



## Transformative Power of India's Services Sector

*This editorial is based on “[Services sector can power up the job engine](#)” which was published in *The Hindu BusinessLine* on 22/07/2024. It talks about how India's services sector is a significant contributor to its economy and what measures can be taken to reap its benefits to the fullest.*

**For Prelims:** Economic Survey 2023-24, [Open Network for Digital Commerce](#), [Skill India](#), [Mudra Yojana](#), [Start-up India](#), [Stand-up India](#).

**For Mains:** Contribution of India's services sector to its economy, Major contributing sectors to Indian Economy.

India is awash with discussions about where it is headed economically and how it might achieve its desired development goals. There have been discussions about whether India shall grow and develop by prioritising service sector growth rather than industrial (manufacturing sector) growth.

In recent times, the services sector, **encompassing industries such as finance, healthcare, information technology, and tourism** has emerged as a dynamic engine of growth and innovation. The currently developed economies had gradually switched their economic resources from agriculture to manufacturing to services as they developed; witnessed more prominently in Asian economies like **China, S. Korea and Taiwan**.

In India's economic context too, though it has faced difficulties in expanding the share of the manufacturing sector, the service sector has witnessed significant growth. By **investing in digital infrastructure, enhancing skill development, and streamlining regulatory frameworks**, India can further harness the potential of its services sector, driving economic progress and social advancement.

### What is the Contribution of the Services Sector to India's Economy (Economic Survey 2023-24)?

- The **Economic Survey 2023-24**, presented recently by the Union Minister of Finance and Corporate Affairs underscores the crucial role of the services sector in India's economic growth over the past three decades.
- **Contributing about 55% to India's economy in FY24**, the sector has thrived due to policy reforms, improved infrastructure, and logistics.
  - A significant transformation has occurred with the **rapid shift towards digital services**, including online payments, e-commerce, and entertainment platforms.
- The services sector has consistently driven growth, with its **Gross Value Added (GVA)** contribution increasing notably. In FY24, the **sector grew 7.6%**, while gross GST collections reached USD 241.27 billion (Rs. 20.18 lakh crore), an 11.7% increase from FY23.
- Post-pandemic, services exports have maintained a steady momentum and accounted for **44% of**

**India's total exports in FY24** the survey notes. **India ranked fifth in services exports**, with the other top four being the European Union (excluding intra-EU trade), the US, the UK, and China.

- Growth of the service sector typically occurs through **rising demands for medical, legal, entertainment, accounting and other personal services**. Essentially, growth in these demands is the result of rising personal incomes of residents as well as increasing outsourcing of business processes by firms as they grow.

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## Services – Fuelling Growth Opportunities

- About 55 per cent of the total size of the economy in FY24
- Services PMI soared to 61.2, touching new heights in March 2024
- Services export accounted for 44% of India's total exports in FY24
- Technology start-ups rose from around 2,000 in 2014 to approx 31,000 in 2023
- E-commerce industry to cross USD 350 Bn by 2030

\*PMI: Purchasing Managers' Index



## What is the Potential of India's Major Services Sectors?

### ▪ Tourism:

- The tourism sector, which **accounted for about 13% of India's employment** in 2020-21, stands out as a **major potential source of job creation**. Covering hospitality, travel, cultural, heritage, and religious tourism, it offers diverse roles for tour guides, travel agents, and local artisans, providing significant opportunities for low to medium-skilled workers.
  - Success in these roles depends on strong interpersonal, management, and experiential abilities, which are crucial for improving service quality and visitor satisfaction.
- India's attractions — from **ecotourism in Kaziranga National Park** and **cultural tourism in Varanasi** to **backwaters-based tourism in Kerala** and **adventure tourism in Goa** — offer immense potential to drive growth and employment.

- **Aviation:**
  - Aviation is another sector with immense potential, driven by expansive airport projects and increased capacity. **India's aviation industry, in terms of gender diversity, is also doing much better** than the global average, with women comprising **15% of pilots** — about three times the global one.
  - As the industry continues to expand, more crew members, ground staff, and flight attendants will be needed to support the growing fleet, making continued investment in training and recruitment crucial for the sector's future.
- **e-Commerce:**
  - **Representing over 10% of the economy** and about **8% of the workforce**, the retail sector is undergoing a digital revolution with platforms like the [Open Network for Digital Commerce](#) transforming how small retailers connect with consumers.
  - By joining e-commerce platforms, small retailers can expand their market reach, enhance efficiency, and create new job opportunities in logistics, customer service, and technology.
- **Financial and Tech Services:**
  - The **financial, business, and tech services sectors showcase high-skill employment**, brimming with opportunities for innovation and start-ups. Over the past decade, employment in business services has nearly doubled, driven by digitisation, technological advancements, and supportive government initiatives.
  - **Though AI could slow down India's services export growth** (a challenge), it will **also create demand for new skills** in cybersecurity, data privacy, and advanced analytics.

## What are the Major Areas of Concerns Regarding Growth of the Services Sector?

- **Lack of Skilled Workforce:** The rapid digitisation in the services sector necessitates a skilled workforce to keep pace with technological advancements. However, there is a **gap in the availability of workers with relevant digital and high-tech skills**.
  - India currently produces about **2.2 million STEM graduates, post-graduates and PhDs**. Unfortunately, a majority of them are unemployable with the training that they receive.
  - The Government has been focusing on skill development initiatives through programs like [Skill India](#) and the [National Education Policy 2020](#) to equip the workforce with the necessary skills.
- **Service Sector - A Segmented One:** The current service sector in India is very segmented. Its **output growth is primarily in high-tech services**, while its **job creation is mostly in low value-added, low skill services**.
  - The back-office led service sector may be able to generate a substantial number of jobs in due course. However, it will still take 10-15 years for it to become a viable alternative.
- **Access to Financial Resources:** Accessing finance can pose difficulties, **particularly for small and medium enterprises** operating in the services sector.
  - Several initiatives, such as [Mudra Yojana](#), [Start-up India](#) and [Stand-up India](#), have been implemented to ease credit accessibility.
  - **Streamlining loan processes, expanding the outreach of credit guarantee schemes, adopting alternative credit appraisal methods, and innovating supply chain financing** are some key areas that require attention.
- **Complex Regulatory Frameworks:** The regulatory landscape in the services sector, though undergoing positive transformations, is still notoriously complex.
  - While initiatives like [GST](#) simplification, Start-up India, and the [Real Estate \(Regulation and Development\) Act](#) have made strides towards a more conducive business environment, further efforts are essential.
  - Simplifying procedures through **single-window systems, streamlining legal provisions, and digitising government processes** at all administrative levels remain crucial hurdles to overcome to significantly boost economic efficiency.
- **Data Protection:** [Data privacy](#) and [cybersecurity](#) have become critical concerns with the increasing digitisation of services. Given this, the Government is spearheading data protection laws and cybersecurity policies to safeguard consumer data and strengthen cybersecurity measures in the services sector.

- Ensuring the **adoption of strong security measures, compliance with privacy regulations, and fostering innovation in security technologies** are critical hurdles that must be addressed to confidently embrace technological advancements.
- **External Economic Uncertainties:** In the short run, tentative **global economic outlook and commodity price uncertainties** present a serious challenge to input costs and demand for services.
  - Thus, sustaining positive demand trends and effectively managing rising costs and competitive pressures will be critical for the services sector's continued growth and resilience in the upcoming year.

## Way Forward

- **Value Addition, High Productivity and Upskilling for Youth:** A **stronger focus on upskilling**, combined with better allocation of resources is required.
  - A **well-educated and healthy population** is the foundation of personal and national productivity.
    - It will drive productivity and enable a more meaningful contribution towards value addition. **Greater value addition** creates more effective products or services, driving value across industries.
- **Upgrading Sector-wise Infrastructure:** To ensure the necessary skills for a specific sector translates into effective job opportunities and industry growth, upgrading sector-wise infrastructure is essential.
  - For example, for the tourism sector, skilling initiatives like **'Hunar Se Rozgar Tak'** and the **Incredible India Tourism Facilitator Certificate Programme** are steps in the right direction.
  - Alongside, infrastructure development is also ramping up with increased funding for tourism projects, and the launch of **Swadesh Darshan and PRASHAD schemes**.
- **Guidance for Boosting e-Com Sector:** Online retailers struggle with the technicalities of online selling, cataloguing, and data privacy, leaving them on the sidelines of the digital economy. To address this, support systems like **'Vyapaar Gyan Kendras'** — similar to Krishi Vigyan Kendras for agriculture — could provide guidance, simplify on-boarding, and offer ongoing assistance.
  - These centres would **help retailers transition to digital, ensuring they benefit from e-commerce** and contribute to a more inclusive economic landscape.
- **Addressing the Logistics Concerns:** The logistics sector offers substantial employment for medium-skilled workers. Embracing innovative strategies in transportation, such as **harnessing inland waterways and using digital platforms** for route optimization, **dynamic freight bookings, automated cargo management, and streamlined passenger scheduling**, can transform logistics infrastructure.
- **A PLI (Productivity-Linked Income) Scheme for Services:** From an industrial policy standpoint, there is a need to institutionalise a productivity-linked income scheme, especially for the services industries.
  - Under this, companies within any services industry **exhibiting a distinctive increase in labour productivity, not through attrition but conscious skilling** and training initiatives, or with the help of path-breaking R&D and innovation, must be **awarded with tax benefits on sales/revenues**.
  - This will incentivise services industries to explore more innovative options to skill at scale, thereby helping the existing and prospective workforce to raise productivity.
- **Maintaining Pace with Latest Technologies:** The emerging job demands in the services sector entail greater and more focussed skills. A report by the [World Economic Forum](#) highlights an increasing focus on **cognitive abilities** (like complex problem-solving and creative thinking), digital literacy, and proficiency in AI and big data.
  - This shift underscores the strategic imperative for businesses and the workforce to adapt to technological advancements and meet global market demands.
  - Focus areas should include **blockchain, AI, machine learning, Internet of Things, cybersecurity, cloud computing, big data analytics, augmented reality, virtual reality, 3D printing, and web and mobile development**.

## Conclusion

If tapped well, the services sector presents a solution for broad-based employment generation, where innovation meets opportunity and every skill finds its place in the economic growth mosaic. This calls for seamless and continuous interaction and coordination between industry, academic and skilling institutions and governments at different tiers.

**Drishti Mains Question:**

Examine the potential of the services sector in India's growth trajectory. Discuss the key areas of concerns.

**UPSC Civil Services Examination, Previous Year Questions (PYQs)**

**Mains:**

**Q.1** The need for cooperation among various service sectors has been an inherent component of development discourse. Partnership bridges the gap among the sectors. It also sets in motion a culture of 'collaboration' and 'team spirit'. In the light of statements above examine India's development process. **(2019)**

**Q.2** Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

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