



GROWTH AND PROSPECTS FOR SERVICE SECTOR IN GLOBALIZED ECONOMY: A STUDY OF INDIAN TOURISM INDUSTRY

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Abstract: *The services industry is one of the largest and fastest-growing sectors in the global market. Its contribution to the Indian economy is particularly significant, with regard to employment potential and impact on national income. This sector covers a wide range of activities, such as transportation, communication, tourism, trading, finances, real estate and health, among others. India's service sector contributes to about 60 per cent of the country's Gross Domestic Product (GDP), 35 per cent of employment, a quarter of the total trade, and over half of the foreign investment inflows. The service industry provides massive business prospects to investors. Without the sector's capacity to generate revenue, it would be difficult for the Indian economy to acquire the healthy place it currently enjoys on the global platform.*

The Indian tourism and hospitality industry has emerged as one of the key industries driving growth of the service sector in India. Tourism in India has registered significant growth in the recent years and the country has tremendous potential to become a major global tourist destination. Tourism in India is the largest service industry, with a contribution of 6.23% to the national GDP and 8.78% of the total employment in India. In 2010, total Foreign Tourist Arrivals (FTA) in India were 5.78 million and India generated about 200 billion US dollars in 2008 and that is expected to increase to US\$375.5 billion by 2018 at a 9.4% annual growth rate. Indian tourism industry is thriving due to an increase in foreign tourist arrivals and greater number of Indians travelling to domestic destinations than before. In the past few years the real growth has come from within the domestic sector as around 30 million Indians travel within the country in a year. Strong growth in per capita income, rising young population coupled with changing lifestyles are leading to greater expenditure on leisure service. It is the largest service industry globally in terms of gross revenue as well as foreign exchange earnings. Tourism can play an important and effective role in achieving the growth with equity objectives which we have set for ourselves.

The present paper analyses the trends in development of service sector and contribution of tourism in the context in India context. By analyzing the trends, the study looks into the future prospects for service sector with a focus on tourism industry.

Keywords: *Service Sector GDP, Employment, Growth Rate*

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INTRODUCTION

A Service sector is one of the important parts of in Indian economic development. India's service sector contributes to about 60 per cent of the country's gross domestic product (GDP), 35 per cent of employment, a quarter of the total trade, and over half of the foreign investment inflows. Its contribution to the Indian economy is particularly significant, with regard to employment potential and impact on national income. This sector covers a wide range of activities, such as transportation, tourism, communication, trading, finances, real estate and health, among others. The services industry provides massive business prospects to investors. Without the sector's capacity to generate revenue, it would be difficult for the Indian economy.

The services sector received foreign direct investment (FDI) equity inflows worth Rs 179,150.49 crore (US\$ 28.78 billion) in the period April 2000–August 2013, according to Department of Industrial Policy and Promotion (DIPP). About 80 per cent of India's total exports are dominated by high-skilled services, such as software business services, financial services and communication services. The expenditure of Indian banking and securities companies on IT products and services is expected to be around US\$ 422 billion in 2013, a 13 per cent increase from 2012.

The Indian tourism and hospitality industry has emerged as one of the key industries driving growth of the service sector in India. Indian tourism industry is thriving due to an increase in foreign tourist arrivals and greater number of Indians travelling to domestic destinations than before. In the past few years the real growth has come from within the domestic sector as around 30 million Indians travel within the country in a year. Strong growth in per capita income, rising young population coupled with changing lifestyles are leading to greater expenditure on leisure services. Hotels are an important component of the tourism product. They contribute in the overall tourism experience through the standards of facilities and services offered by them. The fortunes of the hospitality industry have always been linked to the prospects of the tourism industry and tourism is the foremost demand driver of the industry.

Travel & tourism's contribution to capital investment is projected to grow at 6.5 per cent per annual during 2013-2023, above the global average of five per cent. The tourism policy of Government of India aims at speedy implementation of tourism projects, development of



integrated tourism circuits, special capacity building in the hospitality sector and new marketing strategies.

Tourism can play an important and effective role in achieving the growth with equity objectives which we have set for ourselves. Government of India recognized tourism sector as one of the important contributors to employment generation and economic growth.

REVIEW OF LITERATURE

Several studies have been conducted world over focusing on different aspects of service sectors. Some of these studies focusing on the service sectors in tourism industry are summarized below.

In a study on making of Indian tourism in 21st century: challenges and prospects **Tiwari Munish** (2012) analyzed online tourism, ecotourism, pro-poor tourism. The paper presented a comprehensive summary of the challenges and prospects of Indian tourism in 21st century. This paper concludes with some recommendation for the development of Indian tourism to faster economic development.

Mukherjee Arpita (2012) study on service sector in India, trends issues and way forward identifies a number of barriers faced by the service sector and suggests policy measures which if implemented will lead to inclusive growth, increased productivity, employment, trade investment and it enhances India's global competitiveness in services.

An overview of an emerging service industry with a focus on tourism was analyzed by **Patil & Chaudari** (2011). This study explores the performance of the services in tourism and of the contribution of tourism to economic development. This paper observes that the tourism development can be a major engine of economic growth and through it unemployment and poverty eradication is possible in a sustainable manner.

A Working paper on policy for India's services sector by **Prasad & Sathish** (2010) focuses on the major policy issues for India's services sector. In this paper analyzes the contribution of services sector in terms of GDP growth, service export growth and openness of the economy. The paper concludes that immediate and time bound reforms in the services sector could not only help in attaining India's targeted GDP growth rate but also give fillip to growth and exports of these services.

Another working paper on the services sector as India's road to economic growth by **Barry & Gupta** (2012) explores the growth, structural changes and Indian employment in



services sector,. This paper using national accounts statistics and cross country data shows that the growth of services has been broad based. This study observes that for sustaining economic growth and rising living standards require shifting of labour out of agriculture into both manufacturing and services and not just into one or the other.

OBJECTIVES OF THE STUDY ARE

1. To examine the growth and trends in Indian service sector.
2. To analyse the contribution of tourism industry to the growth of service sector
3. To analyse the economic contribution of tourism industry in 21st Century.

METHODOLOGY

The paper is mainly based on the secondary data. The secondary data were collected from various published sources like books, journal, reports, etc.

GROWTH OF SERVICE SECTOR IN INDIA

The service sectors also called as tertiary sector is one of the important sectors economy in a threesector model. The other two are the primary sector which covers areas such as farming, mining and fishing and the secondary sector which cover manufacturing and making things. India ranks 15th in the services output and it provides employment to around 23% of the total workforce in the country. The service sector provides a service and the service are not an actual products, but services. Activities in the service sectors include retailing, banking, hotel real estate, education, health, transport, computer service, media, communication, electricity and water supply etc.

The contribution of the services sector to GDP has increased very rapidly in India. Many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India, especially in the area of business service which include business process outsourcing and information technology services. This has given a major boost to the services sector in India, which in its turn has increased the contribution of this sector contribute to GDP. Service sector Growth Rate in India GDP registered a significant growth over the past few years.



TRENDS IN GROWTH RATES OF GDP AND DIFFERENT SECTORS IN INDIA

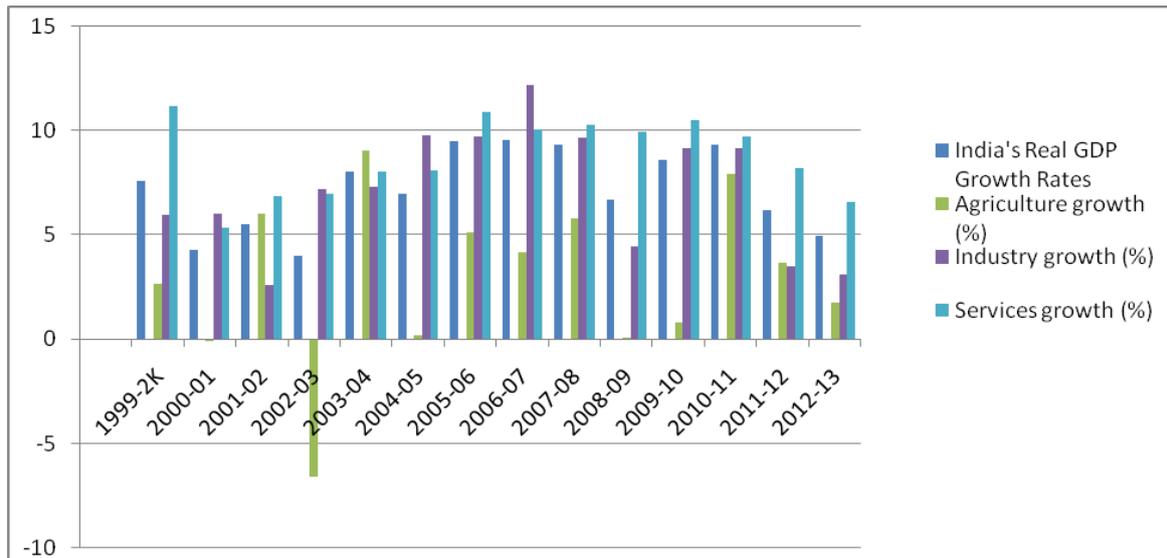
The Gross Domestic Product or GDP is one of indicators of the performance of an economy. Growth in GDP is supported by growth in different sectors. The following table gives trends in growth rate of GDP and other contributing sectors.

Table: 1 Growth rates of different sectors

Years	India's Real GDP Growth Rates	Agriculture growth (%)	Industry growth (%)	Services growth (%)
1999-2K	7.59	2.67	5.96	11.19
2000-01	4.3	-0.01	6.03	5.37
2001-02	5.52	6.01	2.61	6.88
2002-03	3.99	-6.6	7.21	6.97
2003-04	8.06	9.05	7.32	8.06
2004-05	6.97	0.18	9.81	8.13
2005-06	9.48	5.14	9.72	10.91
2006-07	9.57	4.16	12.17	10.06
2007-08	9.32	5.8	9.67	10.27
2008-09	6.72	0.09	4.44	9.98
2009-10	8.59	0.81	9.16	10.5
2010-11	9.32	7.94	9.16	9.75
2011-12	6.21	3.65	3.49	8.2
2012-13	4.96	1.79	3.12	6.59

Sources: Planning commission Government of India.

The data shows that the GDP was growing continuously till 2007-08 and it stated downward trend from 2008-09. Though showed some progress in 2010-11, it stated declining after that. The growth rate in GDP, which was around 10 percent in 2006-07 declined to 4.96 by 2012-13. The same trend could be observed in the growth rate of all the other sectors also. Agriculture sector has grown at a much lower rate than the other two sectors. Service sector did not show much variation. It is interesting to observe that when the GDP growth rate was lowest in 2012-13, service sector has recorded a higher growth rate. During 2012-13 when GDP growth rate was around five percent, agricultural sector recorded around two percent growth rate and Industrial sector recorded around three percent growth rate. But Service sector has grown at a rate of 6.59 percent which is much above the growth rates in agriculture and industrial sector.



Service sector growth rate has been very rapid in the last few years. The figure shows the growth rates of GDP and other three sectors in India. Service sector has grown at a rate 11.19 % in 1999-2000 and at 6.59% in 2012-13. Though there is an increase in 2005-06 and 2007-08, there is a decrease in growth rate in recent times, especially in 2008-09 to 2012-13. In 2008-09 onwards the economic crises affected the Indian service sector. The growth rates in service sector also come down. But Compared to other sectors service sector has shown higher growth rate.

COMPOSITION OF SERVICE SECTOR IN INDIA

According to the classification followed by Central Statistical Organization in the calculation of National Income, service sector includes the following:

1. Trade ,hotels and restaurants
 - Trade
 - Tourism
 - Hotels and restaurants
2. Transport, storage and communication
 - Railways
 - Transport by other means
 - Storage
 - Communication
3. Financing, Insurance, Real Estate and Business Services
 - Banking and Insurance



- Real Estate, Ownership of Dwellings and Business Services

4. Community, Social and Personal services

- Public Administration and defense (PA & D)
- Other services

Based on this classification the above classification, share of tourism in the service sector was calculated and presented in Table 2.

TRENDS IN CONTRIBUTION OF TOURISM TO SERVICE SECTOR

Trends in the growth rate of service sector, growth rate of tourism and hotel industry and the relative share of this sector in the service sector show that the share has increased continuously and according to the latest estimates this sector is contributing 25 percent to the service sector.

Table: 2 Trends in Tourism contribution to service sectors

Year	Growth Rate of Service Sector	Growth Rate of Trade, Hotel & Restaurants	% Share of Trade, Hotel & Restaurants
2000-01	5.5	5.2	14.6
2005-06	11.1	12.2	16.7
2006-07	10.1	11.1	17.1
2007-08	10.3	10.1	17.1
2008-09	9.4	5.7	16.9
2009-10	10.0	7.9	16.5
2010-11	9.8	11.5	17.2
2011-12*	7.9	6.2	18.0
2012-13**	6.5	5.2	25.1

Source: Central Statistical Office (CSO), * First revised estimates, ** Advance estimates.

A Service sector has grown at a growth rate of 5.5 percent in 2000-01 and at 6.5 in 2012-13. The trend in tourism contribution to service sectors has increased substantially from 2000-01 to 2012-13. It increased from 14.6 to 25.1 %. This includes trade, hotels, and restaurants.

PRESENT TOURISM INDUSTRY IN INDIA

Tourism in India is the largest service industry, with a contribution of 6.23% to the national GDP and 8.78% of the total employment in India. In 2010, total Foreign Tourist Arrivals (FTA) in India were 5.78 million and India generated about 200 billion US dollars in 2008 and that is expected to increase to US\$375.5 billion by 2018 at a 9.4% annual growth rate. The majority of foreign tourists come from USA and UK. Kerala, Karnataka, Delhi, Uttar Pradesh



and Rajasthan are the top five states to receive inbound tourists. Domestic tourism in the same year was 740 million. Andhra Pradesh, Uttar Pradesh, Tamil Nadu and Maharashtra received the big share of these visitors. Ministry of Tourism is the nodal agency to formulate national policies and programmers for the development and promotion of tourism. In the process, the Ministry consults and collaborates with other stakeholders in the sector including various Central Ministries agencies, the state governments and union territories and the representatives of the private sector. Concerted efforts are being made to promote new forms of tourism such as rural, cruise, medical and eco-tourism. The Ministry of Tourism also maintains the Incredible India campaign.

CONTRIBUTION OF TRAVEL AND TOURISM TO GDP AND EMPLOYMENT IN INDIA

The importance of tourism as an instrument for Economic Development and Employment Generation, particularly in remote and backward areas has been recognized the world over. It is the largest service industry globally in terms of revenue as well as contribution of travel & tourism to Gross Domestic Product (GDP) and Travel & tourism contribution of employment.

The following table gives trends in the contribution of travel and tourism to GDP and employment generation between 2000 and 2013.

Table: 3 Contribution of travel and tourism to GDP and employment in India during 2000-2013

Years	Travel & Tourism Contribution To GDP			Travel & Tourism Contribution To Employment	
	Rs. In billions	Growth Rate (%)	% Share in GDP	Employment growth (%)	% Share in total employment
2000	1983.66	8.6	9.2	0.5	11.8
2001	1693.28	17.5	7.3	-16.5	9.6
2002	2072.37	18.6	8.3	12.3	10.6
2003	2429.06	12.9	8.8	6.3	11
2004	2738.79	7.0	8.7	1.4	11
2005	2499.64	-12.5	7	-13.1	9.3
2006	2953.63	11.6	7.1	1.9	9.3
2007	3475.65	11.2	7.2	10.4	10.1
2008	4014.08	5.8	7.2	-16.4	8.3
2009	4130.66	-1.2	6.7	-4.4	7.8
2010	4768.45	5.6	6.5	-0.8	7.6



2011	5686.44	9.8	6.6	3.8	7.8
2012	6385.13	3.9	6.5	0.5	7.7
2013	7416.14	7.3	6.6	-0.2	7.5

Source: World Travel & Tourism Council (WTTC)

The contribution of travel and tourism to gross domestic product (GDP) increased substantially between 2000 and 2013. It increased from Rs1983.66 billion in 2000 to Rs 7416.14 billion by 2013. Though there is an increase in quantity, there is a decrease in growth rate in recent times, especially in 2012. Similarly the share in Gross Domestic Product (GDP) also declined and was steady after 2009. While the real growth rate was 8.6 in 2000, it declined to 7.3 by 2013. The share in employment also declined from 11.8 percent to 7.5 percent in 2013. The growth of employment showed a negative growth rate in some of the years, especially in 2013. The contribution of travel & tourism to GDP and to total employment directly depends on aspects like the number of visitors, domestic expenditure, and internal tourism consumption, purchases by tourism providers, including imported goods, capital investment, government collective spending and imported goods.

The overall development of any country depends specially on the improvement of roads, vehicle, communication, water supply, airport and railways etc. Economic progress and industry development depends completely on the overall development of country. And tourism plays a major role on this overall infrastructural advancement. India's tourism industry is experiencing a strong period of growth in high spending foreign tourists and coordinated government to promote "Incredible India". The tourism industry in India is substantial and vibrant, and the country is fast becoming a major global destination. India's travel and tourism industry is one of the most profitable industries in the country and also credited with contributing Gross Domestic Product (GDP) and employment.

From the above, it is clear that tourism plays an important role in generating income and employment in India. Its potential depends on the volume of tourist arrivals in India and tourist arrival depends on various factors like domestic expenditure, internal tourism consumption, purchases by tourism providers, including imported goods, capital investment, government collective spending and imported goods.

TOURISM IN TWENTY FIRST CENTURY

Tourism is a flourishing industry today. It is expanding very fast and is one of the most rewarding industries of the modern world. International tourism constitutes the invisible



export trade. The contribution of tourism to economic activity worldwide is estimated at 5%. Tourism's contribution to employment tends to be slightly higher relatively and estimated at 6% to 7%, of the total number of jobs. International tourist arrival has an annual growth rate of 6.2% growing from 25 million in 1950 to 940 million in 2010. The income generated by these arrivals grew at a stronger rate reaching around 920 Billion US Dollar in 2010. As growth has been fast in the emerging regions, the share in the international tourist arrivals has steadily increased in developing countries. The developing countries share has increased from 32% in 1990 to 47% in 2010. All nations have realized and accepted this fact. During the present century, tourism has become the second largest industry in the world in terms of creating employment and generating income. For as many as 38 countries of the world, it is the main source of foreign exchange earner. Many smaller countries depend mainly on tourism for their survival. It is contributing 25% to 35% of their Gross Domestic Product (GDP). Many smaller countries have developed sports and adventures to attract tourists. For example in Maldives there are no monuments as in India or in Italy but it has developed many water sports to attract western tourists. The average growth of tourism in the world is 4.2% while it is 8.8% in India, more than double the world average. The world average growth in investment in travel and tourism industries is 5.4% while it is 8.7% in India.

Table: 4 Economic impacts of world travel and tourism

Particular	In US billion Dollars 2011			In US billion total Dollars 2021(projected)	
	Total	Percentage (%)	Growth Rate	Total	Growth Rate
Total contribution to GDP	5991	9.1%	4.2	9226	9.6%
Investments	662.4	4.5%	5.4	1488	4.6%
Employment contribution(In millions)	258.6	8.8%	2.3	323.83	3.6%

Source: UNWTO economic impacts report 2011

The economic impact of tourism at the macro level was analyzed with gross domestic product generated in this sector, direct contribution, investments and the employment generated. The following table gives the contribution in 2011 and the projected contribution during 2021



Table: 5 Economic impacts of Indian travel and tourism

Particular	2011 Rs. in millions			2021 (projected) Rs. in millions	
	Total	Percentage	Growth Rate	Total	Growth Rate
Total Contribution to GDP	3680	4.5%	8.8%	8523	4.9%
Investments	1233	4.7%	8.7%	2827.5	4.8%
Employment(in Million numbers)	37.6	8%	2%	47.48	8%

Source: UNWTO economic impacts report 2011

The above table shows the extent of impact of the travel and tourism industry on the economy. It has both direct and indirect impacts on the economy. While it is contributing 9.1% to world GDP, its contribution is 4.5% in India, which is less than half of the world average. However, in terms of employment, it is 8% in India 8.8% in the world.

FUTURE PROSPECTS OF INDIAN TOURISM INDUSTRY

According to the latest Tourism Satellite Accounting (TSA) research, released by the World Travel and Tourism Council (WTTC) and its strategic partner Oxford Economics in March 2009:

- a) The demand for travel and tourism in India is expected to grow by 8.2 per cent between 2010 and 2019 and will place India at the third position in the world.
- b) India's travel and tourism sector is expected to be the second largest employer in the world, employing 40,037,000 by 2019.
- c) Capital investment in India's travel and tourism sector is expected to grow at 8.8 per cent between 2010 and 2019.
- d) The report forecasts India to get capital investment worth US\$ 94.5 billion in the travel and tourism sector in 2019.
- e) India is projected to become the fifth fastest growing business travel destination from 2010-2019 with an estimated real growth rate of 7.6 per cent.

CONCLUSION

A Service sector is one of the important parts of in Indian economic development. The Indian tourism and hospitality industry has emerged as one of the key industries driving growth of the services sector in India. Service sector in tourism can play an important and effective role in achieving the growth with equity objectives which we have set for



ourselves. Government of India recognized service sector as one of the important contributors to GDP, employment generation and Indian economic development. Since tourism is a multi-dimensional activity, and basically a service industry, it would be necessary that all wings of the Central and State governments, private sector and voluntary organizations become active partners in the endeavour to attain sustainable growth in tourism if India is to become a world player in the tourist industry.

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