

ROLE OF SERVICE SECTOR IN ECONOMIC DEVELOPMENT OF INDIA

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Abstract:

In most of the low income economies or developing countries (like India), agriculture is the predominant sector. As these economies progress, the share of the industrial sector in economic activities is increases. The development of industries, in turn, promotes a wide range of activities in the services sector like banking and insurance, transportation, trade, communication, etc. On the basis of this observed development pattern of countries, some economists like Fisher (1939), Clark (1940), Rostow (1960), and Kuznets (1971) have suggested that development is a three-stage process. The dominance of the services sector in the growth process is associated with the third stage of development, However, in India, the acceleration in growth in recent years has been due to the dynamism of the services sector while the contribution of industry has tended to stagnate over the last five decades. Services now contribute more than 50 per cent to India's GDP and have contributed to more than 60 per cent of India's growth during the period of the last decade and a half. This has led to speculation whether India would chart out a unique growth path in which the country would leapfrog from a predominantly agricultural to a directly service-dominated economy by skipping the intermediate stage of rising share of industrial sector that was experienced by all the existing industrialized countries. Actually the real sectors of agriculture and industry grow fast; the services-led growth cannot be sustained for long.

In the present study, the researcher proposes to discuss the following issues;

- Reasons for rapid growth in services sector
- Contribution of Service Sector in India's GDP
- Major steps taken by the Indian Government to Promote Growth in Service Sector
- Advantages of growth of service sector

Key Words: Service Sector, GDP, Growth, Employment, Economic Development.

Introduction:

The Indian economy has grown at a robust rate during the last few years and a striking feature of this growth performance has been the strength of the services sector. This can be clearly seen from the following table of Sectoral Growth Rates during the Planning Period

Sectoral Growth Rates during the Planning Period

(Per cent per annum)

Sr. No.	Sectors	GVA (Gross Value Added)					
		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
01	Agricultural	1.2	3.7	0.2	0.8	4.9	3.9
02	Industry	2.4	4.5	6.1	8.2	5.6	5.4
03	Services	8.0	9.0	10.2	9.8	7.7	7.9

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy 2017-18 (Mumbai 2018) (The above columns present information on sectoral growth in terms of GVA at constant (2011-12 prices))

The above table shows that the growth rate of service sector is higher than the agricultural and industry sector in regard to gross value added. In addition, the service sector is the biggest sector of India with the Gross Value Added at current prices as 96.54 lakh crore in 2020-21. Today the service sector accounts for almost 54% of Indian GVA of 179.15 lakh crores. The industry sector lags behind it with 25.92% contribution and the Agriculture sector is at the third place with 20.19% contribution.

Objectives of the Study: In the present study, the researcher proposes to discuss the following issues;

1. Reasons for rapid growth in services sector
2. Contribution of Service Sector in India's GDP
3. Major steps taken by the Indian Government to Promote Growth in Service Sector
4. Advantages of growth of service sector

Research Methodology:

A) Data Collection: This study is done with the maximum usage of secondary data. Secondary information has been made available from published sources like, library books, journals, newspapers, magazines, government publication.

B) Limitations of the Study: The present study deals only with the service sector.

Findings of the Study:

A) Reasons for the Rapid Growth of Service Sector:

The following are the various reasons for the growth of service sector-

1. **Splintering:** It is argued that as an economy matures, increasing specialization takes place. Industrial units tend to outsource some activities which were previously undertaken by them. For example, they may use greater services of specialist subcontractors to provide accounting, research and development, legal and security services etc. which were earlier undertaken by them. Bhagwati (1994) calls this process of specialization **splintering**. Kravis (1982) has argued that splintering leads to a growth in the share of services in GDP, even when the GDP

itself is not growing. This is due to the reason that the jobs outsourced will now be counted as service sector contribution to GDP, rather than being subsumed in manufacturing value added.

2. **Demand – Side Impetus to Growth:** During recent period, the demand – side impetus to services growth is clearly visible. Till the liberalization of the early 1990s, the trend in private final consumption expenditure was a straightforward one – the share of services in the total consumption basket increased. The demand-side impetus has also come from foreign sources particularly the IT/ ITES (Information Technology and Information Technology Enabled Services) sector as, due to cost advantages in India, many companies in the developed world have started outsourcing certain services to Indian companies on a large scale.
3. **Role of Policy Liberalization:** The post-reform period has considerably liberalized the industrial and trade policies and opened up the banking, insurance, transport and communication sectors to private participation. Many economists have argued that this liberalization has boosted the growth of the services sector significantly. As far as the banking sector is concerned, its share in GDP doubled in the post-reform period. As a result of the policy of liberalization, the private banks have started playing an important role in the spread of banking facilities and this has given an impetus to the growth of the banking sector.
4. **Technological Advances:** Services sector growth can also be stimulated by technological advances, where by new activities or products emerge as a result of technological breakthrough. Such technological advances that appear to have had a positive impact on growth in India are the increasing use of internet in the case of the IT sector, expansion of cellular phone services, in the telecom sector and use of credit cards, ATMs etc, in the case of the banking sector.
5. **Mutual Dependence of Industrial and Services Growth:** There is a positive impact of industrial growth on services growth. The reverse direction examines the impact of services on manufacturing production and productivity. Although the service inputs contributed little to the production of the registered manufacturing sector.

B) Share of Services Sector in India's GDP: At present, the following situation is there in the sector's contribution.

Sr. No.	Sector	Contribution
01	Agriculture	20.19%
02	Service	53.89%
03	Industry	25.92%

Source: Ministry of Statistics and Programme Implementation 2020-21 (17 June 2021)

C) Major steps taken by the Indian Government to Promote Growth in Service Sector:

The following are the major steps taken by the Indian Government to promote Growth in Service Sector

To facilitate broadband across all villages of the country by 2022, the Indian Government has launched the National Broadband Mission.

The Central Government increased incentive by 2% under services exports from India.

To ensure easy trade in the service sector, the Government of India is removing many trade barriers.

D) Top Service Sector Companies in India: The top service sector companies in India are listed below

Reliance Industries	HDFC Bank	
ICICI Bank	Tata Consultancy Services	
Larsen and Toubro	State Bank of India	
NTPC	Kotak Mahindra Bank	Axis Bank

E) Advantages of growth of service sector: The following are the various advantages of growth of service sector.

1) No Requirement of an Inventory: This is one of the most significant advantages from the business owner's perspective. Since the service sector relies on offering intangible products, there is no need for extra space to store goods and raw materials. Here, skills and expertise are sold, which do not require an inventory. This reduces the cost of production.

2) Easy to Start: It is easier to start a business in the tertiary sector because there is no compulsory need to set up a manufacturing plant or procure raw materials. Like, any company offering IT enabled services needs only the internet and laptops to operate.

3) Working Flexibility: Unlike in primary and secondary sector jobs, the jobs in the tertiary sector provide flexibility to work. A worker can work from anywhere based on his convenience and preference. It was easiest for the service sector employees to work from home during the emergency periods like COVID 19 pandemic.

4) High Adaptability: Service sector companies are more dynamic i.e. they adjust better to changes.

5) Good Quality of Life: The employees working in the tertiary sector generally have a better quality of life. They earn more money and work in less hazardous conditions. They can afford several luxuries, which improve their quality of life.

6) Promotion of Industrialization: The industrial sector depends heavily on the tertiary sector. For example, to operate an industry, raw materials must be transported from one place to another. Transportation comes under the tertiary sector.

7) Increase in Productivity: Both education and healthcare come under the service sector. When an individual gets a good education and proper access to healthcare, their productivity is more likely to increase than someone with low levels of education and poor health. Hence, the service sector improves the overall health of the economy by increasing worker's productivity.

8) Market Growth: The tertiary sector improves the quality of the finished goods produced in industries. The process of making the products is also improved, thanks to the service sector. This, in turn, enables the growth of the market.

Conclusion:

As we have seen in the above discussion that Service sector has contributed more than other sector to the GDP as well as to Indian Economy. Assuredly, now the service sector is the backbone of the Indian Economy and creates the highest employment. Therefore, in the future India will witness structural changes in the service sector that will encourage innovation and self employment. This is not to suggest that the modern services sector, including software and telecommunications, should not be a centerpiece of the transition strategy. Given the strengths acquired recently in this sector and its importance to rapid industrialization, it will be nonsensical for anyone to advance a transition in which this sector is relegated to the backseat. Instead, India must walk on two legs as it transitions to a modern economy: traditional industry, especially unskilled-labour-intensive manufacturing, and modern services such as software and communications. Each leg needs to be strengthened through a set of policy initiatives.

GLOSSARY:

- 1) **ATM:** Automated Teller Machine
- 2) **GDP:** Gross Domestic Product
- 3) **GVA:** Gross Value Added
- 4) **IT:** Information Technology
- 5) **ITES :** Information Technology Enabled Services

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