INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY ADVANCED RESEARCH TRENDS
ISSN : 2349-7408
VOLUME 1, ISSUE 2, SEPTEMBER 2014

GLOBALIZATION: MAJOR ISSUES OF SERVICES SECTOR IN INDIA

M.BALA SWAMY
HOD of Economics, SKBR College, Amalapuram, E.G. Dt., A.P.

As far as the Indian Economy is concerned the impact of Globalization has been highly positive in almost all spheres of economic and social life and virtually no negative effect. It is only because of removed the restrictions on imports and exports of the different products, reduced subsidies on various commodities gradually, terminated licenses reduced excise and custom duties, and services, provided infrastructure to various industries, liberlised tax reforms provided.

The term Globalization treating the whole world as village. Our former PM of India Sri P.V.Narasimha Rao proposed economic reforms when our country was facing financial crisis in 1990's. In this context, service sector have a key role to improve the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. The real reason for the growth of the service sector is due to the increasing urbanization, privatization and more demand for intermediate and final consumer services. Availability of quality services is vital for well being of the economy. In advanced economics the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, tourism and entertainment etc. An attempt is made to explain the concepts of Globalization and its effects on economics of india.

Globalization in India:

Since 1991, the process of Globalization has spread rapidly in Indian Economy and witnessed dramatic policy changes. The idea behind the new economic model known as liberalization, privatization and Globalization in India (LPG)was to make the Indian Economy one of the fastest growing economics in the world. An array of reforms was initiated with regard to the industrial trade and social sector to make the economy more competitive.

The Economic changes initiated have had a dramatic effect on the overall growth of the economy. It is also heralded the integration of the Indian economy suite the Global economy. The Indian economy was in major crisis in 1991 when foreign currency reserves amount down to $ 1 billion and inflation was as high as 17%. Fiscal deficit was also high and NRI's were not interested in investing in India. Then the following measures were taken to liberalization and Globalize the economy.

Service Sector in Indian Economy:-

The share of Service sector has three components a) trade, transport, storage and communication b) Finance, Insurance, Real Estate and Business service and c) Community, Social and Personal Services. The share of service sector indicated a sharp improvement from 29.6% in 1950-51 to about 57.8% in 2010-11. There is significant increasing in the share of trade, transport and communication from only 11.3% in 1950-51 to 27.0% in 2010-11. The expansion of transport especially road transport and communications during the last decade of mobile revaluation has been the major contributor to this increase.

The share of finance, insurance, real estate and business services marginally declined from 7.7% in 1950-51 to 7.5% in 1980-81 and thereafter improved to 17.4% in 2010-11.

Growth of Major Sub-Sectors in Indian Service Sector:-

1) Information Technology Industry:

Information Technology is of recent organization but it is spreading fast in India. However India has a long way to go before it can catch up with the developed countries. The use of various instruments of IT later for instance TV Sets India accounted for 320 sets per 1000 population 2006, as against 990 in Japan, 980 in USA and Russian federation and 890 in China. Telephones (mainline) accounted for 33 per 1000 in India as against 508 in USA, 540 in UK, 316 in Russian federation and 267 in China.

With the development of various forms of communication delivery system such as TV, Radio, News Papers; Telephones, Personal Computers and Internet into one unified system, it is very desirable to improve the reach of the IT services to the common man. In India nearly 37% of population lines below the poverty line, 20% belong to the higher and richer classes and 40% from middle class. The Government should in the first instance, aim at 400 million strong middle class on the on hand who provide a very large potential market for IT products and services, who can in the near future be enable to make use of the benefits of IT in the day-to-day lives.

On the other hand, for 26% of people living below the poverty line, Government should initiate steps. So that IT could improve new opportunities to enable them to make above the poverty line. Presently, the country is highly deficient in enabling asses for IT services to the masses.

While the information Technological industries has achieved phenomenal growth after the liberalization. The industry has performed exceedingly well amidst tough global competition. Being Knowledge based industry, India has been able to leverage the global markets, because of the huge pool of engineering talent available and proficiency in English language among the middle class. Subsequent to this, the sector has continued to exhibit vibrant growth as 10.6% during the first quarter of 2006-07 over the corresponding period of the previous year, mainly propelled by growth in trade, hotels, transport and communication is 13.2% followed by finance, insurance, real estate and business services (8.9 percent).

The Indian Information Technology industry accounts for 5.19% of the country's GDP and export earning as of 2009 while providing employment to a significant number of its territory sector workforce. More than 2.5 million people are employed in the sector either directly or indirectly, making it one of the biggest job creators in India and a mainstay of the national economy. In 2010-11 annual revenues from IT-BPO sector is estimated to have grown over $ 8.85 billion.

India's out sourcing industry is expected to increase to as $ 225 billion by 2020. The most prominent IT hub is IT capital Bangalore and other emerging destinations are Chennai, Hyderabad, Coimbatore, Kolkata, Kochi, Pune, Mumbai, Ahmedabad and NCR and technically proficient immigrants from India sought jobs in the western world from 1950's onwards as Indians education system produced more engineers then its industry could absorb.

Information technology is driving factor in the process of Globalization improvements in the early 1990's in computer hardware, software and telecommunications in the influence of Globalization on technology is felt in the need to ensure the technology can be localized easily to secure constituents in different culture and languages. Impact of Globalization in technology tells us to the internationalization of trade, business, and technology is here to stay. This means that national borders mean much lessthan they used to regarding the flew of technology.

2. Travel and Tourism:

With an impressive growth of tourism in 2005, India's share in world tourism, hovering around 0.38 percent for nearly a decade (1995 – 2003), has reached 0.46 percent in 2004 and is estimated to be around 0.49 percent in 2005. The key performance indicators of tourism sector are inbound and outbound tourist traffic and foreign exchange earnings from the same. After experiencing positive growth in 2005. The number of foreign tourist arrivals and the corresponding foreign exchange earnings have increased by about 13 percent and 12 percent, respectively, in January-September 2006 over the corresponding period in 2005.

However, although gross receipts from travel have shown a steady rise except for the year 2001-02 (when the tourism industry was hit by terrorist attack in the US in 2001), there had been a deceleration in net receipts, due to increasing number of Indians taking up foreign travel resulting in higher travel payments than travel receipts under the balance of payments account.

There has been a revival of the tourism sector since 2003-04 resulting in improved net receipts thereafter. What has been encouraging is the sharp increase in net receipts by US $ 1368 during 2005-06 as against lower earnings of US $ 985 in 2004-05. This can be attributed to a higher influx of foreign tourist (4.1 million in 2005-06 as compared to 3.5 million in 2004-05), especially during the winter months of 2005. (Please note that the travel account on Balance of payments not only includes tourist travel, but also business related travel for personal purposes.)

3. Retail Sector:

The organized retailing is at a very nascent stage in India contributing a mere 3 percent of the total retail industry of US $ 230 billion (www.apparelreview.com). However in comparison to the growth of unorganized retail which is growing at a mere 5 percent per annum, the organized retail is growing at a noteworthy pace of about 25-30 percent and is expected to touch US $ 33 billion by 2010 enabling the contribution of organized retail sales to be almost 9 percent of the total retail sales. However, there still exists a tremendous untapped potential for India as compared to the developed retail markets like US, Taiwan and Malaysia where penetration of organized retail sales in more than 50 percent. Retailing is the second largest employer (22 million people) in India, second only after agriculture. The booming retail market has attracted large players like Kishore Biyani's pantaloon Retail, K. Raheja Groups Shoppers Stop, Tata Group's Trent, RPG's Spencer and Micky Jagtiani owned Landmark Group's Lifestyle stores and now Reliance Retail to expand their foray nationally. Also, regional giants like Subiksha, Vivek's, Nilgiris and Trinethra, Spencers are expanding rapidly.

Moreover, due to its correlation with other industrial and service sectors, organized retailing is generating a great deal of indirect employment in other sectors; security, and electrical and mechanical maintenance, property management services, parking, sorting, packaging etc. If both direct and indirect employment is taken together, organized retailing is bound to create a larger number of better-paid, better-quality jobs. This is a large growth opportunity in an organized business that the country would witness in a long time. Apart from the direct jobs, every retail job created adds further jobs in the support businesses.

At present, the most crucial issue regarding the retail sector is that of FDI. The Foreign Investment Promotion Board (FIPB) has permitted 51 percent equity cap on a single brand product since February 2006. Simultaneously, the equity cap on FDI in 'trading for exports', which is permitted under the automatic route has been raised from 51 percent to 100 percent. However, whether the government should introduce 100 percent FDI in other cases is a matter of dispute now with proponents advocating competition to result in better quality while the opponents are concerned about survival of small shops. A detailed study undertaken by the Ministry of Consumer Affairs and the Indian Council for Research on International Economic Relations (ICRIER) has concluded that FDI should be allowed in retailing in a gradual and phased manner through permitting joint ventures.

4. FMCG:

According to a recent HSBC report, the FMCG sector is projected to grow by over 60 percent till 2010. It is estimated that the total size of the FMCG sector will rise from around US $ 12.51 billion in 2005 to US $ 20.40 billion in 2010. Apart from packaged food, which has recorded the fastest growth (25 percent) in 2005, other fast growing segments in the sector are hair care, household care, male grooming, female hygiene, chocolates and confectionery. The buoyant performance of the FMCG sector has also been reflected in the aggregate results for April-June 2006-07 of 12 FMCG companies with sales of Rs.9,231 crore, a rise of 16 percent. The profits of these companies have increased by 16.6 percent to Rs.1415 crore.

5. Consumer Durables:

On the back of robust semi-urban and rural demand, the consumer durables industry has recorded upbeat growth trends in 2006 (India Brand Equity Foundation). The consumer durable companies expect sales to grow by 40 percent in the forthcoming festive season. According to the industry estimation, the prices of most of consumer durables have declined by 5-8 percent as compared to the last year, mainly due to a rationalized duty structure and manufacturer's initiatives to support new products. With the ownership of high value durable goods like LCD plasma TVs and front loading washing machines now being seen as a symbol of social status, manufacturers are bullish on sales targets. Based on recent trends, the Indian colour television market would increase to 10.5 million units during the current fiscal year while the refrigerator market would touch 4.2 million.

6. Real Estate and Prices:

Driven by positive growth in the economy, real estate in India is booming. The year 2006 started on a promising note when the Government of India opened the construction and development sector in February 2006 and allowed 100 percent foreign direct investment (FDI) under the automatic route in order to spur investment in the vital infrastructure sector. Groups showing interest in India include insurance company American International Group Inc (AIG), High Point Rendel of the UK, Edaw-US, Japan's Kikken Sekkel, Lee Kim Tah Holdings and Cesma International from Singapore.

Along with strong supply-sie factors, the dynamics of demand have also been quite storng, which has led to an escalation of real estate prices in almost all tier I and tier II cities in India during the last couple of years. The simple demand-supply dynamics indicate that until one of these factors undergoes a change, the high property prices will probably persist due to demand far outstripping supply . The propery market has remained firm since the beginning of 2006. For example, in the first quarter of 2006, the real estate markets in Mumbai, Thane and Navi Mumbai have shown price increases varying between 3-15 percent. Further, any rise in interest rates (interest rates have raised by around 2.5 percent during last 24 months) is expected to impact only speculators and not genuine home buyers. One of the reasons behind this continued demand is unaffected equated monthly installments (EMI) as the banks have extended repayment periods of loans leaving the monthly installment amount unaltered.

7. Recent Devleopments: Real Estate Index

The government is planning to float the first housing price index to track price variations in different locations within cities which would help simply the decision making process for the consumers easier. The index is expected to track the extent of inflation taking place in housing prices across the country. Since a single measure would not be able to fully represent price variations in housing sector, the government is planning to make it flexible enough to track local variations. India will be the third country in the world to launch such an index after the US and UK.

8. Services Inflation:

Given the fact that the services sector contributes morethan 50 percent to GDP, it is useful to throw light on services inflation. The general practice to measure services inflation till date has been the use of a deflator. As per the CSO's recently released new annual GDP series (1999-00=100) at current and constant prices, the overall services sector inflation during April-June 2006 has been estimated at 3.7 percent. Given the importance of the services sector, there is a need to develop 'service price indices' for selected service sectors, particularly in the national accounts framework. The need for such indices has been recommended by the Working Group set up to revise the WPI and has been emphasized by the National Statistical Commission. The office of the Economic Adviser, Ministry of Commerce and Industry has been implementing a plan aimed at developing service sector price indices as per international best practices. Under the plan schemes, studies are being commissioned for ten selected services like, road transport, railways, air transport, port, banking, insurance, posts, telecommunication, business services and trade services to develop service price indices.

Conclusion:

Globalization implies international economic integration. It is achieved through competition, marketization and free trade. The integration applies to product and financial markets, internationalization of corporate strategies and diffusion of technology and know-how, thus the globalization is ultimately one of the glowing inter dependence among nations to while shared economic property and ultimately world peace.

India gained highly from the LGP model as its GDP increased to 9.7 percent in 2007-08. In respect of market capitalization, India ranks fourth in the world. But even after globalization, condition of Agriculture has not improved. The share of agriculture in GDP is only 17 percent. The number of landless families has increased and farmers are still committing suicide. But seeing the positive effects of Globalization, it can be said that very soon India will overcame these humolles too and much strongly on its path of development.

The outlook for the services sector which was slightly dimmed due to the fall out of the sub prime crisis in the USA and the globalize financial crisis has once again brightened. Recent business performance indicates of different service firms in different sub-sectors also support this prognosis. Even during the crisis year, annual services growth was around the 10 percent mark, which it has maintained since 2005-06. This is in contrast to the overall GDP growth which fell to 6.8 percent in 2008-09 from 9.3% in 2007-08. Thus the resilience of the services sector has greatly contributed to the resistance of the economy.

References:

1) Datt & Sundaram (2012), 'Indian Economy", 64^{th} Revised Edition, P.142, 683-686.

2) Dr. Rama Krishna V.V.S., "Globalization – Review of services sector in India", unpublished Report on impact of Globalization on Rural Development (2011).

3) Varaprasad. R, "Impact of Globalization on information technology" unpublished Report on impact of Globalization on Rural Development (2011).

4) Dr. Subba Rao. M, "Globalization and Indian Economy" unpublished Report on impact of Globalization on Rural Development (2011).