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Service sector in India

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Abstract

The tertiary sector of industry involves the provision of services to other businesses as well as final consumers. Services may involve the transport, distribution and sale of goods from producer to a consumer, as may be happen in wholesaling and retailing, or may involve the provision of a service, such as in pest control or entertainment. The goods may be transformed in the process of providing the service, as happens in the restaurant industry. The focus is on people interacting with people and serving the customer rather than transforming physical goods. For the last 30 years there has been a substantial shift from the primary and secondary sectors to the tertiary sector in industrialized countries. The tertiary sector is now the largest sector of the economy in the Western world, and is also the fastest-growing sector.

Keywords: IT sector, health services, education sectors, professional services and air services.

1. Introduction

The tertiary sector of the economy is also known as the service sector or the service industry. It is one of the three economic sectors, the others being the secondary sector is approximately the same as manufacturing and the primary sector are agriculture, fishing, and extraction and the service sector consists of the "soft" parts of the economy, i.e. activities where people offer their knowledge and time to improve productivity, performance, potential, and sustainability. The basic characteristic of this sector is the production of services instead of end products. Services are also known as "intangible goods" include attention, advice, experience, and discussion. The production of information is generally also regarded as a service, but some economists now attribute it to a fourth sector, the quaternary sector.

Meaning

Services or the "tertiary sector" of the economy covers a wide gamut of activities like trading, banking & finance, infotainment, real estate, transportation, security, management & technical consultancy among several others. The various sectors that combine together to constitute service industry in India are:

- Trade
- Hotels and Restaurants
- Railways
- Other Transport & Storage
- Communication (Post, Telecom)
- Banking
- Insurance
- Dwellings, Real Estate
- Business Services
- Public Administration; Defense
- Personal Services
- Community Services
- Other Services

Different service sectors in India

IT sector in India

Information technology essentially refers to the digital processing, storage and communication of information of all kinds. Therefore, IT can potentially be used in every sector of the economy. The true impact of IT on growth and productivity continues to be a

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matter of debate, even in the United States, which have been the leader and largest adopter of IT. However, there is no doubt that the IT sector has been a dynamic one in many developed countries, and India has stood out as a developing country where IT, in the guise of software exports, has grown dramatically, despite the country's relatively low level of income and development. The share of banking and insurance services in the GDP of India has been stable between 5.5 and 6.5 per cent over the last few years even though the sector has been showing a double digit growth in the pre-2008 period. Even the impact of the economic slowdown was considerably managed owing to the strong and conservative adherence to prudential norms under Basel II even as the industry met its social sector targets.

Indian telecom sector

The telecom services have been recognized the world-over as an important tool for socio-economic development for a nation. It is one of the prime support services needed for rapid growth and modernization of various sectors of the economy. Indian telecommunication sector has undergone a major process of transformation through significant policy reforms, particularly beginning with the announcement of NTP 1994 and was subsequently re-emphasized and carried forward under NTP 1999. Driven by various policy initiatives, the Indian telecom sector witnessed a complete transformation in the last decade. It has achieved a phenomenal growth during the last few years and is poised to take a big leap in the future also. The Indian Telecommunications network with 621 million connections (as on March 2010) is the third largest in the world. The sector is growing at a speed of 45% during the recent years. This rapid growth is possible due to various proactive and positive decisions of the Government and contribution of both by the public and the private sectors. The rapid strides in the telecom sector have been facilitated by liberal policies of the Government that provides easy market access for telecom equipment and a fair regulatory framework for offering telecom services to the Indian consumers at affordable prices. Presently, all the telecom services have been opened for private participation. The Government has taken following main initiatives for the growth of the Telecom Sector.

Foreign Direct Investment in Telecom Sector

In Basic, Cellular Mobile, Paging and Value Added Service, and Global Mobile Personal Communications by Satellite, Composite FDI permitted is 74% (49% under automatic route) subject to grant of license from Department of Telecommunications subject to security and license conditions. FDI up to 74% (49% under automatic route) is also permitted for the following: -

- ✓ Radio Paging Service
- ✓ Internet Service Providers (ISP's)

FDI up to 100% permitted in respect of the following telecom services: -

- Infrastructure Providers providing dark fiber (IP Category I);
- Electronic Mail; and
- Voice Mail

Subject to the conditions that such companies would divest 26% of their equity in favor of Indian public in 5 years, if these companies were listed in other parts of the world. In telecom manufacturing sector 100% FDI is permitted under automatic route.

Education sector

Education levels have a direct bearing on the sustainability of a country's competitiveness and economic growth. Against the background of economic globalization, the development of human capital very much depends on the internationalization of education services. The Indian Constitution places Education under the twin jurisdiction of both the State and the Central Governments. However, technical and higher education sectors are regulated by the All India Council for Technical Education (AICTE) Act and the University Grants Commission (UGC) Act, respectively. Though, there is no current regulatory framework in India which allows foreign tertiary education providers to deliver courses in India (apart from in relation to technical education), a new legislation on entry of foreign higher and technical education institutions, is under consideration. The current legal interpretation of the extant constitutional provisions puts education as a non-commercial activity. Yet, at present, foreign investment is allowed in institutes of higher education and technical training, but only on a franchisee and affiliation basis. Both the UGC and the AICTE seek to regulate the entry and operation of foreign educational institutions in India. Technical institutions need to obtain accreditation from AICTE.

Professional services

Professional services include the widest variety of individual and firm based services. These include, inter alia, legal, accountancy, engineering, architecture and medical services. This set of services is amenable to all the four modes of supply recognized under GATS.

Expansion in trade in professional services has the maximum forward and backward linkages in deepening of commercial relationships between countries. It also is one of the most rapid methods of dissemination of knowledge and skills, and consequently of technology across borders. Trade in professional services requires the ability of the professional to render the relevant service to be objectively measured. This is achieved through mutual recognition of qualifications.

Engineering services

In the case of engineering and integrated engineering services, India has the single largest pool of technically qualified and trained manpower with the potential to operate in the international market. With the growth in the manufacturing and services sector, and given the aging demographic profile of most developed countries, the demand for Indian engineers is likely to increase considerably in the coming years. Further, given the widespread expansion of the telecommunications sector and the increasing digitization of various services, there is great potential in export of engineering services through mode 1. According to NASSCOM, India's share of the USD 10-15 billion worth of engineering services off-shored was estimated at around 12%. In order to enable Indian engineers to practice their professions and make careers in foreign countries with ease, India, represented by the All India Council for Technical Education (AICTE), has become a provisional member of the Washington Accord which is a 10 member-nation apex global organization that determines standards of Engineering Education. This ensures that Indian undergraduate engineering degrees would be accorded an equal status in all member countries and they are recognized as engineering degrees of high international standards.

Health services

India is in a position to tap the top end of the USD 3 trillion global healthcare markets because of the quality of its services and the brand equity of Indian healthcare professionals across the globe. The Indian Government places top priority on the healthcare sector and is focusing on indigenous research and development and the further creation of human capital.

India has developed a brand name in supply of quality healthcare services at relatively cheaper rates compared to the USA, UK and rest of Europe. With a large pool of highly qualified doctors, nurses, paramedics and technicians and with growing innovations, expansions, low cost of treatment, world-class technology and five-star services not just in the western system of medicine but also in indigenous systems, including Ayurveda, Yoga & Naturopathy, Unani, Siddha and Homoeopathy, offering holistic health care, medical tourism is growing at a phenomenal rate of 30-35 per cent in India.

Tourism sector

Tourism is estimated to contribute 5.83 per cent to the GDP and 8.27 per cent to employment in the country; the employment generated by tourism is estimated at 51.1 million in 2006-07. In 2006, foreign tourist arrivals (business travelers, leisure travelers and persons of Indian origin holding foreign passports) had increased to 4.42 million, while the number of domestic tourists as reported by the Ministry of Tourism was 462 million. However, the Revealed Comparative Advantage (RCA) of India in travel services has been on the decline. It is estimated that the shortfall in tourist accommodation in the country will be 1, 50,000 rooms by 2010 of which more than 1, 00,000 will be in the budget category. The main reason for the shortage of hotels is the short supply of land suitable for construction hotels, particularly budget hotels. Also, land prices have shot up to astronomical levels and in many cities.

Air services

Domestic aviation sector in India has been expanding very rapidly despite high fuel costs. India has more than 300 airports of which at least 10 cater to regular international traffic. Areas for further potential future bilateral cooperation include airport development and pilot training.

FDI with 100% foreign equity participation is allowed with automatic approval for Greenfield airports. Prior permission of the government is needed for FDI beyond 74 per cent in existing airports. The 'open skies' policy for liberalization focuses on tourism. Airports managed by the Airports Authority of India (AAI) have seen new private investors allowed to undertake ground handling. Private airports have seen limited competition being made mandatory.

AAI has well established training colleges at Delhi, Allahabad and Kolkata imparting training on airport management, CNS (Communication, Navigation and Surveillance) maintenance, air traffic control, and fire services procedures. AAI colleges would be interested to provide training to aviation personnel in both countries.

Conclusion

To conclude that, the service sector is very important for India, as it is contributing half of the GDP growth in the Indian economy. Employment is increasing due to development of service sector. There is a very good scope to improve further in the services provided by the companies and government. As India is developing very fastly there is a need for change in the quality and also the speediness of the services.

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