

# The Role of service sector in Indian Economy

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## INTRODUCTION

In most of the low income economies, agriculture is the predominant sector. As these economies progress, the share of the industrial sector in economic activities increase. The development of industries, in turn , promotes a wide range of activities in the service sector like banking and insurance, transportation, trade, communication, etc.

The emergence of India as one of the fastest growing economies in the world during the 1990s can be attributed to the rapid growth of its services sector, which has emerged as the largest contribution to the GDP with more than 50 per cent share. Service sector has emerged as the largest and fastest growing sector in the global economy in the last two decades, providing more 60 per cent of global output and, in many countries , an even larger share of employment . The growth in services has also been accompanys by the rising share of services in world transaction. Its growth has been higher than the growth in agriculture and manufacturing sector. The growth of GDP in service sector in India around 51 percent in line with the global trends there are two unique characteristics of India's service sector growth . First, the entire decline in the share of agriculture in GDP . Second, in spite of the rising share of services in GDP and trade, there has not been a corresponding rise in of India's services in total employment. the share of services in India's GDP at factor cost increased rapidly from 30.5 per cent in 1950 to 55.2 percent in 2009-10. If construction is also included, then the share in creases to 63.4 percent in 2009-10.

The service sector accounts for 54 per cent of India's Gross Value Added (GAV) . Its growth rate moderated to 7.5 per sent in 2018-19 from 8.1 per cent in 2017-18. The segment that saw deceleration are tourism, trade, hotels, transport, communication and service related to broadcasting, public administration and defense. Financial, real estate and professional services category accelerated. An important finding is that India's service sector does not generate jobs in proportion to its share in GAV. This contrasts with the international experience. India received 10.6 million foreign tourists in 2018 compared to 10.4 million in 2017-18. Foreign exchange earnings from tourism in India stood at US\$ 27.7 billion in 2018-19 compared to US\$ 28.7 billion in 2017-18. Many of the high frequency indicators, such as bank credit to service sector , decelerated in 2018-19. However the IT-BPM industry grew by 8.4 per cent in 2017-18 to US\$ 167 Billion and is estimated to have reached US\$ billion in 2018-19.

## OBJECTIVE OF THE STUDY

1. Growth of service sector in India, Its share in GDP and its contribution to GDP growth.
2. Comparative growth of different sub-sectors of service sector.
3. Share of service in employment.

**Table 1: Service Sector Performance in India's GVA**

Sector	Share in GVA (per cent)	Growth (per cent YoY)						
		2016-17	2017-18	2018-19 (P)	2018-19 (P)			
					Q1	Q2	Q3	Q4
Total Service (Excluding Construction)	54.3	8.4	8.1	7.5	7.1	7.3	7.2	8.4
Trade, Hotel, Transport, Communication and	18.3	7.7	7.8	6.9	7.8	6.9	6.9	6

service related to broadcasting								
Financial, real estate & professional services	21.3	8.7	6.2	7.4	6.5	7	7.2	9.5
Public administration, defense & other services	14.7	9.2	11.9	8.6	7.5	8.6	7.5	10.7

Source: Central Statistics office (CSO) , Ministry of Statistics and Programme Implementation .

**Note:** Shares are in current price and growth the constant 2010-11 price. P= Provisional Estimates

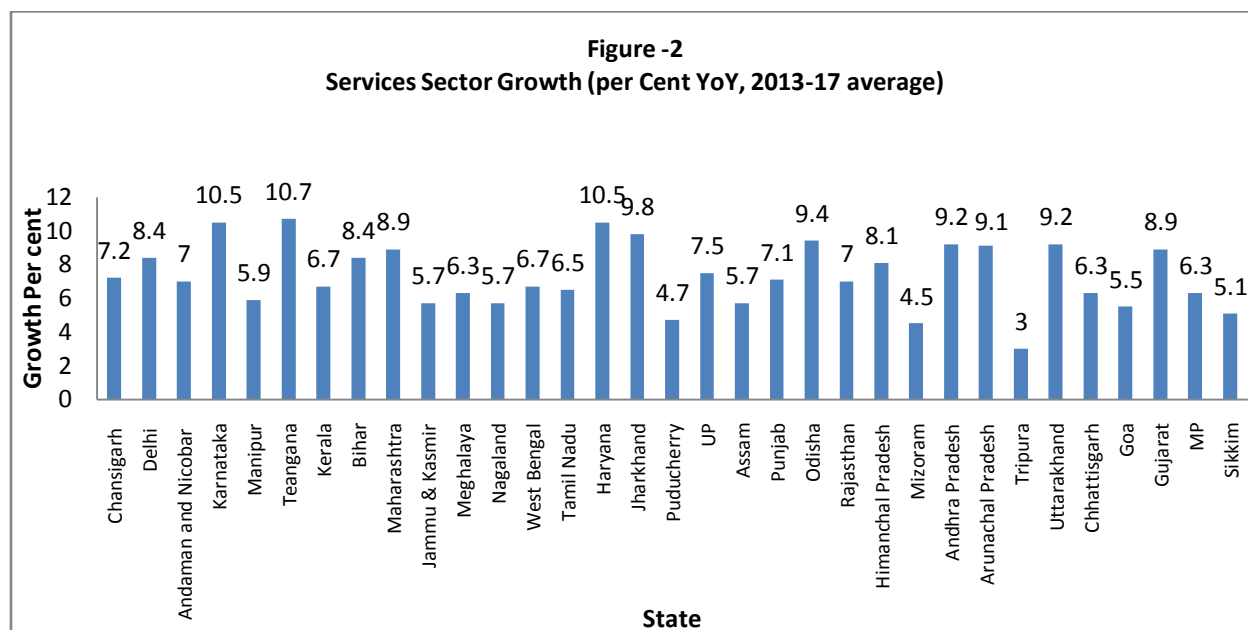
As per the provisional estimates for gross value added (GAV), services sector growth moderated in 2018-19 to 7.5 per cent rate from 8.1 per cent in 2017-18. This was due to a deceleration in the sub-sectors trade, hotels, transport, communication & broadcasting services to 6.9 per cent and public administration and defense & other services to 8.6 per cent in 2018-19. On the bright side, growth in the sub-sector financial services real estate & professional services picked up to 7.4 per cent in 2018-19 despite the recent growth moderation , service sector growth continues to outperform agriculture and manufacturing sector growth, contribution more than a60 per cent to total GAV growth.

**Table-2: State-Level Services Sector Performance**

S.No.	State	Services Sector Share in GSVA in 2017-18 (per cent)	Services Sector Growth (per cent YOY, 2013-17 average)
1.	Chandigarh	88.9	7.2
2.	Delhi	84.3	8.4
3.	Andaman and Nicobar Islands	68.5	7
4.	Karnataka	65.9	10.5
5.	Manipur	65.5	5.9
6.	Telangana	63.2	10.7
7.	Kerala	62.6	6.7
8.	Bihar	62.2	8.4
9.	Maharashtra	58.5	8.9
10.	Jammu & Kashmir	57.5	5.7
11.	Meghalaya	57.2	6.3
12.	Nagaland	56.3	5.7
13.	West Bengal	54.0	6.7
14.	Tamil Nadu	53.4	6.5
15.	Haryana	49.8	10.5
16.	Jharkhand	49.3	9.8
17.	Puducherry	48.2	4.7
18.	Uttar Pradesh	48.0	7.5
19.	Assam	47.5	5.7
20.	Punjab	46.1	7.1
21.	Odisha	45.2	9.4
22.	Rajasthan	44.2	7.0
23.	Himanchal Pradesh	43.3	8.1
24.	Mizoram	43.0	4.5
25.	Andhra Pradesh	42.7	9.2
26.	Arunachal Pradesh	40.1	9.1
27.	Tripura	39.7	3.0
28.	Uttarakhand	39.7	9.2
29.	Chhattisgarh	36.4	6.3
30.	Goa	35.9	5.5
31.	Gujarat	35.5	8.9
32.	Madhya Pradesh	35.4	6.3
33.	Sikkim	30.2	5.1

Source: CSO, Ministry of Statistics and Programme Implementation.

**Note:** Based on data available up to 2016-17.



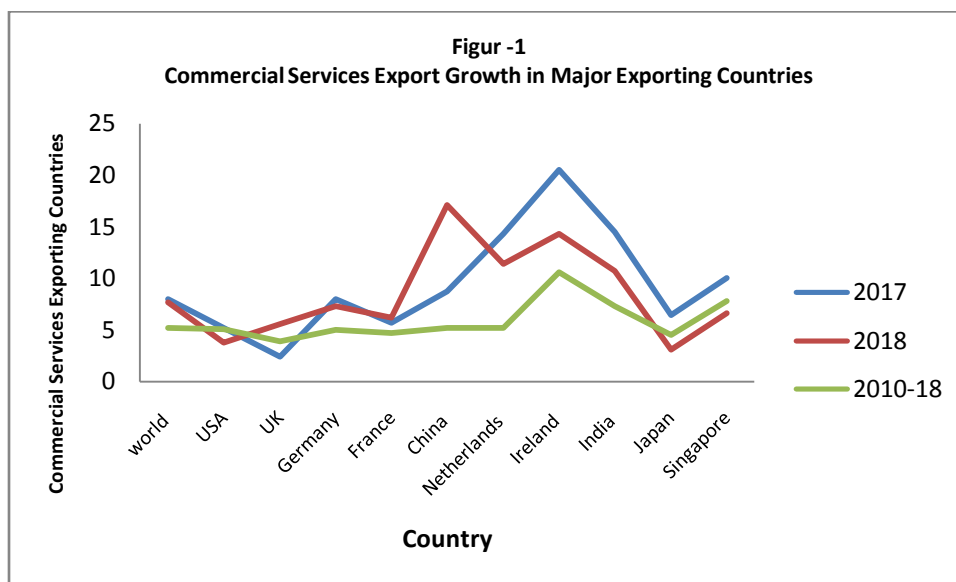
performance of the states shows that the share of services in total gross state value added (GSVA) was more than 50 per cent in 14 out of 33 state and UTS. The share of services is particularly high in Chandigarh and Delhi with over 80 per cent share while Sikkim was at the bottom with 30.2 per cent share. In contrast, service sector accounts for less than 40 per cent of share of services in GSVA in states such as Gujarat, Uttarakhand, Madhya Pradesh and Chhattisgarh. Even states with relatively low share of services, such as Haryana, Jharkhand, have witnessed strong services sector growth in the recent years.

**Table-3: Commercial Services Export Growth Major Exporting Countries**

S.No.	Country	Commercial Services Export Growth (per cent)		
		2017	2018	CAGR (2010-18)
	World	8.0	7.7	5.2
1.	USA	5.2	3.8	5.1
2.	UK	2.4	5.6	3.9
3.	Germany	8.0	7.3	5.0
4.	France	5.7	6.2	4.7
5.	China	8.7	17.1	5.2
6.	Netherland	14.3	11.4	5.2
7.	Ireland	20.5	14.3	10.6
8.	India	14.5	10.7	7.3
9.	Japan	6.4	3.1	4.5
10.	Singapore	10.0	6.6	7.8

Source: world Trade Organization (WTO)

**Note:** Data is on calendar year basis.



World commercial services export growth eased marginally to 7.7 per cent in 2018. Commercial services export growth in India also moderated slightly to 10.7 percent in 2018 following the strong growth witness in 2017. Nonetheless, India remains one of the strongest performers among the major service-exporting countries. Government has taken many initiatives that included measures such as start –up India, Insolvency and Bankruptcy code, National Intellectual Property Right (IPR) policy, implementing GST regime and improving the ease of doing business, which have helped increase India’s ranking in the world bank’s ease of doing business index from 100 in 2017 in 2018. digital India, e-visas, infrastructure status of logistics, schemes for the housing sector etc.

**Table-4: FDI Equity Inflows into Services Sector (US\$ million)**

	Service Sector	2016-17	2017-18	2018-19
1.	Financial, Business, Outsourcing, R&D, Courier, Testing & Hardware	8,684	6,709	9,158
2.	Trading	3,652	6,153	6,415
3.	Telecommunication	2,338	4,348	4,462
4.	Information & Broadcasting	5,564	6,212	2,668
5.	Hotel & Tourism	1,517	639	1,252
6.	Hospital & Diagnostic Centers	916	1,132	1,076
7.	Education	747	708	1,045
8.	Retail Trading	160	286	777
9.	Consultancy Services	451	224	443
10.	Sea Transport	261	760	411
11.	Air Transport	735	1,051	279
12.	Agriculture Services	83	629	191
13.	Total FDI Equity inflows into services	76	110	88
14.	Total FDI Equity inflows in India	25,185	28,960	28,264
15.	Share of Services in Total FDI Inflows	43,478	44,857	44,366
16.		57.9	64.6	63.7

Source: Estimated using data form Department for Promotion of Industry and Internal Trade on FDI equity inflows into major service sectors.

The table shows FDI equity inflows into the services sector accounted for more than 60 per cent of the total FDI equity inflows into India. During 2018-19, FDI equity inflows into services sector fell by US\$ 696 million or 1.3 per cent from the

previous year to about US\$ 28.26 billion, which is in line with the small decline witness in overall FDI inflows into India. This was driven by weaker FDI inflows into sub-sectors such as telecom, consultancy services, air and sea transport which offset the strong inflows witness in education, retail trading and information & broadcasting.

### **CONCLUSION**

This shows that services cannot substitute for industrial job creation. while it is feasible to move significant numbers of worker from agriculture into well paid jobs in formal manufacturing activities, it is not feasible to move them to formal service sectors for two reasons first, formal service sectors such a banking, insurance, finance, communication and information technology have relatively low employment intensity. Second, employment in manufacturing requires only on the job training, whereas employment in the formal services requires at least a college level education. A strategy that relies exclusively on services as the engine of growth must provide a minimum of fifteen years of education before workers are transferred out of agriculture . This is not feasible for the existing adult worker in agriculture Panagariya conclude that “ If India is to transition to a modern economy in less than two decades, it cannot escape the Industrialization stage.

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