



## ROLE OF SERVICE SECTOR IN INDIAN ECONOMY

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### Abstract

*-Service sector has changed the scenario of GDP growth rate as well as the Indian exports especially in last 20 years period. There has been increasing importance of service sector. There are few interesting things whether service –exports has any correlation with growth of service sector or how total exports of India behaved with annual service-sector exports. There are things related to service sector growth that gives joy but many facts are still present representing different picture as other side of coin.*



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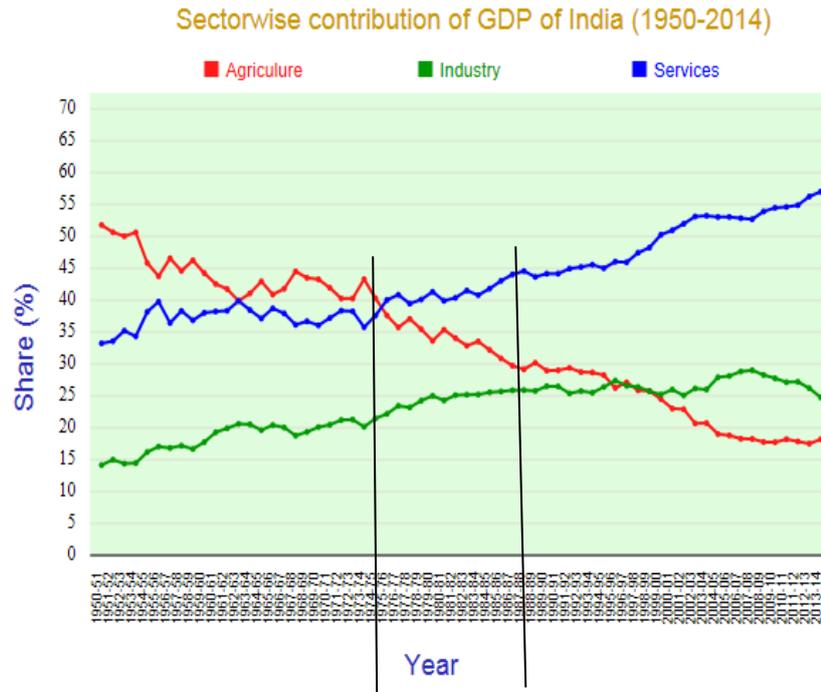
1.

In 2015-16, the proportion of India's service-sector was around 60% of whole GDP, after registering growth rates above 10 % in most of the years since 2005. The sector's share was around 66% in 'Gross Value Added' growth in 2015-16. The report, published by industry body Confederation of Indian Industry (CII) and KPMG says India is currently the second fastest growing services economy in the world. Indian services sector received around \$ 58.4 billion of investment form April 2000 to December 2016 and it accounted around 18% of gross foreign investment inflows in India.

In 1976-77 the share of agriculture decreased vis-à-vis service sector. Post 1985-85, the gap between shares of Agriculture sector and Service sector started widening, taking a shape of "opening -V" as shown in above picture. Contribution of Agriculture & allied, Industry, and Services sector was 51.81%, 14.16%, and 33.25% respectively at current prices in 1950-51. After 63 years of gap, Share of different sectors changed drastically. In 2013-14, share of Agriculture & allied sector has reduced to 18.20%. Share of Services sector has increased to 57.03%. Share of Industry sector has also improved to 24.77%. Transportation, storage and communication services were the prime priorities in India during first two decades of planning

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Period. The next two decades saw fast growth of finance and business services in decade of 1970s and 1980s. again the finance and business services started growing in India with fastest growth rate during decade of 1980s. In the decade of 2000-2010, transport, storage and communication services again became the leader during decade of 2000- 2010.



(Source: Central Statistical Organisation data compilation)

According to planning commission, the service sector GDP growth has been higher than that of overall GDP growth from 2001-02 to 2014-15. This exactly means that Services-sector has been continuously generating a largest part of India’s whole GDP. Services sector is the largest sector of India. With 57 % share in GDP-(Factor cost-at current prices)- in 2013-14, Services sector contributed largest proportion in overall India’s GDP. In 2014-15, Gross Value Added (GVA) at current prices for services sector is around 61.2 lakh crore rupees and it contributes about 53% of total India’s GVA (Gross GVA of 115.5 lakh crore rupees).

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Economic Survey (2015-16) praised the Growth in Service-Sector with the words: “Services Sector remains the Key Driver of Economic Growth.” The services sector in India has remained the most potential sector in terms of gross value addition to GDP. This means that largest part of incomes, trade flows, FDI inflows and employment generation in our nation and states has been sourced by this sector. In 2015-16, contribution of the services sector (gross value added growth) was almost 66.1% to India’s total GVA, and it became very

important net foreign exchange earner. Service sector has now become the most attractive sector for FDI (Foreign Direct Investment) inflows. However there has been global slowdown in the post crisis period (2010-14), but 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."

India's services sector has matured considerably during the last few years and has been globally recognized for its high growth and development. The services sector in India has become the leader in attracting largest quantity of the FDI equity inflows (US\$ 50.79 billion) in the period of last 15 years from FY 2000 – FY 2015. This FDI Equity weighs around 17.5 % of the total foreign inflows (DIPP -Department of Industrial Policy and Promotion- Data). According to 'Economic Survey' in 2014, FDI in India at 34 billion US\$ had an increment by 22% over 2013. In 2014-15, FDI inflows to the Services Sector grew by a whopping 70.4% to 16.4 billion US\$. There has been a significant growth in FDI inflows in 2014-15 and 2015-16(April – October) in general and in Services Sector in particular. FDI equity inflows in the services sector grew by 74.7% in the first seven months of 2015-16 and became 14.8 billion US\$. Significant FDI related liberalization has taken place in a number of sectors to ensure that India remains an increasingly attractive investment destination.

FDI equities coming recently are quite interesting. For meeting the target of scaling 10 times in the next 12 months, Indian logistics platform 'Rivigo' has raised US\$ 30 million in debt and equity in Series B financing round, led by SAIF Partners. US-based financial data and analytics firm 'Fact set' is going to set up its largest global office at Divyasree Orion - (SEZ) in

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Gachibowli, Hyderabad. 'Logix Health Private Limited', a wholly-owned subsidiary of LogixHealth, Inc-USA, plans to invest around US\$ 15 million and hire 1,000 people for its upcoming facility in Coimbatore. Taxi service aggregator Ola targets to increase its operations 200 % into 200 cities (including small towns) in FY 2017 & 2018. Company will also invest in providing 'training centers' , technology upgrade and adding 1,500 to 2,000 women drivers as part of its new innovative pink cab service- 'by women for women'. Another taxi service 'Meru Cab Company Pvt Ltd', the Mumbai-based radio cab service, has raised Rs 150 crore (US\$ 22.37 million) from 'Brand Capital' (Bennett Coleman and Co),

with a aim to fund advertising and provide user incentives including discounts and loyalty schemes. Similarly ‘Shuttl’, an Indian bus aggregator platform headquartered in Gurgaon, has raised US\$ 20 million in Series A funding from Lightspeed, Sequoia India and Times Internet Ltd. It is mobile-app base transport service which connects offices in Gurgaon and Noida to homes in Delhi-NCR. 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\$ 86.5 million) from existing shareholders including Future Retail (FRL) and Fung Group, promoted by billionaire Victor Fung.

Services exports have been a very potent factor contributing to India’s trade and export in recent years. Services exports amounted to a meager US\$ 8.9 billion in 1997 but over the years, services exports have grown substantially. There has been rapid growth in the services exports from the year 2002. India’s share in world services exports was a meager 0.6 % in 1990. It slowly increased to 1.1 % in 2000. This was a growth of 85% in a decade. Scenario change post 2000 and in next 3 years, service exports tripled to become 3.3 % in 2013, an commendable fast pace in augmenting its share in world merchandise exports. During 13 year period (2001 to 2014), our service exports increased more than 900%, which is very high on global level. India’s services export grew from 16.8 billion US\$ in 2001 to 155.6 billion US \$ in 2014 which constitutes 7.5% of the GDP making the country the 8th largest services exporter in the world. Software-services contributed around 46 % of India’s total services exports in 2013-14. Our country is a global leader in Information technology and the sector produced \$ 108 Billion services-exports during FY 2015, mainly to US, UK and Europe. Tour & travel generate about

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12 % share, but is most sensitive sub sector in services. It depends mostly of economic-social conditions as well as perception of safety and services availability. India’s exports of financial services registered a high growth of 34.4 per cent in 2013-14. The Government has taken policy initiatives to promote services exports which include the Service Export from India Scheme (SEIS) and organizing Global Exhibition on Services (GES). Indian economy has considerably opened up during last 10 year period of 2004 to 2014. Total trade (as % of India’s GDP), including service related trade has increased from 38% in FY 2004 to 50% in FY 2014 therefore reflecting the good openness of economy. India’s Services Import at 81.1 billion US\$ grew by 3.3% in 2014-15. India's global exports of commercial services during the last 15 years can be seen from the table below –

### India's Global trade of Commercial Services

Years	Service Sector- Exports US \$ (Billion) & yearly growth (%)	Total Exports US \$ & Growth (%)	Service US\$sector Yearlygrowth-price (%) (2004-05)	Service exports % of total exports	Employment asIn sector of employment	Employment serviceto % (contribution) Totalratio of service sector
1993					22%	0.48
1997	8.9		8.9			
1998	11.0 (23.5%)		8.28			
1999	14.0 (27%)	37.5	12.05	37.3%	22.4%	0.42
2000	16.0 (14.2%)	45.5 (21.3%)	5.07	35%		
2001	16.8 (5%)	44.7 (-2%)	6.6	37.5%		
2002	19.1 (13.6%)	53.8 (20.3%)	6.7	35.5%		
2003	23.1 (21%)	66.3 (23.2%)	7.9	34.8%		
2004	38.5 (66.6%)	85.2 (28.5%)	8.28	45.1%	23.4%	0.44
2005	68.0 (76.6%)	105 (23.2%)	10.9	45.33%		
2006	73.0 (7.3%)	129 (22.8%)	10.6	56.5%		
2007	86.0 (17.8%)	166.2 (28.8%)	10.27	51.7%		
2008	107.2 (24.6%)	189 (13.7%)	10	56.7%		
2009	93.0 (-13.3%)	182.4 (-3.5%)	10.5	51%	25.3%	0.46
2010	124.0 (33.33%)	250.5 (37.3%)	9.6	49.5		
2011	149.0 (20.1%)	309.8 (23.6%)	6.57	48%		
2012						

#### Analysis of above table and findings:

- From the above table we can see that there is no clear relation between service-export growth and total exports. Total exports of India have shown some consistency during FY 2000 to FY 2011, except 3 years viz. 2008, 2009, 2010. In case of service-exports, the growth record has been erratic.
- Similarly no significant correlation exists between growth in service-exports and service sector growth on annual basis. Service sector growth rate entered above 10% since 2005-06. Average growth rate during period 2005-2010 was 10.3%.

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3. An interesting fact exists regarding the service-exports as percentage of total exports (yearly basis). Between period 1999 -2003, the service-exports were, on an average, 36% of the total exports from India. This average value increased to 45.2% during period 2004-05 and 2005-06. Further increase in average value continued and it was 51.38% during period 2006-2011. This shows a trend where 'service-sector' exports have been increasing in percent as proportion of total exports. In recent years, the service sector's contribution towards India's GDP and service sector-exports as % of total exports has been above 50%.
4. Indian Services Sector's accounted about 43.7% of India's GDP in 1990- 1991 that increased to 51.16% in 1998- 1999 and 61% at present- FY 2016. This shows that the Services Sector in India accounts for over half of the country's GDP. If we take the ratio of contribution of service sector in employment and GDP, the ratio varies from 0.42 to 0.48. This reflects a grim situation where a sector that contributes more than 50% of Nation's GDP OR GVA is unable to generate employment above 25.5% of total employment in India.
5. But most problematic feature with respect to service sector is that on one hand the service-sector has become leader in term of contribution towards GVA (gross value added); on other hand it has not been able to generate near-proportional productive employment. Employment level in 1993-94 was 22% in service-sector. This increased almost negligible (22.4%) in 1999.

Another characteristic of Indian service-sector has been that majority of employment has been provided in unorganized sub-sector. For example in FY 2009, more than 80% of employment prospects existed in unorganized sector with in service sector. The unorganized sub-sector excludes finance, insurance, business services, community- social and personal services & real estate.

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Main branches of service sector include ; India's Services Trade, Tourism ,Shipping & Port Services, IT-BPM Services, Research and Development Services, Consultancy Services, Real Estate and Housing, Internal Trade, Media and Entertainment Services, Postal Services. This is a fact that wholesale and retail trade, repair of motor vehicles, personal & household goods form a sub-sector which contributes to 30 to 40 % of employment in service sector during period 1993 and 2009-10. Public administration and defense including social security employed largest proportion of people in service sector (9.5% employment of total employment in India) during 1993-94. But this almost declined heavily and reduced to 2.1 %

in 2009-10. Almost all of these services come in public sector. Thus government has failed in this regard in attempt to decrease the already high fiscal deficits.

The 'IT-BPM' sector has become the exceptionally fast rising component of service sector. This sector provides largest private sector employment, more than 3.7 million people in India. Our country is a global leader in Information technology and the sector produced \$ 108 Billion services-exports during FY 2015, mainly to US, UK and Europe. The growth rate is projected around 8.5 to 9% in coming years. The survey (2015) stressed that software development and telecom services have been major players that gave India a brand image in services. But the time has come to focus on some other high potential sub-sectors like Tourism & hotel- hospitality, Medical tourism, infrastructure services like road, ports and railways. These sectors have high manufacturing-sector and employment linkages.

E-commerce is growing to touch 27% in 2018 to reach 20 billion US\$. Recent growth of telecom sector in whole India has resulted 'mobile phone-i.net' revolution. This has largely facilitated the E-commerce business all over the country. India has become hub to a new breed of young start ups has clearly evolved to become the third largest base of technology start ups in the world. In 2015, the number of startups has grown by 40% creating 80,000-85,000 jobs. This is relatively new trend and will prove highly potent phenomenon contributing the successful growth at home and global levels.

10.

Globally one of the best curriculum-teaching standards, high standards of technology institutes like IITs and Regional Engineering Colleges, Medical colleges and IIMs for management studies have transformed our man power into most competitive world class professionals. India now is endowed with very large cadre of professionals with expertise and skills almost all types of disciplines like tourism- medical tourism & Health Care, Education, Engineering & technology, architecture and planning, Communications & space technology, Transportation and logistics, Information Technology & computer sciences, finance & banking , management and so on. A very good proportion of these professionals contribute to country's growing consultancy sector that is offering expertise services at home and abroad.

India received around 7.8 million foreign visitors and added \$ 109.6 billion in revenue from domestic and foreign tourists in year 2015. Tourism sector has witnessed large growth and added \$125.2 billion to GDP in 2014. It is highly expected to contribute \$ 259 billion in 2025 (accounting for 7.6 per cent of India's GDP). Government took innovative steps like

granting e-visas and expansion of visa-on-arrival facilities which are aimed to expand hassle free tourism-vistas in country enabling more and more foreign tourist arrivals.

World class health facilities at cheap price (compared to Developed nations) have attracted people from Countries in Europe, Russia, Asia, and Middle East & Africa. In FY 2017, medical tourism industry has been estimated to touch easily the mark of \$160 billion, which accounts for about 4.2% of GDP. Prospects are bright and by 2020, it is highly possible that this sector will grow to huge \$285 billion industry in India. Similarly Logistics sector currently (2016-17) contributing \$122 billion. The sector is ready to touch the mark of \$160 billion in next two years.

India comes in top 10 WTO members in service exports and imports. But main problem is unhidden that we are competitive only in few services and our service-exports are concentrated in a few markets. Even today most of the people in India lack productive employment and higher education has not pervaded into most of rural –semirural setting in country. The poverty in form of urban slums or rural poor, landless labourers or other poor struggling for meager money is real prevalent picture of country.

11.

Although India has become knowledge hub and favourite place with respect to cheap medical tourism. But it lacks standardization of various services in quantity, quality and price. Most part of country either lack proper services or denied services due to factors like lack of purchasing power, lack of infrastructure, lack of political will, lack of private or public sector players, lack of proper urban framework etc. Service sector is playing most of its role in urban frame work and global trade & export. Policy intervention is needed to develop Indian competitiveness at home and global levels. Private sector has still to play a long game in this regard as potentials are still huge and unutilized. There is utmost need to link service sector to manufacturing sector so that greater employment generation may take place. In this regard, development of infrastructure like rail- road- port services should be priority of state as this will link service sector to industrial production and manufacturing.

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