

Role of Service Sector in Indian Economy

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Introduction

Adam Smith, the father of Modern Economics has stated 'services are unproductive'. But time has changed and now services are playing major role in the economy. Services sector has emerged as the fastest growing sector of the economy. Services sector is called the tertiary sector. It has become wider. Services sector includes: trade, hotels, restaurants, transport, storage, communication, finance, insurance, real estate and business services. Service sector has made structural changes in the economy. The new economic policy of 1991 was the turning point of the Indian economy. A lot of changes in the economy have been occurring due to the adoption of 'The New Economic Policy' especially, in the services sector. The current situation in India is that the growth rate of services has overtaken both agriculture and industry, and is now more than 45 per cent of the GDP.

The services sector has the highest growth rate and is the least volatile sector. Growth is particularly marked in public services, IT and financial services. In some areas, the growth rate of the services sector is 40%–50% due to increased use of mobile technologies.

India, therefore, has a services-oriented economy. It hasn't followed traditional growth models (as in China) in that it has skipped the manufacturing stage and has jumped straight from the agricultural stage to services. Growth in the services sector will support growth in the agricultural and industrial sectors, although growth in manufacturing, which causes pollution, is not so desirable in terms of job creation and increased prosperity.

The service sector of India has also witnessed a remarkable rise in the global market apart from the Indian market. The broad-based services in the trade sector, has undergone a large-scale rise. A statistics concerning the growth of India's service sectors are listed below:

The software services in Indian economy along with the export of products is growing at a massive pace and thereby witnessed an alarming rise of 35.5 per cent and reached a lumpsum amount of USD 18 billion. The ITeS and BPO sectors grew by 33.5 per cent and earned a revenue of USD 8.4 billion. The service sector of Indian economy has been the most high-powered sector in India's economy. It has also been focussing in various investments, of late. As Indian economy is looking forward for more liberalization, sectors like banking are on its way to loom large and occupy a more significant position in India's economy.

The services sector is not only the dominant sector in **India's Gross Domestic Product (GDP)** but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment.

Indian service sector grew at approximately 8 per cent per annum and contributed to about **64 per cent of India's GDP in 2015–16**.

The services sector is the key driver of India's economic growth. The sector contributed around 66.1 per cent of its Gross Value Added growth in 2015–16, thereby becoming an important net foreign exchange earner and the most attractive sector for FDI (Foreign Direct Investment) inflows.

India is the eighth largest services exporter in the world.

The services exports have in 2014 stood at **US\$ 155.6 billion**, which constitutes 7.5 per cent of the GDP. The services imports increased at a rate of 3.3 per cent to US\$ 81.1 billion in 2014–15.

Out of overall services sector, the sub-sector comprising financial services, real estate and professional services contributed **21.6 per cent to the GDP**, and grew the fastest among all sub-segments at 10.3 per cent year-on-year basis in 2015–16.

The sub-sector of trade, hotels, transport, communication and services related to broadcasting contributed 12.6 per cent the GDP. The third-largest sub-segment comprising public administration, defence and other services contributed nearly 12.6% to the GDP.

The importance of the service sector, we can discuss, as below. Over the past 30 years, production has increased in all the three sectors. It has increased the most in the service sector.

Service sector has contributed 64% in the GDP which is highest, as compared to agriculture and industry sector. Service sector is also playing a vital role in employment generation; 31% employment is generated by service sector which is significant as compared to agriculture (49%) and industry sector (20%).

In the future also service sector will be domination sector in the economy.