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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**India's Growing Services
Sector**

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INDIA'S GROWING SERVICES SECTOR

In Context

- A recent report by Goldman Sachs on global services highlights India's rise in this segment.

About

- Global services exports accounted for 7 per cent of World GDP in 2023.

India's services on high growth



- India, China and the UAE are gaining global share of services from developed economies.
- India's share in **global services increased from 2 per cent in 2005** to 4.6 per cent in 2023, while India's share of goods exports increased from 1 per cent to 1.8 per cent in the period.

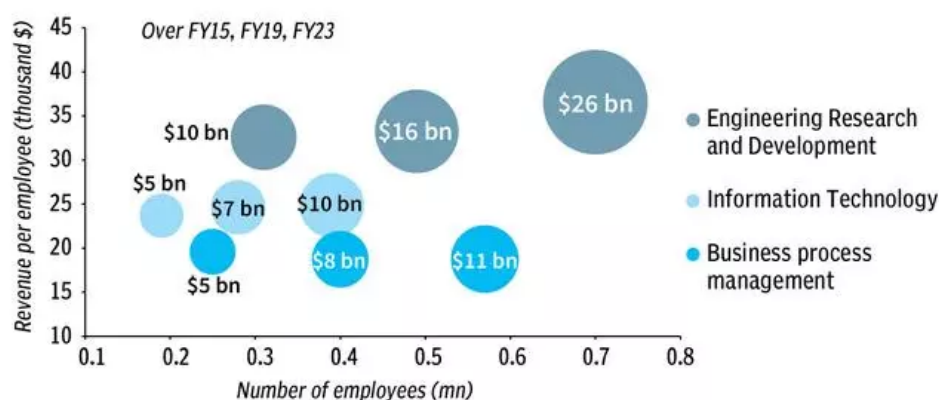
India's services on high growth



About the Service Sector in India

- The services sector in India comprises trade, tourism, aviation, telecom, shipping, ports, communication and storage, financing, insurance, transportation, real estate, business services, software services, IT-BPM, etc.
- The **economic reforms of the 1990s** have been associated with the expansion of the service sector in India.
- The services sector in India is the **largest contributor to the country's economy**.
 - ♦ It accounts for **over 50% of the GDP of India**.
- Top 5 sectors receiving highest FDI Equity Inflow during FY 2023-24 are Services Sector (Finance, Banking, Insurance, Non Fin/ Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other) (16%), Computer Software & Hardware (15%), Trading (6%), Telecommunications (6%) and Automobile Industry (5%).

GCCs serving specialised functions of MNCs are the next big thing



Importance and Progress

- The services sector is the dominant sector in India's GDP and has also attracted significant foreign investment, has contributed significantly to exports and has **provided large-scale employment**.
- 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).
- The sector has the potential to **open up a multi-trillion-dollar opportunity** that might stimulate symbiotic growth for all nations.
- The country's share in global services outflows has risen from under 2% in 2005 to 4.6% in 2023.
 - ♦ India's share in goods exports increased from 1% to 1.8% during this period.
- The services trade boom has also served as an invaluable cushion for India's **external account balances against shocks such as pricey oil imports**.
- A thriving service sector **promotes the development of crucial services** like education and healthcare, leading to a better quality of life for citizens.
- It **fosters innovation and entrepreneurship**, giving rise to new service-based industries that contribute to economic diversification.

Factors Contributing to Growth

- 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 is supported by numerous government initiatives like smart Cities, clean India, and digital India
 - ♦ supported by digital technologies and institutional frameworks made possible by the government.
- India's services exports have remained resilient during the Covid-19 pandemic and amid current geopolitical uncertainties, driven by higher demand for digital support, cloud services, and infrastructure modernisation catering to new challenges

Governments 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.
 - ♦ Therefore it launched Start-up India, Stand-up India, Digital India and Skill India missions .
- '**Pradhan Mantri Jan Dhan Yojana (PMJDY)**' brings about the objective of financial inclusion for all by providing basic banking accounts with a debit card with inbuilt accident insurance.

- In October 2021, the government launched a **production-linked incentive (PLI)** scheme to boost manufacturing of telecom and networking products in India.
- 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.
- **BharatNet programme** :the Department of Telecommunications (DoT) is implementing the BharatNet project to provide broadband connectivity to all GPs in the country
- The FDI limit for insurance companies has been raised from 49% to 74% and 100% for insurance intermediates.
- **Pradhan Mantri Kaushal Vikas Yojana (PMKVY)** was launched in 2015 to encourage and promote skill development in the country by providing free short duration skill training and incentivizing this by providing monetary rewards to youth for skill certification.

Challenges

- Difficulties due to complex and constantly evolving regulations.
- Infrastructure limits:
- Limited logistics and transportation facilities might make it more challenging to provide services effectively.
- **Other Constraints** : lack of trained graduates to be job ready, and the stress on natural resources in regions
 - ♦ A protectionist tendency in destination countries could hurt exports
- There could be an emerging skills mismatch which needs to be addressed for India to move higher up the value chain.

Conclusion and Way ahead

- Both domestic and global factors influence the growth of the services sector.
- Due to ongoing changes in the areas of lowering trade barriers, easing FDI regulations, and deregulation, India's services sector is poised to grow at a healthy rate in the coming years.
- India needs a calibrated approach to sustain the services success story. That should include a hard push for global market access and opportunities for all professional services, as well as a light-touch regulatory approach to let new ideas and enterprises bloom across areas such as artificial intelligence, manufacturing-linked services, and blockchain applications.

Mains Practice Question

- Q. What is the Role of the Service Sector in the Indian Economy? Discuss the Opportunities and Challenges in the Indian Service Sector.**

