

SERVICE SECTOR – DEVELOPMENT ENGINE OF INDIA

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Abstract

The reforms of the 1990s have been associated with the expansion of the service sector in India. Midway through the 1980s, the service sector began to expand, but it took off in the 1990s when India started a series of economic reforms in response to a serious balance of payments issue. A service sector is a sector that provides a variety of services to the people. In simple words, a service sector is a medium of connection between the primary sector and the secondary sector. The other name for the service sector is the tertiary sector. The services like banking, Information Technology, telecommunication, business, legal industry, storage and communication, education, healthcare, etc. are some services offered by the service sector.

The service sector in India is the fastest growing service sector in the whole world. And this sector provides a good amount of Employment to the citizens of India. The service sector of India shares almost 66% of the Indian GDP. Not only this, for the past few years the service sector has contributed to the development of the Indian Economy to a large extent. There are lots of departments in the service sector that are responsible for the rise in the economic development of India. Those are firstly the Information Technology sector, then IT associated services, restaurant and hotels, Telecommunication, Business sector, financial services, and Community services. Among these, the business services are the most important types of the sector under the service sector. In this paper brief review of role in GDP and export as well as market size. Furthermore some of the investments/ developments in the services sector and Government initiatives are also considered.

Introduction

The service sector of India is the most important sector of India and this sector is also popularly known as the tertiary sector of India. The service sector offers various kinds of services to the citizens of India. It is the most popular and highly developing and growing sector of India which has the highest labour productivity. India has the fastest growing service sector in the whole world and India contributes about 66% to the Indian GDP. However, the Employment rate in

the service sector is still less to some extent. The government of India is planning to take necessary steps through which they can provide a large amount of Employment in the service sector. The emergence of the service sector was prominent in the introduction and establishment of the globalization process in India. The service sector includes services like, banking and finance, IT and Technology, energy sector, education, logistics, export and import, Media, health care, telecommunication, storage and communication, hotel Industries, legal and law industry, business services, etc. all these are parts of the service sector. The service sector provides the maximum amount of economic profit to the country.

Role in GDP and Export

The service sector has over 50% contribution to India's GDP, and it has witnessed a growth of 10.8% during the first half of 2021-22. The service sector has emerged as the highest employment generator with a 5-7% y-o-y growth in 2022. The share of the services sector accounted for 57% of the total GVA in FY24 (April-September) as per advance estimates. The services category ranked first in FDI inflows, as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT).

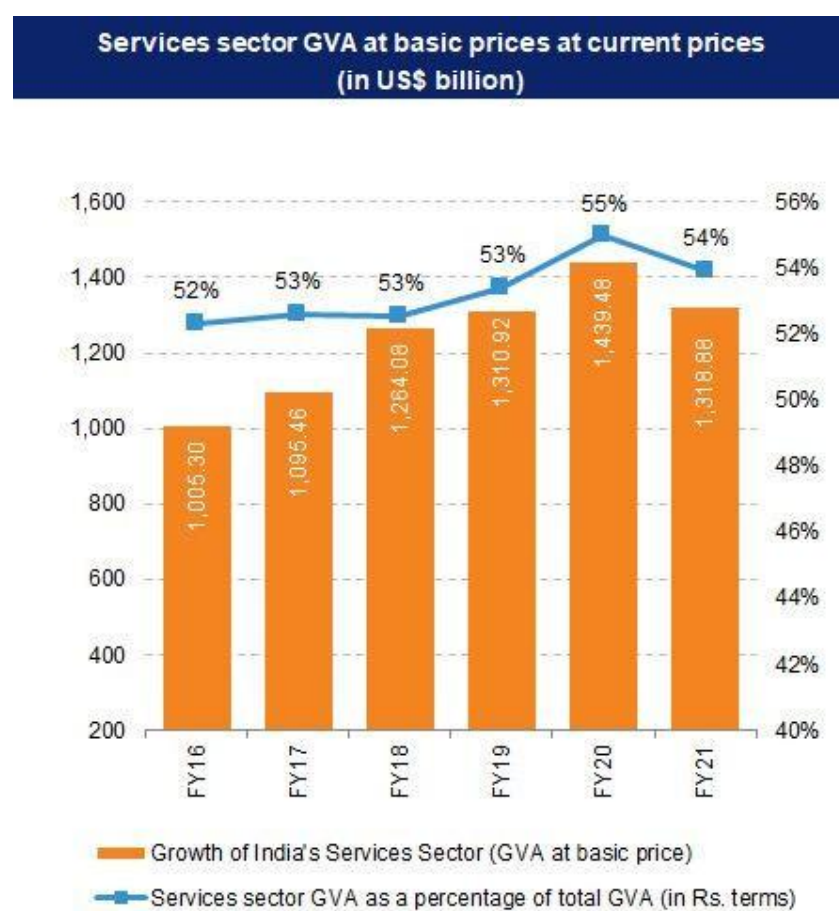
India is a unique emerging market in the globe due to its unique skills and competitive advantage created by knowledge-based services. The Indian services industry, which is supported by numerous government initiatives like smart Cities, clean India, and digital India is fostering an environment that is strengthening the services sector. The sector has the potential to open up a multi-trillion-dollar opportunity that might stimulate symbiotic growth for all nations. Service providers in India continued to signal positive demand trends in June, which underpinned a stronger increase in new business volumes and further job creation.

Services exports are projected to set a new record of US\$ 322.72 billion with a compound annual growth rate of 26.79% during FY23 as compared to FY22. India's service exports stood at US\$ 163.94 billion, whereas imports stood at US\$ 88.89 billion in (April-September) 2023-24. The services trade surplus for 2023-24 (April-September) is expected to be US\$ 75.05 billion.

Market size

The services sector of India remains the engine of growth for India's economy and contributed 53% to India's Gross Value Added at current prices in FY22 (as per advance estimates). The services sector's GVA increased by 6.5% in the third quarter (2022-23), and it was the main driver of aggregate GVA growth (accounting for approximately 84% of total GVA growth). The services industry performed well in H2:2022-23, boosted by contact-intensive services and building activities. India's services sector GVA increased YoY by 11.43% to Rs. 72.69 trillion (US\$ 871.59 billion) in FY24* (April-September), from Rs. 68.81 trillion (US\$ 1,005.30 billion) in FY16. India's IT and business services market is projected to reach US\$ 19.93 billion by 2025.

The PMI services remained in the expansion zone in September 2023, at 61, led by good demand conditions and new business gains, followed by a decline in November 2023. With the fastest growing (9.2%) service sector globally, the sector accounts for a 66% share of India's GDP and generates about 28% of the total employment in India. As per the First Advance Estimates, Gross Value Added (GVA) in the services sector is estimated to grow at 9.1% in FY23, driven by 13.7% growth in the contact-intensive services sector.



RECENT INVESTMENTS/ DEVELOPMENTS

Some of the investments/ developments in the services sector in the recent past are as follows:

- The Indian services sector was the largest recipient of FDI inflows worth US\$ 106.70 billion between April 2000-September 2023.
- According to the Ministry of Commerce and Industry, the service sector received US\$ 3.85 billion in FDI equity inflows in FY24* (April-September).
- According to RBI's Scheduled Banks' Statement, deposits of all scheduled banks collectively surged by a whopping Rs.1.75 lakh crore (US\$ 2,110.87 billion) as of December 1st, 2023.
- The hospital industry in India is expected to reach US\$ 132 billion by 2023, growing at a CAGR of 16%-17%.
- India's telephone subscriber base stood at 1,179.21 million as of August 2023.
- The country's total broadband subscriber base stood at 876.53 million, as of August 2023. Tele density (defined as the number of telephone connections for every 100 individuals) in India stood at 84.69%, as of August 2023.
- At the end of August 2023, the top five service providers controlled 98.35% of the total broadband subscribers. These service providers were Reliance Jio Infocom Ltd stood at 455.33 million, followed by Bharti Airtel (253.86 million), Vodafone Idea 125.55 million, BSNL (25.12 million) and Atria Convergence (2.19 million).
- Since the launch of the Start-up India initiative in 2016, DPIIT has recognized 98,119 entities as start-ups as of 30th April 2023.
- By 2023, the fintech sector in India is expected to be US\$ 1 trillion in Assets under Management (AUM) and US\$ 200 billion in revenue. The sector is estimated to reach US\$ 150 billion by 2025.
- India took the lead with the fintech adoption rate of 87%, substantially higher than the world average of 64%.

- According to the IVCA-EY monthly PE/VC roundup, October 2022 recorded investments worth US\$ 3.3 billion across 75 deals, including six large deals worth US\$ 2.2 billion. Exits were recorded at US\$ 1.6 billion across 15 deals in October 2022.
- The healthcare industry is growing at a CAGR of 16% and the total public and private spending on healthcare is 4% of GDP. India's healthcare industry is expected to grow to US\$ 50 billion in size by 2025.
- In June 2022, HCL Technologies (HCL), a leading global technology company, announced the opening of its new 9,000 sq. ft. delivery centre in Vancouver, Canada. The new centre will significantly expand its presence in the country to serve clients primarily in the HiTech industry.
- The IT-BPM sector holds the potential to grow between 10-15% per annum. The IT and fintech segments provide over US\$ 155 billion in gross value to the economy annually.
- The IT and business services market will grow at a CAGR of 8.3% between 2021-26, reaching a US\$ 20.5 billion valuation by the end of 2026.
- By October 2021, the Health Ministry's eSanjeevani telemedicine service, crossed 14 million (1.4 crore) tele-consultations since its launch, enabling patient-to-doctor consultations, from the confines of their home, and doctor-to-doctor consultations.
- The Indian healthcare industry is expected to shift to digitally enabled remote consultations via tele consultation. The telemedicine market in India is expected to increase at a CAGR of 31% from 2020 to 2025.
- In December 2020, the 'IGnITE' programme was initiated by Siemens, BMZ and MSDE to encourage high-quality training and technical education. 'IGnITE' aims to develop highly trained technicians, with an emphasis on getting them ready for the industry and future, based on the German Dual Vocational Educational Training (DVET) model. By 2024, this programme aims to upskill ~40,000 employees.
- **GOVERNMENT INITIATIVES**

The Government of India recognises the importance of promoting growth in the services sector and provides several incentives across a wide variety of sectors like health care, tourism,

education, engineering, communications, transportation, information technology, banking, finance and management among others.

- Centre has formulated an ‘Action Plan for Champion Sectors in Services’ to give focused attention to 12 identified Champion Services Sectors.
- India’s tourism and hospitality sector may earn US\$ 50.9 billion as visitor exports by 2028.
- As per 2022 University Grants Commission (UGC) statistics, there are a total of 1,072 universities in the country, including 460 state universities, 128 deemed to be universities (a status of autonomy granted to high-performing institutes and universities by the Department of Higher Education), 54 central universities (established by the Department of Higher Education), and 430 private universities.
- The Government of India has adopted a few initiatives in the recent past, some of these are as follows: As of November 9, 2022, the number of bank accounts opened under the government’s ‘Pradhan Mantri Jan Dhan Yojana (PMJDY)’ scheme reached 47.39 crore and deposits in Jan Dhan bank accounts totalled Rs. 1.76 lakh crore (US\$ 21.59 billion).
- In October 2021, the government launched a production-linked incentive (PLI) scheme to boost manufacturing of telecom and networking products in India. The scheme is expected to attract an investment of ~Rs. 3,345 crore (US\$ 446.22 million) over the next four years and generate additional employment for >40,000 individuals.
- In October 2021, the government launched phase II of the Mahatma Gandhi National Fellowship to empower students and boost skill development.
- In October 2021, the PM Ayushman Bharat Health Infrastructure Mission was launched by the government, to strengthen the critical healthcare network across India in the next four to five years.
- The Indian government is planning to introduce a credit incentive programme worth Rs. 50,000 crore (US\$ 6.8 billion) to boost healthcare infrastructure in the country. The programme will allow companies to access funds to ramp up hospital capacity or medical supplies with the government acting as a guarantor.
- Under the Union Budget 2021-22, the government allocated Rs. 7,000 crore (US\$ 963.97 million) to the Bharat Net programme to boost digital connectivity across India.

- The FDI limit for insurance companies has been raised from 49% to 74% and 100% for insurance intermediates.
- On January 15, 2021, the third phase of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was launched in 600 districts with 300+ skill courses. Spearheaded by the Ministry of Skill Development and Entrepreneurship, the third phase will focus on new-age and COVID-related skills. PMKVY 3.0 aims to train eight lakh candidates.
- In January 2021, the Department of Telecom, Government of India, signed an MoU with the Ministry of Communications, Government of Japan, to strengthen cooperation in the areas of 5G technologies, telecom security and submarine optical fibre cable systems.
- In the next five years, the Ministry of Electronics and Information Technology is working to increase the contribution of the digital economy to 20% of GDP. The government is working to build a cloud-based infrastructure for collaborative networks that can be used for the creation of innovative solutions by AI entrepreneurs and start-ups.
- On Independence Day 2020, Prime Minister Mr. Narendra Modi announced the National Digital Health Mission (NDHM) to provide a unique health ID to every Indian and revolutionise the healthcare industry by making it easily accessible to everyone in the country. The policy draft is under 'public consultation' until September 21, 2020.
- In September 2020, the Government of Tamil Nadu announced a new electronics & hardware manufacturing policy aligned with the old policy to increase the state's electronics output to US\$ 100 billion by 2025. Under the policy, it aims to meet the requirement for incremental human resources by up skilling and training >100,000 people by 2024.
- The government of India has launched the National Broadband Mission to provide Broadband access to all villages by 2022.

Conclusion

The service sector of India is a very important concept of general knowledge. The service sector of India is the fastest growing service sector in the whole world. As per some reports it was encountered that the service sector of India contributes 66% of the Economy to the Indian GDP. The service sector is a sector that provides a variety of services to the citizens of a country. The

emergence of the service sector was noticed slowly after the establishment of globalization and with the growth of privatization, and urbanization in the country from the year 1961.

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