

EMERGING ROLE OF SERVICE SECTOR IN INDIAN ECONOMY

Sanjeev Kumar Singh*

Abstract

Service sector is a rapidly growing sector around the world. It has become more significant in recent years as modern technology has permitted new means of providing services across the world. It has become the lifeline for the social economic growth of a country as it is contributing significantly to GDP growth, employment, trade and investment. In economic growth and development, Indian economy has reached a level where there is a predominance of service sector. Service sector which is leading in terms of its growth and shares serves as an instrument of growth for Indian economic development. Service sector is essential for a developing country like India with a large and young population to produce quality employment. India requires private investments in key infrastructure services such as energy, transport and telecommunications services. Service sector activities comprise transport, trade, commerce, communication, restaurant and hotel, banking and finance, health and education, tourism, share market, film industry, insurance etc. The present study provides an analysis of service sector in the Indian economy. This paper also makes an analysis of the Indian services sector through examining its growth and contributions in the GDP and Indian economy.

Keywords- Service Sector, GDP, Growth, Development, Indian Economy.

* **Research Scholar, Faculty of Commerce, Banaras Hindu University, Varanasi, U.P., India**

Introduction

India is the fastest growing developing country from the last decade. India has focused on service sector. The service sector also known as the tertiary sector is the third of the three traditional economic sectors. The other two are the primary sector which includes areas such as mining, farming and fishing, and the secondary sector which includes manufacturing and making things. Service sector in India covers many activities such as trade, transport, communication, Commerce, hotel and restaurants, Banking and finance, insurance, real estate, business services, community, social and personal services, and services associated with construction etc. Service sector offers a service, no actual product which is held in your hand. The services sector is not only the leading sector in India's GDP, but it is also attracted major foreign investment flows, contributed significantly to exports as well as provided large-scale employment. The main cause of the development of service sector is the increase in urbanization, privatization and additional demand for intermediate and final consumer services. The rapid growth in services has also been accompanied by the rising share of services in world transactions. Its growth has been higher than the growth in the agriculture and manufacturing sector. A well-organized service sector is essential for the growth and competitiveness of an economy.

Service sector activities normally involve less capital investment than activities in other sectors. Majority of these service sector activities also require relatively less space for the operations. This sector is a knowledge-intensive sector and substantial human resource inputs are essential for developing the most of the services sector activities. India grows as a leading economy because its growth has been led by the Service sector. It is a larger part of the Indian economy both in relations of employment potential and its contribution to national income.

Objectives of the Study

1. To explore the growth of service sector in India.
2. To study the share of service sector in the growth of GDP.
3. To study the contribution of service sector in the development of the Indian economy.
4. To study the Government initiative and achievement in service sector.

Research Methodology

The present study is descriptive in nature. This study is based on secondary sources of data obtained from various agencies, organizations, Newspapers, Magazines, Website, Economic journals etc.

Growth of Service Sector in India

Services sector is one of the biggest in India and contributes more than half of Gross Value Added (GVA). As per 2018, 34.49 per cent of India's employed population was working in the services sector. India has ranked as the 8th largest exporter of commercial services globally in 2017. The service sector is a major contributor to the India's FDI Inflows.

Services exports include a major part of the total exports of India. Net Services exports from India stood at US\$ 38.95 billion in (H1 2018-19, April - September 2018) 2018-19 (Provisional). India is the export hub for software services. Software services has a 55 per cent share in the US\$ 185-190 billion global sourcing market in 2017.

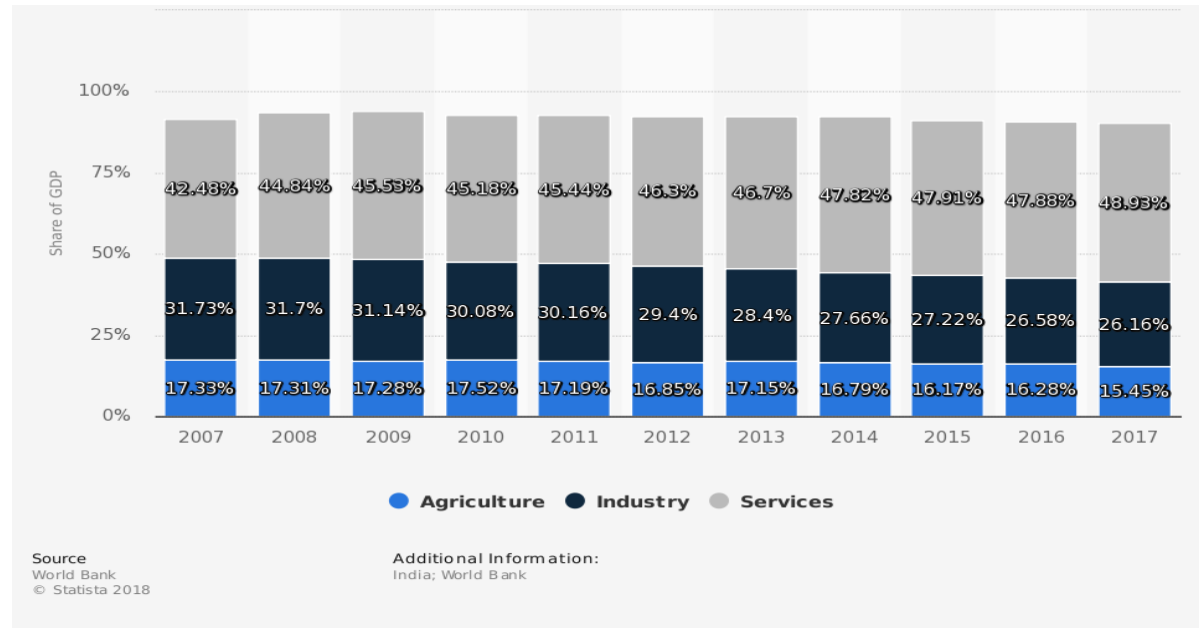
Sub-sectors that are performing well are:

1. Aviation – The traffic of India's air passenger doubled to 117.18 million in 2017 from 59.87 million in 2011. It stood at 226.80 million during the period April-November 2018.
2. Tourism – Foreign Exchange Earnings from tourism rise 20.8 per cent year on year to US\$ 27.7 billion in year 2017.
3. Information technology-business process management (IT-BPM) – Software exports are projected to grow 7-8 per cent and the domestic market is anticipated to expand by 10-11 per cent (According to NASSCOM).

The Government introduced 'Services Exports from India Scheme' targeted to promoting the export of services from India by providing duty scrip credit for appropriate exports.

Share of Service Sector in the GDP Growth

Figure-1



Source- World Bank / Statista 2018

This data shows the role of service sector in the gross domestic product (GDP) across in India from the period 2007 to 2017. In 2017, agriculture contributed 15.45 percent to the gross domestic product(GDP) of India, 26.16 per cent contribution from the industry sector and 48.93 percent contribution from the service sector which is greater than from other both sector.

Contribution of Service Sector in Indian Economy

The importance of services sector in India has been increasing continuously decade after decade. With the continuous enlargement of services sector, both in relations of volume and diversity, the status of services sector is increasing at a high speed.

- 1. Growth in GDP:** The contribution of total services sector in India's GDP, which is organised by trade, hotels, transport, storage and communications, banking, insurance, real estate, community and personal services increased from 42.48 per cent in 2007 and then finally to 48.93 per cent in 2017.
- 2. Services Sector Generate Employment:** The significant of services sector can also be realised from its support towards generation of employment in India. Even though the primary sector (mainly agriculture) is the leading employer followed by the services sector, the share of

services sector is increasing over the years and this way of the primary sector has been decreasing.

3. Contribution in Services Trade: The services sector is also contributing an important role in raising the volume of exports in India. Thus country is moving towards a services-led export growing in the recent years.

4. Contribution towards Human Development: Services sector plays significant contribution towards human development in our country. Therefore, services sector has been rendering certain valuable services, for example educational facilities, health services, IT and IT enabled services (ITes), skill development, tourism, sports, and cultural services etc. which are mostly responsible for human empowerment and expansion of quality of life of the people.

5. Services Sector Growth and FDI Inflows: Modest progress of services sector has made sufficient scope for the smooth inflow of FDI into the country. FDI also plays a significant role in the dynamic growth of the services sector. On the optimistic side, at global level, medium term prospects for services are normally better than those manufacturing sector with global investment in the services sector anticipated to grow relatively faster.

6. Contribution towards Development of Communication and Infrastructure: Services sector has also been contributing a significant role in developing, escalating and management of infrastructure with a special highlighting on development of transportation and communication services. In India the significant development of infrastructural facilities is quite high.

7. Contribution towards Development of IT and ITes: The services sector has also play a significant role in the continuous growth of its IT and IT enabled services (ITeS) sector and thus helping the economy of the country to achieve higher growth both in terms of GDP share, employment, exports etc. which has put India on the universal map. The IT and ITeS sector of the India has developed an image of a young and has earned a brand identity in this sector.

8. Contribution towards Development of Social Services: Services sector is also playing a significant role in the development and growth of some social services like sports, cultural services etc. Sports encourages physical fitness and develops human personality which also played an essential role in national identity, community bonding and international bonding. To meet the objective of protective and encouraging all forms of art and culture, a variety of activities are being undertaken by the Government of India.

Government Initiatives and Achievement in Service Sector

The Government of India identifies the significance of promoting growth in services sectors and provides numerous incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance and management.

Prime Minister Narendra Modi has specified that India's main concern will be to work towards Trade Facilitation Agreement (TFA) for services, which is expected to help in the smooth movement of professionals.

The Government of India has approved a few initiatives in the recent past years. Some of these are as given below:

- Under the Mid-Term Appraisal of Foreign Trade Policy (2015-20), the Government of India increased incentives providing under Services Exports from India Scheme (SEIS) by two per cent.
- Central Government is working to eliminate many trade barriers to services and tabled a draft legal text on Trade Facilitation in Services to the World Trade Organisation (WTO) in 2017.

ACHIEVEMENTS

Following are the achievements of the Government of India in the past four years:

- India got rank 24 in 2018 from 137 in 2014 on the World Bank's Ease of doing business - "Getting Electricity" ranking.
- Five times more growing in major ports traffic between years 2014-18, compared to year 2010-14.
- Government of India six-time increase in spending on telecommunications infrastructure and services in India – from Rs 9,900 crores (US\$ 1.41 billion) during 2009-14 to Rs 60,000 crores (US\$ 8.55 billion) (actual + planned) during 2014-19.
- A total 11 projects worth Rs 824.80 crore (US\$ 127.98 million) were sanctioned under the Swadesh Darshan scheme of India.
- An achievement of Government that Highest ever revenue was generated by Indian IT firms at US\$ 167 billion in 2017-18.

Conclusion

India is distinct for the rapid growth of its service sector such as high-tech information technology, communications and business services. Services sector has emerged as the most rapid growth sector in the Indian economy, particularly since the last ten years. It is contributing significantly to GDP, trade, FDI inflows and employment. There are inequalities in access of services and a major section of the poor in India do not have basic services like health and education. India's export also face competition in a few services sector. If the new reforms and regulations are implemented it will enhance the productivity and effectiveness of the services sector and also improve India's global competitiveness and trade in services at the universal level. Service sector will also help in achieving the objective of overall growth of the economy in the future.

References

- [1] Singh, K. (2015). 'The significance of service sector in Indian economy', *International research journal of management and commerce*, ISSN No. 2348-9766, Volume-2, Issue-4.
- [2] <https://www.ibef.org/industry/services.aspx>
- [3] Lashmi, P. and Kumar, S. (2012). 'Economy growth and impact of service's sector in India', *International journal of business management and economics research (IJBMER)*, ISSN No. 2229-6247, Volume-3(5).
- [4] Eichengreen, B. and Gupta, P. (2011). 'The service sector as India's road to economic growth', *National bureau of economic research*, Volume-7(1).
- [5] https://simple.wikipedia.org/wiki/Service_sector
- [6] Bandral, N. (2014). 'Service sector in India's economic growth', *International journal of research*, ISSN No. 2348-6848, Volume-1, Issue-5.
- [7] <https://www.statista.com/statistics/271329/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-india/>
- [8] Latha, C. M. and Shanmugam, V. (2014). 'Growth of service sector in India', *IOSR Journal of humanities and social science*, ISSN No. 2279-0837, Volume-19, Issue-1.
- [9] <https://www.ibef.org/industry/services-presentation>

- [10] Das, L. and Raut, R. (2014). 'Impact of change in service sector in India in shaping the future of business & society', *Procedia Economics and Finance*, ISSN No. 2212-5671, Volume-11.
- [11] <http://www.economicdiscussion.net/essays/essay-on-the-services-sector-of-india/17683>