fold to reach US\$ 1.2 billion⁵ by 2020. This growth pace is driven by horizontal classification like online services, real estate and automobiles. The financial services, real estate & professional service are contributing around US\$ 305.8 billion or 20.5 per cent to the GDP⁶. Apart of This sub-sector like social and personal services contributed US\$ 188.2 billion or 12.6 per cent⁷ to the GDP.

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³ <https://www.ibef.org/industry/services.aspx>

⁴ <https://www.ibef.org/industry/telecommunications.aspx>

⁵ <https://www.ibef.org/industry/information-technology-india.aspx>

⁶ <https://www.ibef.org/industry/financial-services-india.aspx>

⁷ <https://www.ibef.org/industry/financial-services-india.aspx>



This study is an attempt to examine the recent development in service sector in India. There are lot of changes has taken place in services during the Post Economic Reforms still here is a scope for further improvement.

KEY WORDS: Service Sector, Trade Liberalization, Globalization, Economic Reforms.

INTRODUCTION

Before 1991 India was close economy. We are not use to do trade across the border of our national territory. Due to this we have very low pace of economic development. High population of our country is another major issue. We don't have employment opportunity for our youth. The level foreign exchange reserve is also very poor in our country. At that time Government of India has taken a big measure i.e. liberalization. Due to this measure lot of foreign companies started their working in India. This is the starting of new chapter in Indian economy. Foreign companies started hiring of lot of youth from our country. This paves the way to employment generation in multinational companies. The high population growth rate of Indian economy which was earlier seems as big problem later on became our strength. Foreign companies recognize Indian potential. They got it cheap labour for their work & in return we got it employment. Due to this lot of multinational companies has setup their branches in India.

Liberalization followed by globalization opens our economy for global competition. To face this competition Indian companies also adopted advance technologies. In this way lot of technological advancement is done in Indian industries. This paves the way for foreign exchange earning & increase in our national income. The Privatization further enhances work efficiency & quality of work. Now private sector became major resource for employment. It all improves our infrastructure a lot.

This is the impact of adoption of LPG policy that Indian economy became sixth largest economy of the world by nominal GDP. Indian is the third-largest economy by purchasing power parity (PPP). Our service sectors has fastest growth rate in the world (around 9% annually since 2001)⁸. In 1950 the share of service sector was around 15% of GDP. This has increase to 43.69% in

⁸ https://en.wikipedia.org/wiki/Economy_of_India. (Data has taken from World development indicator parameter).



1990-1991 to around 53.1% in 2016-17⁹. In this way service sector has maximum (more than half) contribution in our GDP.

Due to enormous growth in service sector India has become a major exporter of IT services, BPO services, and software services. This is also contributing the maximum share in employment generation in our country. The IT industry is the largest private sector employer in India. Indian economy is also supporting the start-ups. We are the third largest start-up hub in the world with over 3,100 technology start-ups in 2014-15¹⁰. The Industry sector has 29.7% of GDP contribution in 2015-16¹¹. Indian auto mobile industry is one of the largest in the world. Our country has \$600 billion worth of retail market in 2015 and one of world's fastest growing E-Commerce markets.

India's has two major stock exchanges, Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). BSE had a market capitalization of around 126 lakh crore while NSE has around 124 lakh crore as of June 8, 2017. BSE is the largest bourse in Asia & 11th in world while NSE is 12th in world¹².

GLOBALIZATION & GROWTH OF SERVICE SECTOR IN INDIA

After 1991 India has removed its trade blockades & became open for global economies. Indian Government has taken a measure to reform our sluggish economy. They have taken several measures to attract foreign investors to invest in our economy. In this way the process of liberalization started in India. This has fastened the pace of globalization too in our economy. Due to the growth of service sector our youth got it job in IT & service industry. This sector is contributing maximum in our GDP & providing largest number of employment in the country. While talking about service sector we use to think about only of finance, insurance, transport, communication and tourism. But now the new development has crossed these boundaries. The new areas are such as environmental, educational and counseling also part of this emerging sector today. There is lot of diversify activities included in this sector which are beyond the definition of services i.e. non-storability, non-tradability and intangibility.

⁹ "Sector-wise Contribution of GDP of India-Statistics.com". StatisticsTimes.com. Retrieved 11 August 2017.

¹⁰ "IMF World Economic Outlook Update, July 2017". WEO. Retrieved 2017-11-17

¹¹ "Weekly Statistical Supplement - Ratio and Rates". Reserve Bank of India. Retrieved 6 August 2017.

¹² https://en.wikipedia.org/wiki/Economy_of_India.



The share of Services is rapidly growing in our GDP. This sector is providing employment to 27% of the work force. Information technology and business process outsourcing are among the fastest-growing sectors, having a cumulative growth rate of revenue 33.6% between 1997 and 1998 and 2002–03 and contributing to 25% of the country's total exports in 2007-08¹³.

OBJECTIVE OF THE STUDY

1. To know the importance of services sector in Indian economy.
2. What are the changes in service sector appears post liberalization.
3. To explore the contribution of services in employment generation & GDP growth rate.

METHODOLOGY

This study is based on secondary data. Data for the analysis is collected from various sources like economic survey report of government of India, Report of currencies & Banking, Annual Reports of Reserve Bank of India (RBI), Statistics of the Foreign Trade in India, Foreign Trade Review and other relevant books and publications. To analyze the data the average percentage growth in exports and imports has been calculated by using MS-EXCEL tool.

REVIEW OF LITERATURE

A study by the World Bank has shown that the liberalized sectors in India have attracted more FDI comparison to less liberalized sectors. This study also drawn the fact that the segments that have been aggressively liberalized have experienced higher employment growth then less liberalizes sectors. Telecommunications, computer and related services, other business services (management consultancy, research and development (R&D), advertising, etc.) and hotels and restaurants-have experienced higher employment growth. Other sub-sectors which have registered a fast growth rate include communications services, financial services, tourism, hotel and restaurants.

Aarugonda Dr. Kotishwar (2010) has done a study on “impact of globalization on service sector in India”. He has given emphasis to Post liberalization reforms in India and suggests measures to improve the performance of service sector in India.

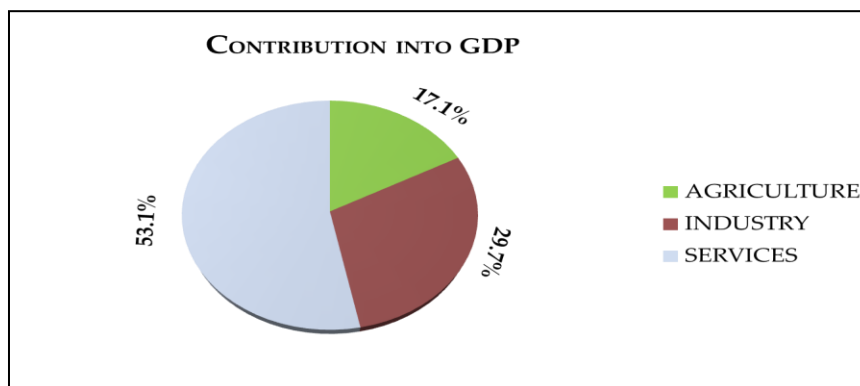
¹³ https://en.wikipedia.org/wiki/Economy_of_India.



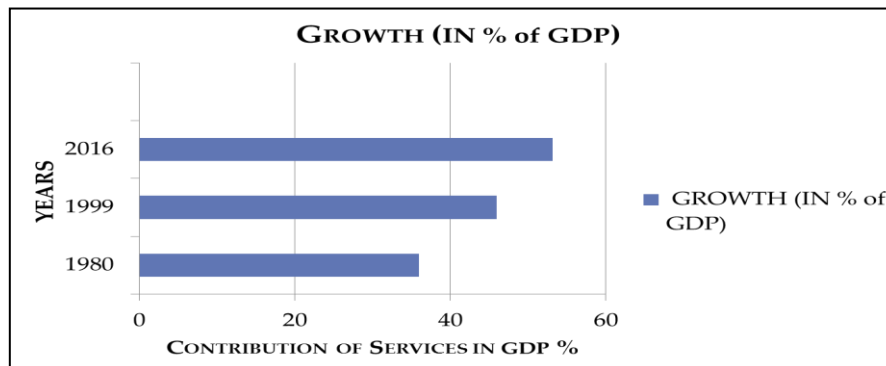
Ayush (2012) has done a study on “Globalization & its impact on Indian economy”. His study emphasis on the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.

Kumar Dr. Anil (2015) has done study on “Globalization & its impact on Indian Economy”. In his study he emphasis on the measures taken to implement globalization like Abolition of Industrial licensing Policy, Free access to foreign technology, Abolition of Government control over capital issues and creation of SEBI to encourage equity culture in India & Reduction in industries reserved for public sector.

Different Sectors Contribution in GDP (as per 2016-17)



"Sector-wise Contribution of GDP of India-Statistics.com". StatisticsTimes.com. Retrieved 11 August 2017.



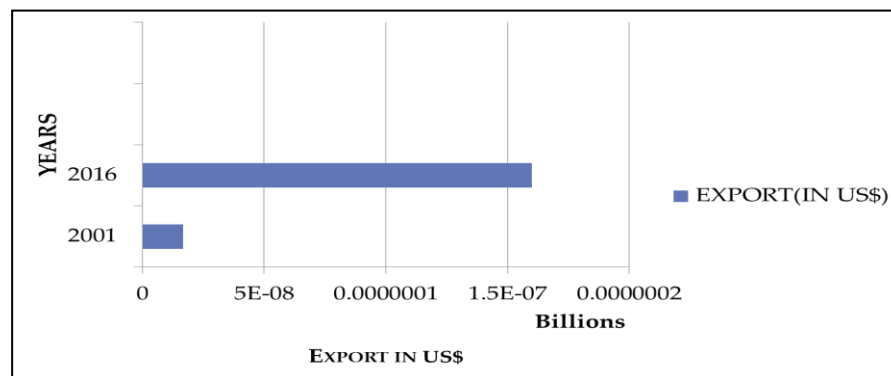
(Central Statistical Organization database.)



INDIA'S SERVICE TRADE

India became the service hub post globalization. We set up lot of service based organization in our country. Due to availability of large number of cheap labour lot of foreign companies outsource their work from India. In this way the export of services grew from 16.8 billion US\$ in 2001 to 160 billion US \$ in 2016. This constitutes 7.6% of the nation's GDP & making the country the 8th largest services exporter in the world. Now the overall openness of the economy is reflected by total trade including services as a percentage of GDP. This shows a higher degree of openness at 50% in 2014-15 compared to 38% in 2004-05. India's Services sector attracts largest number of FDI, which is around US\$ 58.345 billion (17.99 % of the total foreign inflows). The Government has taken further policy initiatives to promote services exports which include the Service Export from India Scheme (SEIS) and organizing Global Exhibition on Services (GES).

Contribution of Services in Growing Export



(www.google.com)

AVIATION

It is the impact trade liberalization that lot of Indians are going abroad & people from abroad are coming to India for business purposes & tourism. This has given a push to our aviation industry. Currently India is standing at ninth level in world civil aviation market. Which has further potential to become third largest aviation market by 2020¹⁴. It recorded air traffic of 163 million passengers in

¹⁴. Media India Group. 21 April 2017. Retrieved 14 October, 2017.



2013, estimated to be 60 million international passengers by 2017. This market is also estimated to have 800 aircraft by 2020¹⁵.

BANKING AND FINANCE

India has 14 banks in 1969, followed by six others in 1980. Since then, a lot emphasis is given to financial inclusion in our economy. To support deep penetration of banking industry among masses lot of bank branches got opened. It was around 8,260 in 1969 & 72,170 in 2007. Due to this population covered by a branch decreased from 63,800 to 15,000 during the same period. This will facilitate better quality of banking services to the people. The total bank deposits increased from ₹59.1 billion (US\$880 million) in 1970–71 to ₹38,309.22 billion (US\$570 billion) in 2008–09. It will give a lot of push to our economy. Now our Government has lot of money to invest in infrastructure development. The rural India is still lagging behind though lot of branches opened in these areas. In 1969 there were only 1,860 or 22% of the total branches present at that time to 30,590 or 42% in 2007. Still only 32,270 out of 500,000 villages are covered by scheduled banks¹⁶.

INFORMATION TECHNOLOGY

Since globalization this sector got highest boom & its contribution in our GDP has increased 1.2% in 1998 to 15% in 2015. According to NASSCOM, the sector aggregated revenues of US\$160 billion in 2015, where export revenue stood at US\$99 billion and domestic at US\$48 billion, growing by over 13%. The top five IT companies is contributing around 25% of total industry revenue. The seven IT firms from this sector were listed among the top 15 technology outsourcing companies in the world¹⁷.

INSURANCE

India is the 10th largest insurance market in the world since 2013. Our insurance market is around US\$66.4 billion in 2013, which is 2% world annual insurance business¹⁸. This is quite small in comparison to world's major economies. We need to start some lucrative investment options to attract investors in insurance.

¹⁵ [Aviation, Make in India](#).

¹⁶ Ghosh, Jayati (21 July 2005).. Macroscan. Economic Research Foundation. Archived from [the original](#) on 23 October 2005. Retrieved 11 January 2011.

¹⁷ [India's outsourcing revenue to hit \\$50 bn](#)". Financial Express.

¹⁸ IBEF, [Insurance Sector in India](#) April 2014 Industry Rep.



ELECTRICITY SECTOR

We are quite lagging behind in energy sector. India still is an energy deficient country. The primary energy consumption in India is the third biggest after China and USA with 5.3% global share in the year 2015¹⁹. Coal and crude oil together account for 85% of the primary energy consumption of India. India's oil reserves meet only 25%²⁰ of the country's domestic oil demand. In this segment we are still dependent on export. We need to explore new energy resources to fulfill our domestic demand.

INFRASTRUCTURE

There is lot of infrastructural development has taken place in India .Currently infrastructure and transport sector contributes about 5% of its GDP²¹. There is lot of growth prospects in this sector as India to become develop nation.

RETAIL

This sector got lot of growth in current time due to change in our life style. This industry is contributing between 14-15% to 20% of India's GDP. There is lot of growth prospects in this Retail & e - retail segment due to rapid adoption of modern lifestyle in India.

TOURISM

This is another very promising sector, which has lot of potential for further growth. According to World Travel & Tourism Council, tourism industry generated ₹8.31 lakh crore (US\$120billion) or 6.3% of the nation's GDP in 2015.This industry also generated 37.315 million jobs, 8.7% of its total employment²².

TELECOMMUNICATION

This industry expanded a lot in recent years due to digitalization of our economy. The telecommunication sector generated ₹2.20 lakh crore (US\$33 billion) in revenue in 2014-15, accounting for 1.94% of total GDP²³.

¹⁹[BP Statistical Review 2016](#)". Retrieved 29 May 2016.

²⁰[Datt & Sundharam 2009](#), p. 104.

²¹["India Transport Sector"](#). World Bank.

²²[Annual Report \(2015-16\), Ministry of Tourism, Government of India](#)" (PDF). [Ministry of Tourism \(India\)](#). pp. 6, 7. Retrieved 14 October 2016.

²³[Archived copy](#)" (PDF). Archived from [the original](#) (PDF) on 30 November 2016. Retrieved 29 November 2016.



RESEARCH AND DEVELOPMENT SERVICES

Now this segment has become part of professional scientific & technical activities. This grew at the rate of 3.8% and 25.5% respectively in 2013-14 and 2014-15. According to the Survey, it is expected that India's R&D services market grow to almost double by 2020 to 38 billion US\$²⁴.

CONSULTANCY SERVICES

These Services is emerging as one of the fastest growing service segments in India. Government has taken several initiatives like the Marketing Development Assistance and Market Access Initiative Scheme among others for capacity development of domestic consultants.

MEDIA AND ENTERTAINMENT SERVICES

According to the Economic Survey, the industry has recorded unprecedented growth over the last two decades making it one of the fastest growing industries in India. It is projected to grow at a CAGR of 13.9% to reach 1964 billion rupees by 2019²⁵. Digital advertising and gaming, which grew by 44.5% and 22.4% respectively in 2014, are projected to drive the growth of this sector in the coming years.

POSTAL SERVICES

India Posts is the largest Postal network in world. Towards financial inclusion, the number of post office savings bank (POSB) accounts has increased from 30.86 crore to 33.97 crore and total deposits in POSB accounts and cash certificate to Rs. 6.53 lakhs crore in the last one year. More than 80 lakh Sukanya Samridhi Yojna accounts have been opened. The IT Modernization Project of the Department of Posts, with a total outlay of Rs. 4909 crore, involves computerization and networking of all the post offices.

INVESTMENTS

The Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000-March 2016²⁶. According to the Department of Industrial Policy and Promotion (DIPP) in 2014, FDI in India at 34 billion US\$ increased by 22% over 2013. There has been a significant growth in FDI inflows in 2014-15 and 2015-16 (April-October) in general and in Services

²⁴ <http://www.google.com>.

²⁵ <http://www.indiainbusiness.nic.in/industry-infrastructure/service-sectors/media-entertainment.htm>.

²⁶ "India's FDI inflows at a record \$60.1 billion in 2016-17". HindustanTimes.com. 19 May 2017. Retrieved 2 November 2017.



Sector in particular. In 2014-15, FDI inflows to the Services Sector grew by a whopping 70.4% to 16.4 billion US\$. This rising trend is continuing in the first seven months of 2015-16²⁷ with the FDI equity inflows in the services sector growing by 74.7% to 14.8 billion US\$. There is significant FDI related liberalization has taken place in a number of sectors to ensure that India remains an increasingly attractive investment destination.

FINDINGS OF THE STUDY

The services with maximum contribution in GDP, employment generation, countries export & foreign exchange earning has become the most important sector of Indian economy. It attracts maximum number of foreign direct investment & foreign institutional investors. This sector has contributed almost 66.1% of its gross value added growth in 2015-16. Out of overall services sector, the sub-sector comprising financial services, real estate and professional services contributed US\$ 305.8 billion or 20.5 per cent to the GDP. The sub-sector of community, social and personal services contributed US\$ 188.2 billion or 12.6 per cent to the GDP. Service sector has contributed maximum in FDI inflow of our nation. As per CSO Indian service industry grow by 8.8% in 2016-17.

CONCLUSION

The growth in Service sector is governed by both domestic and global variables. This sector is expected to perform well in FY17. The Indian facilities management market is expected to grow at 17 per cent CAGR between 2015 and 2020. It will cross the \$19 billion mark supported by booming real estate, retail, and hospitality sectors. The performance of trade, hotels and restaurants, and transport, storage and communication sectors are expected to improve in FY17. The Loss of growth momentum in commodity-producing sectors has adversely impacted transport and storage sectors over the past two years. The financing, insurance, real estate, and business services sectors are also expected to continue their growth story in FY17. The growth performance of the community, social and personal services sector is directly linked with government expenditure. This is believed that the government will remain committed to fiscal consolidation in FY17.

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²⁷[FDI jumps 37% to \\$10.4 billion during April-June 2017](#)". 21 August 2017. Retrieved 2 November 2017 – via The Economic Times.



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