

## Role of Service Sector in India

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### **Abstract**

*This paper aims to explore Role of service sector in India. Services include all economic activities whose output is not a physical product. All these economic activities are broadly classified in this paper. The major findings of this paper are primary, secondary and tertiary sector and also explaining interdependence of various sectors and reasons for the growth of service sector and role of service sector in Indian economy and Comparison of primary, secondary and tertiary sectors and contribution of different sectors to GDP of India and contribution of different sectors to employment in India and growth of service sector in India and India as a major service provider to the World. These all are play a very important role in India.*

**Keywords :** Service sector, India growth, Primary sector, Secondary sector, Tertiary sector, GDP, large scale industries small scale industries.

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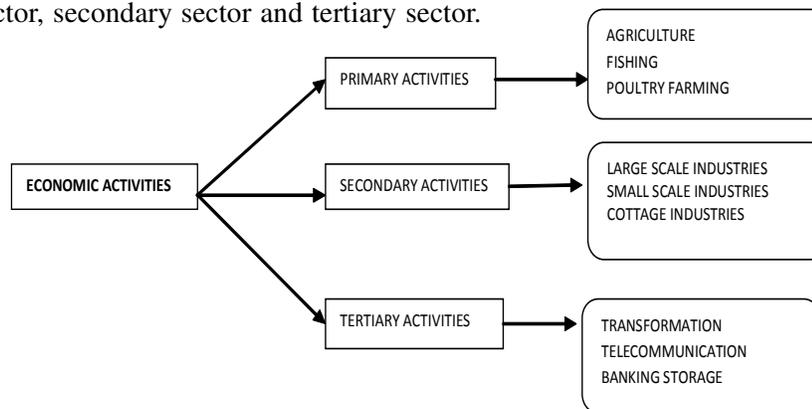
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## Introduction

Services include all economic activities whose output is not a physical product. A service is generally consumed at the time it is produced, and provides value in forms such as convenience, amusement, timeliness, comfort, etc. These include transportation telecommunication, banking, insurance, trade, storage, communication, travel and tourism, courier services, consultancy services, legal services, information and technology, advertising agency, media, retail marketing, etc. Services are significant for both primary and secondary sector.

- Service is not a physical product. It is intangible in nature.
- In case of services, there is no time gap between its production and consumption, i.e., services cannot be stored.
- It provides some utility to the consumers. This utility can be in the form of comfort, convenience, entertainment, saving of time, improvement in knowledge, health, etc.

As we know different persons perform different activities for earning their livelihood. Some people are engaged in agricultural operations, some are engaged in industrial activities, transportation, education, health, banking, insurance, communication, hotels, government administration, armed forces, maintenance of law and order, etc. All these economic activities are broadly classified into three major groups on the basis of the common characteristics. These groups of economic activities are known as sectors of economy. These sectors are named as primary sector, secondary sector and tertiary sector.



Economic activities known as sectors are as follows:

- **Primary Sector:** This sector includes all such activities as are undertaken by using natural resources, such as agriculture, animal husbandry, forestry, fishing, poultry farming, mining, etc. All these activities are directly based on natural factors such as rainfall, climatic conditions, soil, etc. Similarly, fishing, animal husbandry and

poultry are based on biological processes of animals. In the same way, mining is based on minerals and ores. This sector is also known as agriculture and related activities. In all countries, in the initial stages of economic development, primary occupations remain dominant. But as a country heads towards economic development, proportionate share of primary occupations in the national income goes on diminishing. Those countries, in whose national income, proportionate share of primary occupations is large and a big chunk of population remains engaged in these occupations, are called underdeveloped countries.

· **Secondary Sector:** This sector includes various manufacturing activities, which are performed in factories. It includes all types of industries, such as large-scale industries, small-scale industries, and cottage industries. It is also known as industrial/manufacturing sector. This sector adds utility to the products made by primary sector or other synthetic products. For example, cotton is a primary product produced by primary sector. Manufacturing sector adds utility to cotton by converting its form to cloth. Primary activity. Extracting iron ore is a primary activity but converting iron ore into steel is similarly mining is a manufacturing activity. Finished steel has more utility than iron ore. Thus, manufacturing sector adds utility to primary product. This sector is more developed in developed national, and less developed in underdeveloped countries.

· **Tertiary Sector:** It is also known as service sector. It includes all such activities as are helpful in the production process of economy. These activities generate services for the person engaged in primary and secondary sector. Service sector includes service like transportation, telecommunication, banking, insurance, trade, storage, travel & tourism, courier services, consultancy services, legal services, media, marketing, retail etc.

Service sector also include certain services which are not directly helpful in the production process but these are very essential for development, comfort and good quality of life. For example, we require the services of doctors, teachers, security personnel, crèches, old age homes, beauticians, designers, and boutique: domestic service providers (washer men, drycleaners, and domestic servants), repair personnel, hotels, resorts, travel agencies etc. In line with the global trend, the service sector in India is growing rapidly. Technology, of India's recreation centres, resorts, travel agencies, etc. In recent years, with the advancement of information technology, we enjoy service of internet cafe, ATM booth, call centres, auto vending machines, PCOs, web Shoppe, etc. India has emerged as a service led economy. Service sector in India is contributing more than half of India's Gross Domestic Product (GDP).

### **Interdependence of Various Sectors**

Different sectors of Indian economy viz. primary sector, secondary sector and tertiary sector are inter-dependent. Interdependence of different sectors means that either one sector is selling its output to other sectors or it is purchasing inputs in the form of goods and services from other sectors. Output of primary sector becomes the input of secondary sector. In other words primary sector gets market for its products by selling it to secondary sector and at the same time second gets inputs from primary sector for further processing in industries. Similarly, service sector is helpful to both primary and secondary sector as it provides services to both these sectors. In other words 'primary and secondary sectors are dependent on service sector for essential services like transportation, banking, insurance, communication, storage, trade, etc. Development of primary and secondary sectors is just not possible without these services. In the same way, primary and secondary sectors create demand for service sector, i.e., because of demand by primary and secondary sector, the service-providers (like banks and insurance companies) are able to sell their services. Interdependence of various sectors becomes clear from the following examples:

- Farmers sell their produce to industries. Here, primary sector is supplying material to secondary sector. So farmers are getting market for their products while industrialists are getting essential inputs for their industry.

- Industrialists sell agricultural equipments, fertilizers, and pesticides to farmers. Here secondary sector is supplying material to primary sector. So industrialists are getting market for their products while farmers are getting inputs and equipments to enhance their productivity.

- Transporters carry the products of primary and secondary sectors to the market place and bring to primary and secondary sectors while the inputs from the market to the manufacturing place. Thus, service sector is selling its services primary and secondary sectors get necessary facilities from service sector for marketing of goods and Procuring inputs. For perishable products like milk, vegetables, fruits, bread, eggs, etc. the role of fast means of transportation (Service-sector) is very significant. For example, apples of Kashmir and oranges of Nagpur are sold throughout India because of good transportation facilities.

### **Reasons for the Growth of Service Sector**

- **Increase in Income Level:** Certain sections of people have become rich. They have started demanding services like hotels, resorts, entertainment, interior designing, personnel security, hospitals, private schools, coaching centres, etc

- **Increase in Leisure Time:** Certain sections of people have leisure time and they demand resorts, hotels, etc. services of travel agencies, tour operators, restaurants, resorts, etc.
- **Increase in Number of Working Women:** Now more women are in job, running their business, profession. So they need services of crèches, domestic servants, housekeepers, etc.
- **Product Complexity:** Many products like water purifier, computer, microwave oven, washing machine, dish cleaner, etc. are used by households. These complex products can be serviced by specialised persons. So need of service providers has increased.
- **Growth in Information and Technology:** Growth in IT has led to an increase in various types of services like call centres internet café, ATM booths, software development, etc.
- **Health Awareness:** Now people have become more health conscious. It has led to increase in demand for doctors, nurses. nursing homes, private hospitals, health clubs, yoga centres, gymnasiums, slimming centres, etc.
- **Increase in Mobility:** Increase in mobility of people has led to increase in demand for transportation and communication.
- **Increase in Complexities:** Now life has become more complex. So now people need more services of lawyers, tax-consultants, chartered accountants, architects, property advisers, etc.

#### **Role of Service Sector in Indian Economy:**

The service sector has emerged as the largest and fastest growing sector of Indian economy. Today, the service sector is the largest contributor to our Gross Domestic Product (GDP). The share of service sector to GDP was about 57.8 per cent in year 2010-11. Highlighting the importance of service sector, Hon'ble Ex-President of India, Dr. A.P.J. Abdul Kalam in his book, India 2020-A Vision for the New Millennium says that the service sector provides essential inputs to agriculture and manufacturing sector; and employment in service sector covers a large number of occupations, requiring very less initial investment. Importance of service sector in Indian economy is discussed below:

- **Aid to Primary and Secondary Sector:** Service sector is important for rapid development of primary and secondary sector Primary and secondary sectors need various kinds of services like transportation, storage, banking, insurance, trade, etc. All these facilities are provided by service sector.
- **Creates Employment Avenues:** Many people earn their livelihood in service sector. The majority of new employment in the organised sector has come in

the service sector like software, aviation, entertainment, brokerage houses, tourism, retail, BPOs, etc.

· **Contribution to National Income:** In the recent past, the contribution of service sector to national income has increased manifold. At present, more than half i.e., 57.8 per cent of national income is contributed by the service sector. This sector is the fastest growing sector of Indian economy and this trend is likely to continue in future.

· **Provision for Basic Services:** Certain basic services are very essential for the economy. It includes hospitals, educational institutions, post offices, police stations, courts, public transport, telecommunication, banks, insurance companies etc. In India most of these services are mainly provided by the government. Now private sector has also started providing some of these services.

· **Adds to Comforts and Leisure:** many services like hotels, tourism, entertainment, travel add to comfort and leisure of people. Now many people in India enjoy services such as eating in restaurants, movies, travelling to places of tourist interests, etc.

· **Improvement in India's Image:** Certain services like software development, Business process Outsourcing (BPO), Information Technology Enabled Services (ITES) have improved India's image in the world economy. Now India accounts for more than half of global market in IT service and go market. All this has improved the image of Indian economy.

· **Increase in Exports:** Because of good performance of service sector, India's exports have increased substantially. As per World Trade Report published by World Trade Organisation, India was the eleventh largest service exporting country in the year 2009.

#### **Comparison of Primary, Secondary and Tertiary Sectors:**

All the three sectors of economy are very important for the rapid development of the nation. But it is not necessary that all these sectors will grow at the same pace. It is possible that the growth rate of these sectors is different; their contribution to national income may also be varied. With the change in level of development, the share of different sectors in the national income changes. Generally, with increase in level of development, the percentage contribution of secondary and tertiary sector increases.

As the nature of products of these three sectors is not the same, so for comparing production of these sectors, we have to convert their production units in monetary values. It is done by multiplying their output with the market price. For example, if a farmer has grown 100 quintals of wheat and the rate of wheat is 1,000

per quintal then the market value of his produce will be 100,000. Similarly if an industrialist has produced 20 machines and the price of one machine is 10,000 then value of his output will be 200,000.

In the initial stages of development, primary sector dominates other sectors of the economy i.e., the share of primary sector in the national income and in the employment is more than other sectors. As development proceeds, the proportionate contribution of primary sector tends to decrease and that of the secondary and tertiary sectors tends to increase. In India also in the initial stage of development the share of primary sector was more in terms of total production. With the development of industries and growth in service sector, a shift has taken place. Now service sector is the largest contributor in the Indian economy. Now service sector is contributing 57.8 per cent of our national income.

#### **Contribution of Different Sectors to GDP of India**

Contribution of different sectors to GDP of India is shown in table 1.

**Table1. Contribution of Different Sectors to GDP of India (at constant prices, in percentage)**

Year	Primary Sector	SecondarySector	TertiarySector
1950-51	55	16	29
1970-71	44	24	32
1990-91	35	24	41
2000-01	26	25	49
2009-10	14.6	28.1	57.3
2010-11	14.2	28	57.8
2011-12	16.1	24.9	59.0
2013-14	20.5	35.11	58.63
2015-16	17.32	29.02	53.66

Table 1 shows that earlier, primary sector was the dominant sector in India. In 1950-51, the share primary sector was 55 per cent of GDP. In 2010-11, the share of primary sector was reduced to 14.2 per of GDP. The service sector which was contributing 29 per cent of GDP in 1950-51 has expanded rapidly. In year 2010-11, the share of service sector was 57.8 per cent of GDP. In year 2011-12, the share of service sector was 59.0 per cent of GDP. In year 2013-14, the share of service sector was 58.63 per cent of GDP. In year 2015-16, the share of service sector was 53.66 per cent of GDP. Service sector is also the fastest growing sector of India.

#### **Contribution of Different Sectors to Employment in India**

Among all the sectors, primary sector has been dominating in terms of providing employment. in terms of contribution to GDP, some shift has taken place i.e., earlier primary sector was the main contributor to GDP, but now tertiary sector

has gained dominance and it is the largest contributor to GDP, But • terms of employment, primary sector is still dominating. Contribution of different sectors in employment is shown in table 2.

Table2. Contribution of Different Sectors in Employment (in percentage)

Year	Primary Sector	Secondary Sector	Tertiary Sector
1950-51	73	10	17
1970-71	73	11	16
1990-91	67	12	21
2001-02	61	17	22
2004-05	52	19.5	28.5
2006-07	50.2	20.4	29.4
2009-10	51.30	22.02	26.6
2011-12	48.9	24.3	26.8

**(Source: Census Report, NSSO Survey)**

Table 2 indicates that till date primary sector is dominating in employment generation and continues to be the largest employment providing sector in India. In the year 2009-10, 51.30 per cent of employment is provided by primary sector. Secondary and tertiary sectors still provide employment to a very small section of population. The contribution of service sector in employment in developed nations is significant. In both USA and UK, service sector is providing employment to 74 per cent of working population, in France it is 72 per cent, in Japan and Germany each it is 64 per cent, while in India only 29.4 per cent of working population is getting employment in service sector.

In India, about 51.3 per cent of working population is engaged in primary sector producing only 14.2 per cent of GDP In contrast only 49.8 per cent of working population is engaged in secondary and tertiary sector and producing 85.8 per cent of GDP It reflects the income inequality among persons working in these sectors. It also reflects the problem of underemployment and disguised unemployment in primary sector. It also reveals that secondary and tertiary sectors have not been able to generate sufficient employment opportunities.

#### **Growth of Service Sector in India**

Service sector has emerged as the largest and the fastest growing sector of India. The growth in output of service sector has been higher than that of agriculture and industry. Growth of service sector is clear from the following points:

• **Increasing Share in GDP:** The contribution of service sector in GDP is continuously increasing in India. In 1950-51, contribution of service sector to GDP

was 29 per cent. In the year 2010-11, contribution increased to 57.8 per cent of GDP.

· **Increasing Share in Employment:** The contribution of service sector in employment has been increasing. In year 1970-71, the contribution of service sector to employment was 16 per cent. In 2006\_07, it increased to 29.4 per cent. Although this increase is not significant, yet we find that the majority of new employment in the organised sector has come in the service sector.

· **Increasing Share in Exports:** The contribution of service sector in exports is increasing rapidly. In year 2009, India became 11<sup>th</sup> largest service exporter in the world. India is exporting software, information technology enabled services to many countries of the world.

· **Growth of New Types of Services:** Service sector has expanded in new directions also. Now many types of services have developed, like business process outsourcing, IT enabled services, medical tourism, consultancy, courier services, interior designing, etc.

· **Increase in Number of Service Providers:** Apart from several indigenous agencies, Foreign Service providers have been allowed to enter in India in certain services. It has increased competition. For example, in case of telecommunication sector, earlier only public sector was providing telecommunication services. But now with privatisation and globalisation, many companies like Reliance, Tata, Airtel, Vodafone, etc. have entered in the Indian telecom market. As a result, competition in telecommunication services has increased, thereby benefiting the consumers. Similarly in case of air travel, many private airlines like Jetlite Airlines, Jet Airways, Go Indigo Airways, Kingfisher Airlines, etc. have been permitted to provide air services. As a result, competition in airlines has increased. It has benefited the consumers as now airfares have come down.

### **India as a Major Service Provider to the World**

IT enabled services is one of the major areas witnessing tremendous growth in India. Software industry has emerged as one of the major area where India has comparative advantage over other nations because of availability of talented software engineers in India. Following facts indicate that India is a major service provider to the world:

- (1) India accounts for 65 per cent of global market in offshore IT services.
- (2) India accounts for 46 per cent of global Business Process Outsourcing (BPO) market.
- (3) India's consultancy professionals provide expertise in information technology, advanced financial and banking services to many countries of the world.

(4) India is ranked as 11th among the largest exporting countries in services.

(5) In recent years, India has emerged as one of the preferred countries for outsourcing.

### **CONCLUSION**

Service sectors become a discipline of study for the past ten years even though services themselves have existed for many years. Many people are engaged in different sectors such as agricultural operations, industrial activities, transportation, education, health, banking, insurance, communication, hotels, government administration, armed forces, maintenance of law and order, etc. As services started to move out of the Interdependence of different sectors and become commercialised, they were also recognised as significant contributors to the economy and considering them more seriously.

Today more and more people in India are taking advantage of leisure and recreation services such as IT services global Business Process Outsourcing (BPO) and India's consultancy professionals provide expertise in information technology, advanced financial and banking services to many countries of the world, India is ranked as 11th among the largest exporting countries in services. These are all things that many people would not have done in the past.

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