

## SERVICES SECTOR IN INDIAN ECONOMY: AN ANALYSIS

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**Abstract :**Service sector has emerged as the largest and fastest-growing sector in the Indian economy in the last two decades. The tremendous performance of Indian economy is attributable in a considerable manner to the spectacular dynamism shown by services sector. Rising urbanization, privatization and demand for services bring boom in Indian service sector. This sector continues to be a star performer and by contributing 59 per cent of GDP, it is enjoying first place among all sectors in Indian economy. In employment providing, this sector is occupying second place, next only to agriculture. 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 along with its sub-sectors has achieved tremendous growth over the year in Indian economy.

**Keywords:** Services Sector, Service, Indian Economy.

### 1. INTRODUCTION

Service sector also known as tertiary is essential for economic growth in any economy including India. It has emerged as the largest and fastest-growing sector in the global economy in the last two decades. The tremendous performance of Indian economy is attributable in a considerable manner to the spectacular dynamism shown by services sector. Rising urbanization, privatization and demand for services bring boom in Indian service sector. This sector continues to be a star performer and by contributing 59 per cent of GDP, it is enjoying first place among all sectors in Indian economy. In employment providing, this sector is occupying second place, next only to agriculture. Unlike the unskilled or semi-skilled nature of jobs in the agriculture sector, tertiary sector provides myriad job opportunities ranging from highly skilled to unskilled in a variety of activities. Its respectable share in FDI inflows as well as in total exports makes it the engine of economic growth.

### 2. COMPONENTS OF INDIAN SERVICE SECTOR

The service sector covers a wide range of activities from the most sophisticated in the field of Information and Communication Technology to simple services pursued by the informal sector workers. Service may be defined as a type of economic activity that is intangible & is not stored and does not result in ownership. World Trade Organization (WTO) classifies services into two categories: change-effecting services (transformation services) and margin services. First refers to the activities of producers that change properties of consuming unit e.g. medical services, transportation, education & entertainment while later is defined as the change of ownership of goods, financial assets or other kind of services of institutional units. Specific examples of these services are insurance, packaging, intellectual property rights and distribution. However, service sector can be classified into four broad categories, viz. a) trade, hotels, and restaurants; b) transport, storage, and communication; c) financing, insurance, real estate, and business services; and d) community, social, and personal services.

### 3. ANALYSIS OF SERVICE SECTOR IN INDIAN ECONOMY

The emergence of services as the most dynamic sector in Indian economy has been a revolution. Services growth picked up in the eighties, accelerated in the nineties and since then it proves to be the major growth driver of our economy. The appreciable performance of service sector is due to its some fast growing sub-sectors. Such two broad sub-sectors viz. transport, storage and communication; and financing, insurance, real estate and business services, comprising many dynamic services have performed well with growth of 14.7 per cent and 10.4 per cent, respectively in 2010-11. Only community, social and personal services have registered a low growth of 4.5 per cent due to base effect of fiscal stimulus in the previous years, thus contributing to the slight deceleration in the growth of the services sector. Another important sub sector i.e. trade, hotels, and restaurants, whose growth slowed in 2008-09 and has recovered moderately in 2009-10. In the year 2010-11, only communication and banking & insurance have registered a double-digit growth i.e. 27.2 and 14.5 per cent respectively. Software which has grown at 21 per cent CAGR for the period 2004-05 to 2010-11, is one sector in which India has achieved a remarkable global brand identity. Similarly, tourism - a major item in India's services, has witnessed significant growth in recent years. During the period 2006 to 2011, the compound annual growth rates of foreign tourist arrivals (FTA) and foreign exchange earnings (FEE) from tourism were estimated to be 7.2 per cent and 14.7 per cent respectively. Besides these, the potential and growing services include many professional services, infrastructure-related services, and financial services. Trade, hotels and restaurants and financing, insurance, real estate, and business services are the largest groups accounting for 16.9 per cent and 16.4 per cent respectively of the national GDP in 2010-11. The community, social, and personal services category accounts for a 14.3 per cent share, followed by transport, storage, and communication which accounts for a 7.7 per cent share for the same period.

The growth and performance of the service sector depends up to a certain extent on foreign direct investment (FDI). The share of service sector including financial and non-financial services, construction development, telecommunications, computer hardware & software, and hotel & tourism in FDI equity inflows is around 41.9 per cent during 2000-11. If construction is included then the share rises to 48.4 per cent. The financial and non-financial services sector which falls purely in the services category is the largest recipient of FDI equity inflows with a 20.1 per cent share followed by telecommunications with 7.9 per cent share. Computer software & hardware and housing & real estate are receiving 6.9 per cent share each. And construction activities with 6.5 per cent share are next in importance.

### 4. CONCLUSION

The present paper makes an analysis of Indian services sector through examining its growth and contributions in the economy. The study confirms that services sector have grown at the significant rate in comparison to other sectors. Its growth rate is found to be higher than growth of overall GDP. Rising share of this sector in GDP over covers the poor performance of agriculture sector. As a service sub-sector, trade is dominant all in terms of its contribution in Indian GDP. The employment percentage in service sector as well as in industry sector is rising while in agriculture, it is falling continuously. A large proportion of Indian population is still engaged in agriculture sector and the next largest employer is service sector where trade, hotels & restaurants and community, social & personal services are the significant generator of employment. As financial & non-financial services and telecommunications services are attracting the largest FDI equity inflows, consequently services sector becomes the recipient of lion share in total FDI inflows. Thus, service sector which is dominant in terms of its growth & shares serves as an engine of growth for Indian economy.

### 5. REFERENCES

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