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# Sustainability of Service Sector Led Growth and Scope of Domestic Tourism - A Case Study of India

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*Abstract:* **Sustainability of service sector led growth of India in the post liberalization period is an area of concern given the standard theory of economic development arising out of the experience of developed nations. The entire sector is flourishing basically depending on the foreign demand with weak domestic production and demand linkages. This is probably accentuating the problem of jobless growth with inflationary pressure and unfavorable BOP situation. Service sector growth led by Domestic Tourism can give expected boost up to the endogenous growth potentiality of the country easing out the dual problem of jobless growth and inflationary pressure.**

*Keywords:* **Domestic Tourism, service sector led growth of India, unfavorable BOP situation.**

## 1. INTRODUCTION

At present service sector is the fastest growing sector in India. During the period 2000-01 to 2007-08 avg. trend rate of growth of agriculture was 2.9, that of industry was 7.9 and that of service was 8.8.( **G. Kaur, S. Bordoloi & R. Rajesh; 2008)** This rapid growth of service sector is known as service revolution in India. Now the question is how much this service revolution is beneficial for the economic development of the nation? We can see this service sector growth is significantly dependent on foreign demand. During the period 1991 to 2005 India's share in world service exports has increased from 0.59 to 2.32 and during the same period growth rate of India's service exports has increased from 6.4 to 45.5 where as growth rate of world service exports has increased from 5.66 to only 10.45( M. Rakshit, 2007). This figures imply India's comparative advantage in trading of services.

Naturally one question arises in what backdrop this service growth has taken place? Is it the case that due to lack of domestic demand this service growth has increased as export led event? In the history of development economics it is well established that initially primary sector grow and after certain stage industry grow and after maturity service sector takes over the growth rate from earlier two sectors and in such economies we find strong linking effects between different sectors. But in India we find service sector growth rate in India during 1950s to 2000-2008 has increased from 4.0 to 8.8 (more than doubled) where as during the same period agr. growth rate has marginally increased from 2.7 to 2.9 and that of industry has increased from 5.7 to 7.9 (less than half) ( **G. Kaur, S. Bordoloi & R. Rajesh; 2008)**. It seems that without having proper linkage in the domestic sector the service sector is highly dependent on foreign demand which is not good for the healthy development of the country on sustainability ground.

## 2. ANALYSIS

To study this we have inquired into the linkages between service sector and other two sectors for the time period 1968-69 to 2003-04. First we see the production linkages between sectors (Table I & II).

**Table I: Production linkages 1968-69**

| Sectots | Agr | Industry | Services |
|---|---|---|---|
| Agr. | 0.182 | 0.127 | 0.017 |
| Industry | 0.043 | 0.333 | 0.132 |
| Services | 0.016 | 0.135 | 0.096 |

*Source: Gunjeet Kaur, Sanjib Bordoloi and Raj Rajesh*

**Table II :Production linkages 2003-04**

| Sectots | Agr | Industry | Services |
|---|---|---|---|
| Agr. | 0.196 | 0.028 | 0.029 |
| Industry | 0.180 | 0.455 | 0.216 |
| Services | 0.045 | 0.108 | 0.129 |

*Source: Gunjeet Kaur, Sanjib Bordoloi and Raj Rajesh*

Here we find that during the above mentioned period use of service sector as input in agriculture and industry has remained stagnant (around 15% only). So we can conclude that our service sector is not playing significant role for technological advancement of the domestic commodity production sector which is desired to gain efficiency in the post liberalization period.

Now we consider the demand linkages ( Table III & IV) between different sectors from 1968-69 to 2003-04 for the Indian economy.

**Table III: Demand linkages 1968-69**

| Sectots | Agr | Industry | Services |
|---|---|---|---|
| Agr. | 1.230 | 0.247 | 0.059 |
| Industry | 0.087 | 1.562 | 0.230 |
| Services | 0.035 | 0.237 | 1.141 |

*Source: Gunjeet Kaur, Sanjib Bordoloi and Raj Rajesh*

**Table IV: Demand linkages 2003-04**

| Sectots | Agr | Industry | Services |
|---|---|---|---|
| Agr. | 1.265 | 0.077 | 0.061 |
| Industry | 0.466 | 1.958 | 0.501 |
| Services | 0.123 | 0.247 | 1.213 |

*Source: Gunjeet Kaur, Sanjib Bordoloi and Raj Rajesh*

From the demand linkages we find that for one rupee income generated in the service sector demand for services is generated most where, as demand for agr. goods remain more or less stagnant and demand for industrial goods has become more than doubled. This implies growth of service sector provides demand boost to the industrial sector. But our industrial sector is not capable to utilize this demand because during that period our industrial trend growth rate on an average has increased marginally from 6.5 to 7.9( **G. Kaur, S. Bordoloi & R. Rajesh; 2008)** . The use of service as input in the industrial sector has decreased during the above mentioned period and so using the service sector boom domestic industry has failed to increase productivity sufficiently. In this situation failing to meet the demand for industrial goods domestically, income generated from the service sector to meet the demand for industrial goods possibly are used in foreign industrial imports.

This situation can possibly be explained by the hypothesis that our service sector is used as an intermediate product in the foreign manufacturing sector due to low wage of skilled labour force in India compared to developed countries. Again India is importing manufactured white colored industrial goods for its newly rich people engaged in the service sector who are using our service sector as their intermediate production chain. Import intensity of Indian service exports is

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increasing which is adversely affecting our BOP. During the said period contribution of agr sector in GDP of India has decreased and that of service sector has increased with an almost unchanged demand for agr good is accentuating the price of agr goods as a result of which inflationary problems has becomes persistent. In addition to this we also find from the above tables that income elasticity of the service sector products is greater than one for the service sector itself where as that for agr. and industry is far less than one. This implies that the service sector can face a demand led growth for itself only without corresponding growth of agriculture and industry. If we consider the production linkage then also we find that use of agricultural and industrial inputs in the service sector has increased during 1968-69 to 2003-04. It implies that without corresponding development of the said sectors the supply side bottleneck will creep up leading towards price escalation which, may wipe out the advantage of our service sector in the international market.

## 3. POLICY PRESCRIPTIONS

So from policy perspective analysis our above results indicate that having a service sector led growth without proper linkage with other sectors will possibly truncate the advantage of the service sector in long run. To make this growth path sustainable in long run as well as job supporting the direction of the service sector needs to be adjusted with priority so that it boost up the growth of other sectors.

In this connection tourism industry can be the next best alternative given the structural bottle necks in agricultural and industry in the developing countries. Observing the Indian experience of the domestic tourism sector we find that expenditure made by the tourists in both the overnight trips as well as same day trips on the non package component is mostly composed of primary and secondary sector products (Table V). Hence it can be safely concluded that there exist a strong demand linkage among three principle sectors in the domestic tourism industry. It is also observed that the percentage share of expenditure on package component is meager indicating huge scope of development of service sector itself in tourism sector.

**Table V: Percentage break up of expenditure on Overnight and same day trips by major group items.**

| Group of items | Percentage share of group in total expenditure on | | | |
|---|---|---|---|---|
| | Overnight trips | | Same day Trips | |
| | Rural | Urban | Rural | Urban |
| Package component | 1.52 | 7.15 | 0.15 | 0.89 |
| Non Package component | | | | |
| Accommodation | 2.95 | 5.65 | 0.07 | 0.47 |
| Food & Drink | 9.15 | 9.66 | 4.57 | 7.77 |
| Transport | 19.97 | 33.49 | 13.63 | 28.78 |
| Shopping | 30.31 | 24.73 | 60.15 | 44.37 |
| Recreation, Religious, Cultural, Sporting & Health related activities | 31.94 | 15.39 | 4.93 | 6.32 |
| Others | 4.15 | 3.92 | 18.41 | 13.77 |
| All | 100 | 100 | 100 | 100 |

*Source : NSS , 65th Round 2008-09*

Service sector growth led by tourism may give demand side philip to the primary and secondary sector bringing the market at the door step of the producer increasing the probability of getting fair price by the producer leaving aside the exploitative middleman and brokers. This may also solve partially the problem of distress selling of the products by the rural producers. This incentive may ease out the supply side bottlenecks of primary & secondary sector favoring their corresponding growth. Alone tourism cannot solve the existing rigidities in production sector. Exploration of other vertically integrated sectors having favorable linkages with the domestic economy can exploit the opportunity of service led growth in India.

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