



ISSN Print: 2394-7500  
ISSN Online: 2394-5869  
Impact Factor: 5.2  
IJAR 2017; 3(1): 642-646  
www.allresearchjournal.com  
Received: 26-11-2016  
Accepted: 27-12-2016

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## Service sector- A boon to Indian economy

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### Abstract

Service sector also known as tertiary sector is essential for economic growth in any economy including India. It has emerged as the essential-growing sector in the global economy since independence. This sector contributing 52.52 per cent of GDP. During last two decades, the productivity of services has risen. Its respectable share in foreign direct investment (FDI) inflows as well as in total exports makes it the engine of economic growth. Keeping in above backdrop, the present study makes an analysis of service sector in Indian economy. The study confirms that service sector has achieved tremendous growth over the year in Indian economy. Besides, their contributions in GDP, employment and exports are also rising considerably. To maintain and accelerate the growth & contributions of this sector & to develop it as a true engine of economic growth, there is logic & rationale of complementary investments in physical infrastructure as well as in human capital.

**Keywords:** Service sector, GDP, economic growth, FDI

### Introduction

Indian Economy is divided into three sectors- Primary, secondary & Tertiary. The tertiary sector of the economy is also known as the service sector or the service industry. It is one of the three economic sectors, the others being the primary sector includes agriculture, fishing, and extraction such as mining. Secondary sector is approximately the same as manufacturing. The service sector provides a service, not an actual product that could be held in your hand. Activities in the service sector include retail, banks, hotels, real estate, education, health, social work, computer services, recreation, media, communications, electricity, gas and water supply. For the last 100 years, there has been a substantial shift from the primary and secondary sectors to the tertiary sector in industrialized countries. This shift is called Tertiarianisation. The tertiary sector of industry involves the provision of services to other businesses as well as final consumers. The service sector is difficult to define and to encompass. There are a number of ways to identify the sector, its divisions, its industries, and the types of jobs within them. The general category of the service division includes a wide variety of industries, but can be categorized into primarily consumer-oriented, primarily business-oriented or mixed.

The broadest definition of the service sector encompasses all industries except those in the goods-producing sector-agriculture, mining, construction, and manufacturing. Under this definition, services include transportation, communication, public utilities, wholesale and retail trade, finance, insurance, real estate, other personal and business services, and government. One variation on this definition of the service sector excludes government activities at all levels. Service sector is the lifeline for the social economic growth of a country. It is the large and fastest growing sector globally contributing more to the global output and employing more people than any other sector. The growth of the service sector is due to increase in urbanization, privatization and more demand for intermediate and final consumer services.

### What constitute the services sector?

The service sector includes certain services which are not directly helpful in the production process but very essential for good quality of life. For example, services of doctors, teachers, crèches, designers, domestic service providers etc. The services division activities can be described by their economic activities as physical, intellectual, aesthetic, and other experiential activities.

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- Physical activities involve working with objects; examples include repairing cars, landscaping, cutting hair, or preparing a meal. Intellectual activities involve providing education or training, such as at a university or trade school.
- The Aesthetic activities entail providing consumers with artistic or visual experiences; museums, theater performances, art shows, and musical performances are examples.
- Other Experiential activities involve providing customers with recreation, such as in amusement and theme parks, zoos, or campgrounds.

**Factors that have led to spurt in services growth**

The growth in the service sector in India has been linked to the reforms of the 1990s. In the first 3 decades after independence in 1947, India was largely an agrarian economy. The service sector started to grow in the mid-1980s, but growth accelerated in the 1990s when India initiated a series of economic reforms after the country faced a severe balance of payments crisis. Reforms in the service sector were a part of the overall reform program which led to privatization, the removal of FDI restrictions, and streamlining of approval procedures among others. After the 1990s, the service sector grew. The factors that have led to spurt in service sector is divided into two parts:

**Factors relating to the Demand Side**

The producers of goods and services, the growth of multinational firms, the increase in international trade, and the proliferation of products cause an increase in the demand for services.

**Factors relating to the Supply Side**

Scholars have proposed supply side factors that have contributed to the increased role of the services sector. This is more prominently seen with regard to services employment and with regard to advanced industrial economies. The technology led increases in labour productivity in manufacturing sector could lead to relative changes in employment share such that this results in the net decline in manufacturing employment and no change or increase in the services employment.

**Significance of the Service Sector in India**

Services sector has become more important in recent years as modern technology has permitted new means of providing services across the borders. It has become the lifeline for the social economic growth of a country. It is contributing significantly to GDP, GDP growth, employment, trade and investment. On the way of its economic growth and development, India has reached a level where there is a predominance of service sector. The importance of the services sector can be gauged by looking at its contributions to different aspects of the economy.

**Contribution of the Service sector to India’s GDP**

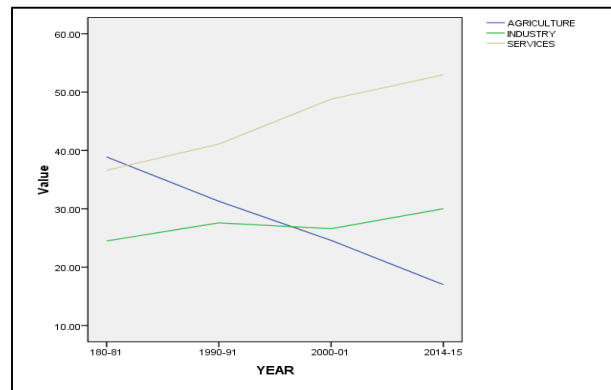
Gross domestic product (GDP) means the total value of all the services and goods that are manufactured within the territory of the nation during the specified period of time. Services sector is the largest sector of India. Gross Value Added (GVA) at current prices for Services sector is estimated at 61.18 lakh crore INR in 2014-15. Services sector accounts for 52.97% of total India's GVA of 115.50 lakh crore Indian rupees. With GVA of Rs. 34.67 lakh crore,

Industry sector contributes 30.02%. While, Agriculture and allied sector shares 17.01% and GVA is around of 19.65 lakh crore INR. At 2011-12 prices, composition of Agriculture & allied, Industry, and Services sector are 16.11%, 31.37%, and 52.52%, respectively. Over time, the share of services in GDP has increased while that of agriculture has declined. The growth of the service sector accelerated in the late 1980s, and in the late 1990s it surpassed the growth of industries to become the fastest growing sector of the Indian economy.

**Table 1:** (Sectoral shares in GDP: 1980-81 to 2014-15)

Sector	1980-81	1990-91	2000-01	2014-15
Agriculture	38.9	31.3	24.6	16.11
Industry	24.5	27.6	26.6	31.37
Services	36.6	41.1	48.8	52.52

**Source:** Central Statistical Organization, National Accounts Statistics



**Fig 1**

There are several reasons for the growth of the Services Sector contribution to the India GDP.

The contribution of the Services Sector has increased very rapidly in the India GDP for 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 specially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP.

**Contribution of the Service’s Sub sectors to India’s GDP**

The new economic policy has affected positively on the expansion of service sector. But all services did not enjoy similar benefits of this policy. It concluded the share of trade, transportation and communication, banking, business services and community services was increased in GDP during post 1991. But the share of banking in GDP was reduced in 2007-08. This may be due to global slowdown. The share of public administration was also reduced because the government is curtailing expenditure on administration to reduced fiscal deficit. The share of community services in GDP has increased in recent years has the government is increasing expenditure on education, research, health, medical etc.

**Market Size**

The services sector contributed US\$ 783 billion to the 2014-15 GDP (at constant prices) growing at Compound Annual Growth Rate (CAGR) of 9 per cent, faster than the overall GDP CAGR of 6.2 per cent in the past four years.

Out of overall services sector, the sub-sector comprising financial services, real estate and professional services contributed US\$ 305.8 billion or 20.5 per cent to the GDP. The sub-sector of community, social and personal services contributed US\$ 188.2 billion or 12.6 per cent to the GDP. The third-largest sub-segment comprising trade, repair services, hotels and restaurants contributed nearly equal or US\$ 187.9 billion or 12.5 per cent to the GDP, while growing the fastest at 11.7 per cent CAGR over the period 2011-12 to 2014-15.

**Investments**

In the post Liberalization period, the Service sector has attracted significant foreign investment due to the availability of skilled labor at lower wages and the large and unsaturated domestic market. The Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000-September 2015, amounting to about US\$ 45.38 billion which is about 17 per cent of the total foreign inflows, according to the Department of Industrial Policy and Promotion (DIPP). Some of the developments and major investments by companies in the services sector in the recent past are as follows:

- Amazon, the world's largest online retailer, plans to invest Rs 31,700 crore (US\$ 4.76 billion) in India in addition to the US\$ 2 billion investment it committed two years ago, in expanding its network of warehouses,

data centers and increasing its online marketplace, besides launching an instant video and subscription-based ecommerce services for high-end buyers, called Amazon Prime, later this year.

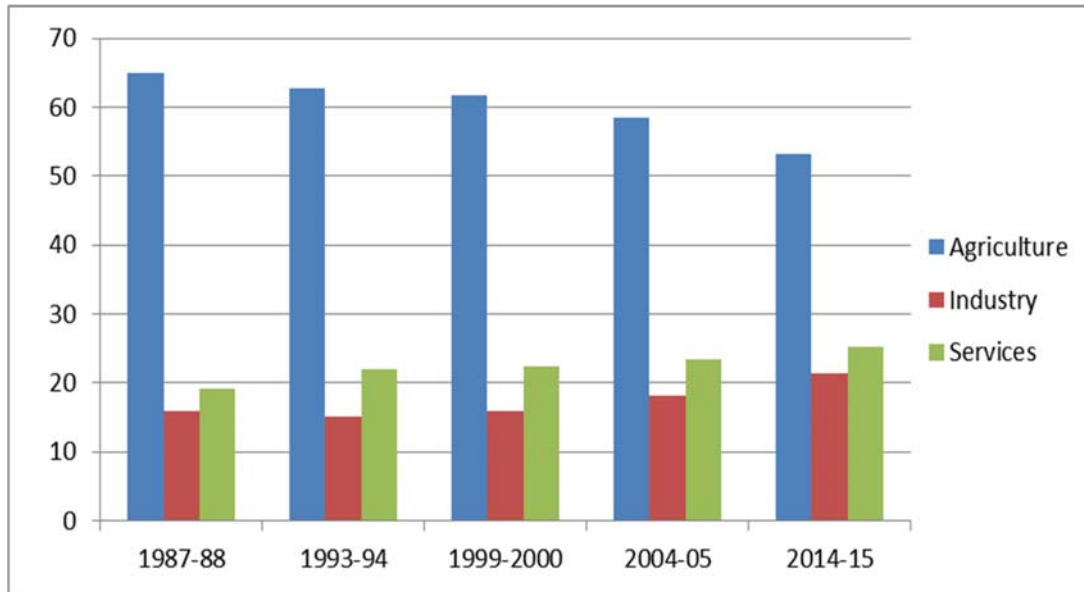
- The Government of India has awarded a contract worth Rs 1,370 crore (US\$ 210 million) to Ricoh India Ltd and Telecommunications Consultants India Ltd (TCIL) to modernize 129,000 post offices through automation.
- Taxi service aggregator Ola plans to double operations to 200 cities in current fiscal year. The company, which is looking at small towns for growth, also plans to invest in driver eco-system, such as training centers and technology upgrade, besides adding 1,500 to 2,000 women drivers as part of its pink cab service by women for women.
- JP Morgan Asset Management (UK) Ltd, JP Morgan Investment Management Inc and JP Morgan Chase Bank NA, have together acquired 4.11 per cent stake in Mahindra & Mahindra Financial Services Ltd for Rs 113.75 crore (US\$ 17.1 million).

**Employment in the Service Sector**

**Table 2:** (Sectoral shares in Total Employment: 1987-88 to 2009-10)

Sector	1987-88	1993-94	1999-2000	2004-05	2014-15
Agriculture	65	62.8	61.7	58.5	53.2
Industry	15.9	15.2	15.9	18.1	21.5
Services	19.1	22.0	22.4	23.4	25.3

**Source:** National Sample Survey Organisation, Survey on Employment



**Fig 2**

Table 2 shows that during the period from 1987 to 2004-05, the share of agriculture in total employment declined by about 12% points. On the other hand, the share of Industrial & Service sector increased by 5% & 7% points respectively. Table indicates that the work force has shifted more towards services than to industry. It implies that during last two decades, the productivity of services has risen relative to industry.

**FDI in Service Sector**

According to the Department of Industrial Policy and Promotion (DIPP) the Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000-March 2016, amounting to about US\$ 50.79 billion which is about 18 per cent of the total foreign inflows. Some of the developments and major investments by companies in the services sector in the recent past are as follows:

- Meru Cab Company Pvt Ltd, the Mumbai-based radio cab service, has raised Rs 150 crore (US\$ 22.24 million) from Brand Capital, the investment arm of Bennett Coleman and Co, which will be used to fund advertising and provide user incentives including discounts and loyalty schemes.
- SSG Capital Management Group, a Hong Kong based Private Equity (PE) investor, has acquired a 40 per cent stake in the logistics company Future Supply Chain Solutions (FSC), for Rs 580 crore (US\$ 86 million) from existing shareholders including Future Retail (FRL) and Fung Group, promoted by billionaire Victor Fung.
- Vistra Group Ltd, a Hong Kong-based professional services provider, has acquired IL&FS Trust Company Ltd, India's largest independent corporate trust services provider, which will enable Vistra to expand the platform to provide a broader suite of corporate and fiduciary services and thereby gain a foothold in the Indian corporate services market.
- Pink Blue Supply Solutions Pvt. Ltd, a clinical supplies provider, has raised Rs 1.5 crore (US\$ 0.22 million) in a seed round of funding from TermSheet.io, a transaction-focused service provider for start-ups and investors, which will be used to ramp up technology, improve customer experience and operational capabilities, put in place smart supply chain management across hospitals and clinics, and hire larger teams.
- Icertis Inc, a contract management software maker for enterprises based out of Pune and Mumbai in India, has raised US\$ 15 million in series B round of funding from Ignition Partners and Eight Roads Ventures, which will be used to invest in marketing and expand its global operations.

- Of Business, an online marketplace for business-to-business (B2B) commerce, has raised US\$ 5 million in series A funding round led by Matrix Partners India, which will be used to expand the team and build a technology platform for small and medium enterprises (SMEs).

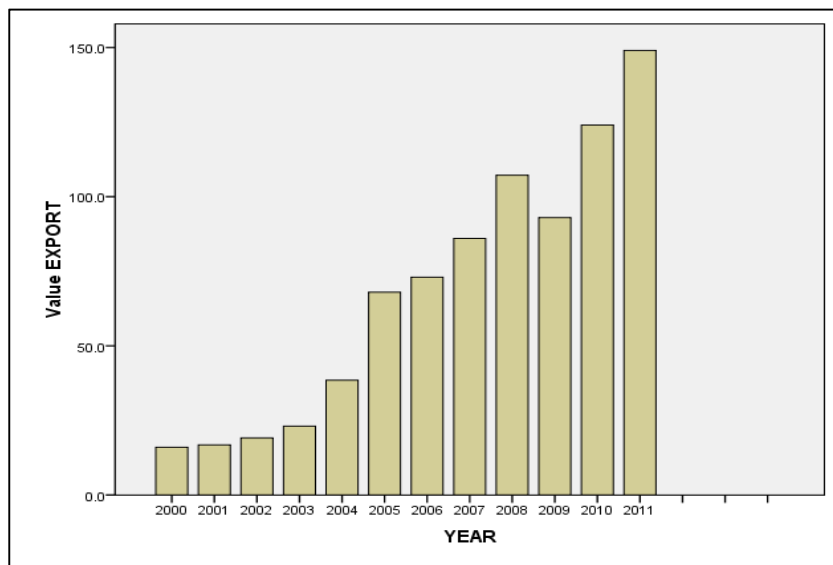
**Service Exports**

India's Service sector has matured considerably during the last few years and has been globally recognized for its high growth and development. This sector has been growing at an annual growth rate of about 28% during the last five years. Services Exports amounted to meager US \$ 8.9 billion in 1997 but over the years services exports have grown up substantially. There has been rapid the growth of services exports from 2002. The exports have grown up from US \$ 19.1 billion to US \$ 73 billion in 2006. In year 2009 it was \$ 96 billion and in 2010 it was \$ 124.0

**Table 3:** (Services Export in in India from 2000-11)

Year	Export (US \$ billion)
2000	16.0
2001	16.8
2002	19.1
2003	23.1
2004	38.5
2005	68.0
2006	73.0
2007	86.0
2008	107.2
2009	93.0
2010	124.0
2011	149.0

Source: ITC



**Fig 3**

**The Services Sector in India must be given boost**

Services Sector Growth Rate in India GDP registered a significant growth over the past few years. The services sector in India has remained the most vibrant sector in terms of contribution to national and state incomes, trade flows, FDI inflows, and employment. According to the Economic

Survey 2015-16 tabled in Parliament today, the services sector contributed almost 66.1% of its gross value added growth in 2015-16 becoming the important net foreign exchange earner and the most attractive sector for FDI (Foreign Direct Investment) inflows. Despite the slowdown in the post crisis period (2010-14) India showed the fastest

service sector growth with a CAGR (Compound Annual Growth Rate) of 8.6% followed by China at 8.4%. In 2014 India's services sector growth at 10.3% was noticeably higher than China at 8.0%. As per the ILO (International Labour Organisation) report on "Global Employment and Social Outlook: Trends 2015" job creation in the coming years will be mainly in the service sector.

The Indian government must take steps in order to ensure that Services Sector Growth Rate in India GDP continues to rise. For this will ensure the growth and prosperity of the country's economy. The Government of India recognises the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others. The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

- The Central Government is considering a two-rate structure for the goods and service tax(GST), under which key services will be taxed at a lower rate compared to the standard rate, which will help to minimize the impact on consumers due to increase in service tax.
- By December 2016, the Government of India plans to take mobile network to nearly 10 per cent of Indian villages that are still unconnected.
- The Government of India has proposed provide tax benefits for transactions made electronically through credit/debit cards, mobile wallets, net banking and other means, as part of broader strategy to reduce use of cash and thereby constrain the parallel economy operating outside legitimate financial system.
- The Reserve Bank of India (RBI) has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and has also allowed white label ATMs to tie up with any commercial bank for cash supply.

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