

# Role of Service Sector in Sustainable Economic Development in Indian Economy

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## ABSTRACT

Service or tertiary sector has emerged as the largest and fastest growing sector in global economy. It has shown a significant contribution in growth of developing economies like India. With over 53% contribution to GDP in 2015-16 service sector has act as a catalyst to the growth of Indian economy. It continues to be a star performer in terms of employment generation, FDI inflow, export growth and portrayed itself for sustainable economic development. India's service sector has shown a remarkable presence in export of software services which contribute more than 50% of total export of services from India. With a CAGR of over 9% during last 15 years the share of service sector in India's GDP is expected to reach over 60% by 2030. India has second fastest growing service sector in the world just below China. The present study is an attempt to analyze the contribution of service sector in the growth of Indian economy over last couple of decades. The study aims at deriving a correlation between the growth in service sector and areas like GDP growth per capita income and foreign investment.

**Keywords:** Sustainable Development, GDP, FDI, Service Sector

## INTRODUCTION

Service sector made a rapid stride in last one and half decade and has emerged as largest and fastest growing sector of Indian economy which has reached at 7th position in world's GDP ranking in 2015-16 with a GDP size of almost \$2.1Tn. With a decadal average contribution of less than 30% over the period 1950-60 the contribution of service sector has now reached over 53%. It is not only the dominant sector of Indian economy but has attracted highest amount of foreign investment inflows in the country. The sector has attracted the highest amount of FDI equity inflows in the period April 2000-September 2015, amounting to about US\$ 45.38 billion which is about 17 per cent of the total foreign inflows. During the year 2015-16 agriculture and manufacturing sectors have grown by 1.1% and 7.3% respectively, whereas service sector has shown a growth of 9.2% during the same period. India ranked 19th in the list of world's leading merchandise exporter and contributes only 1.7% of world's total export. On the other hand India ranked at 8th position globally in terms of export of services and contributes 3.1% of world's total export of services. While India's merchandise trade balance has always remained in

negative during last 15 years, the trade balance of services has shown a positive trend during the same time. Merchandise trade balance in year 2014-15 stood at –(\$137.7bn) while the service trade balance for the same year was \$75.6bn. In terms of employment generation service sector contribute almost 30% to total employment in India. The share of service sector in employment generation in India need to improve as on global aspect service sector contributes 45% in total employment.

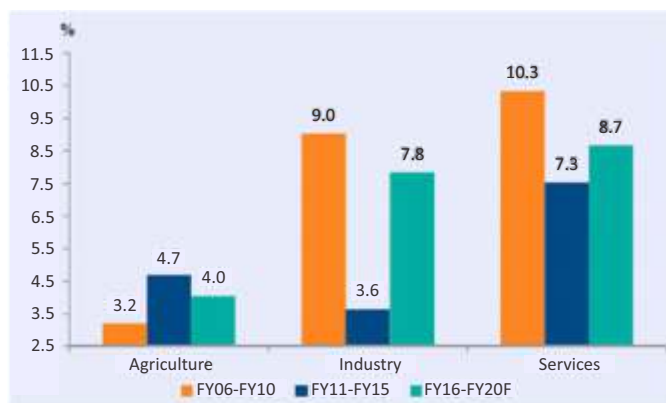


Fig 1 : Growth in Industry and Service sector to resurge

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## LITERATURE REVIEW

Cahal (2015) analyze the importance of service sector for the growth of Indian economy. His study shows that service sector has emerged as the biggest and fastest-growing sector in the global economy in the last two decades. This sector continues to live a star performer and by contributing significantly to GDP, GDP growth, employment, trade and investment.

Singh (2015) said that on the way of its economic growth and development, India has reached a level where there is a predominance of service sector. But without the growth of agricultural and industrial sector, service sector alone cannot sustain its growth for the longer period due to the high backward and forward linkages of agricultural and industrial sector. His paper provides an overview of the Indian services sector with major issues in service sector of India and also provides some suggestions to solve these issues.

Eichengreen and Gupta (2010) analyze the determinants of growth in the services sector and assess the employment-generating capacity of services in India. They find that there is an increasingly similar mix of skilled unskilled labor in the services and manufacturing sectors. They find out whether India should continue exploiting its comparative advantage in services instead of following the usual route to economic growth in the process of economic development- which consists in building-up labor intensive manufacturing, or if these two approaches are in fact complementary strategies for enhancing economic growth and raising living standards in the country.

## OBJECTIVES OF THE STUDY

1. To analyze the role of service sector in growth of India's GDP.
2. To analyze the role of service sector in per capita income in India.
3. To analyze the role of service sector in growth of FDI in India.

## RESEARCH METHODOLOGY

### TYPE OF DATA

The present study is quantitative in nature and secondary data will be used for the purpose of analysis.

### SOURCE OF DATA

The present study is based on secondary data. The sources

of data include the facts released by World Trade Organization(WTO), World Bank, Export & Import Bank of India(EXIM), Reserve Bank of India(RBI), Ministry of Commerce and Industry, Government of India etc.

## ANALYSIS AND INTERPRETATION

**Table 1 : Correlation between service sector & GDP**

Year	Size of Service Sector(US \$ bn)	Size of GDP (US \$ bn)
2000-01	241	477
2001-02	252	494
2002-03	275	524
2003-04	324	618
2004-05	383	722
2005-06	448	834
2006-07	512	949
2007-08	675	1239
2008-09	687	1224
2009-10	778	1365
2010-11	974	1708
2011-12	893	1823
2012-13	920	1829
2013-14	951	1864
2014-15	1072	2042

**Table 2 : Correlation between service sector & per capita income**

Year	Size of Service Sector(US \$ bn)	Per Capita Income (US \$)
2000-01	241	463
2001-02	252	471
2002-03	275	492
2003-04	324	572
2004-05	383	658
2005-06	448	749
2006-07	512	840
2007-08	675	1081

2008-09	687	1053
2009-10	778	1159
2010-11	974	1430
2011-12	893	1522
2012-13	920	1496
2013-14	951	1508
2014-15	1072	1627

**Table 3 : Correlation between service sector and per capita income:**

Year	Size of Service Sector(US \$ bn)	Per Capita Income (US \$)
2000-01	241	463
2001-02	252	471
2002-03	275	492
2003-04	324	572
2004-05	383	658
2005-06	448	749
2006-07	512	840
2007-08	675	1081
2008-09	687	1053
2009-10	778	1159
2010-11	974	1430
2011-12	893	1522
2012-13	920	1496
2013-14	951	1508
2014-15	1072	1627

**Table 4 : Correlation between service sector and per capita income**

Year	Size of Service Sector(US \$ bn)	FDI (US \$ bn)
2000-01	241	4
2001-02	252	6.1
2002-03	275	5
2003-04	324	4.3
2004-05	383	6
2005-06	448	9
2006-07	512	23
2007-08	675	35

2008-09	687	42
2009-10	778	38
2010-11	974	36
2011-12	893	47
2012-13	920	34
2013-14	951	36
2014-15	1072	44

## RESULTS AND FINDINGS

1. Correlation between Size of Service Sector and Size of GDP is found to be 0.92
2. Correlation between Size of Service Sector and Per Capita Income is found to be 0.993
3. Correlation between Size of Service Sector and FDI is found to be 0.992

## SUMMARY OF FINDINGS

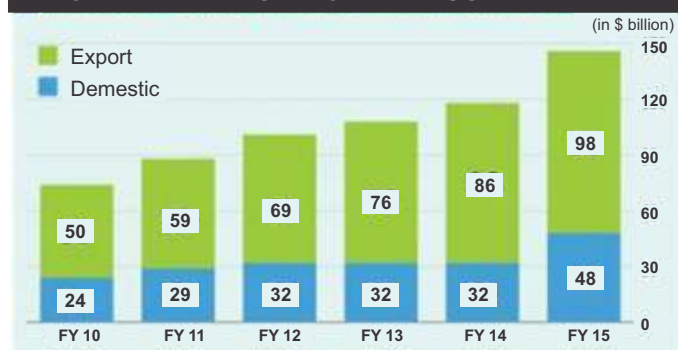
1. A very high degree of positive correlation is found between Size of Service sector in India and Size of GDP for the period under study. This proves that the growth of service sector has contributed to the economic growth of India. Since 2000-01 the service sector has seen a four fold jump and the same has been seen in the overall GDP size.
2. A very high degree of positive correlation is found between Size of Service sector in India and Per Capita Income for the period under study. This proves that service sector has contributed in raising the earning level of people in India.
3. A very high degree of positive correlation is found between Size of Service sector in India and FDI flow for the period under study. This proves the growth of service sector has resulted in more inflow of foreign investment in the country.

## CONCLUSION

The present study has shown the significance of service sector in sustainable economic development in India. For the period 2000-2015 service sector in India has attracted highest amount of foreign investment amounting to about US\$ 45.38 billion which is about 17 per cent of the total foreign inflows. India has emerged as one of the leading country in providing IT services to the rest of the world. The size of Indian IT industry has crossed the mark of \$150bn. It also contributes almost 50% of total service

export from India. Improvement in global and domestic factors will further drive the service sector to grow at a fast pace. Performance of other sub-sectors of service industry like hotels and restaurants, transportation, storage, communication, real estate, retail, hospitality, financing and insurance sectors will also improve in FY16. The growth in GDP will surely be driven by the performance of service sector.

**FIG. 2 : MARKET SIZE OF IT INDUSTRY IN INDIA**



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