



## Services-led Growth Model for India

*This editorial is based on “[Services offer a fast and reliable path to economic development](#)” which was published in Livemint on 30/12/2024. The article brings into picture the shift from manufacturing to services-led growth, emphasizing the role of digital transformation in driving foreign investment, high-skilled jobs, and greater opportunities for women in the workforce. For India, this global trend presents a promising path to sustainable economic development.*

**For Prelims:** [Services-led growth](#), [Development of railways](#), [Five-Year Plans](#), [BPO \(Business Process Outsourcing\)](#), [Telecommunication](#), [E-Commerce](#), [Smart Cities](#), [PMGDISHA](#), [National Green Hydrogen Mission](#), [Sovereign green bonds](#), [EdTech market](#), [Unified Payments Interface](#), [Reserve Bank of India](#), [PM Jan Dhan Yojana](#), [Delhi-Mumbai Industrial Corridor](#), [India's Graduate Skill Index 2023](#), [e-NAM](#), [Pradhan Mantri Kaushal Vikas Yojana](#), [Open Network for Digital Commerce](#), [Pradhan Mantri Kaushal Vikas Yojana](#)

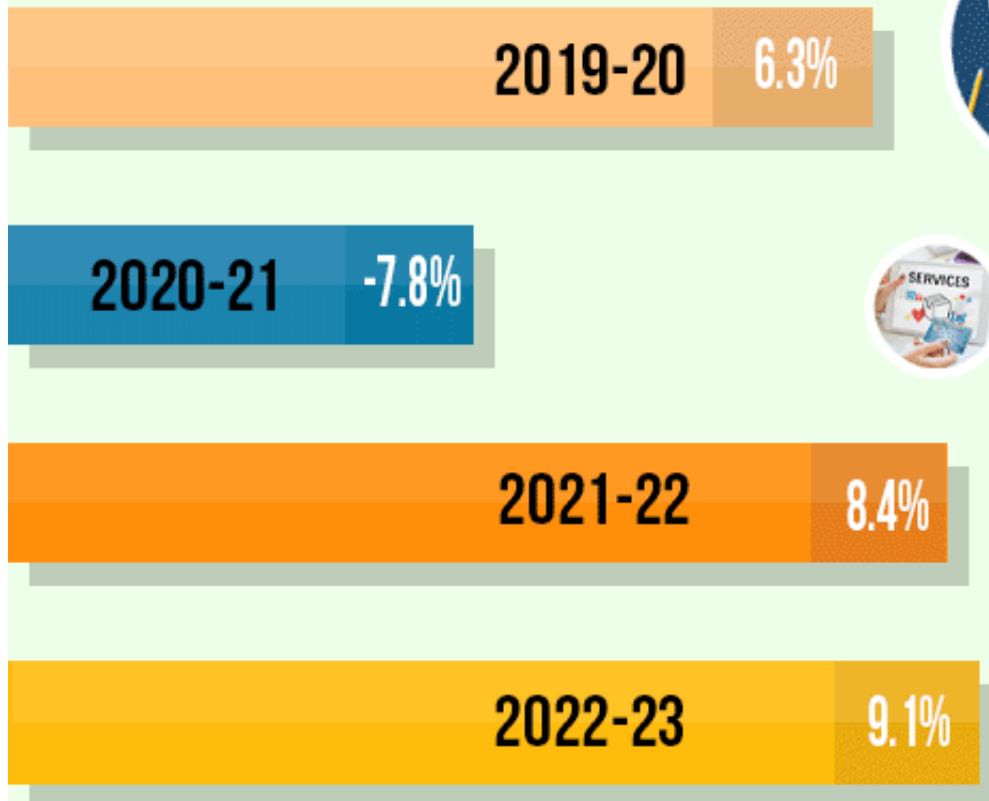
**For Mains:** Services-led Growth as a Catalyst for Economic Development for India, Key Issues Related to the Service-Led Growth Model for India.

In an era where [developing nations](#) face economic uncertainties, a paradigm shift is reshaping growth strategies across the globe. While **manufacturing-led development has been the traditional pathway to prosperity**, new [World Bank](#) research suggests **services should take center stage**. Digital transformation has been key to this evolution, with services driving foreign direct investment, creating high-skilled jobs, and opening new opportunities for women in the workforce. As India charts its economic future, **this global trend offers valuable insights into how [services-led growth](#)** could be the catalyst for sustainable economic development.

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# Service Sector Growth

Growth Rate of GVA at Basic Prices



## How has the Service Sector Evolved in India?

- **Pre-Independence Era (Before 1947)**
  - **Limited Role:** The service sector was underdeveloped, **primarily limited to colonial administration, transportation** and traditional services like **trade and education**
  - **Infrastructure Focus:** British initiatives led to the **development of railways, postal services, and telegraph systems**, which laid the foundation for modern service industries.
  - **Urban Concentration:** Service sector activities were concentrated in urban centers like **Mumbai, Kolkata, and Chennai**.
- **Post-Independence and Early Decades (1947-1980s)**
  - **State-Driven Development:** The government played a key role in providing public services like **education, healthcare, banking, insurance, and transport**.
    - Establishment of public sector enterprises (e.g., **LIC, nationalized banks like SBI**) strengthened financial and administrative services.
  - **Agrarian and Industrial Focus:** Despite service sector growth, the emphasis was on **agriculture and industrialization through Five-Year Plans**.

- The **service sector's contribution to GDP was modest, around 30%**, dominated by low-productivity traditional services.
- **Economic Liberalization and Globalization (1991 Onwards)**
  - **Economic Reforms of 1991:** Liberalization policies removed restrictions on trade, foreign investment, and private enterprise.
    - The **IT and IT-enabled services (ITES) industry** emerged as a game-changer.
    - Companies like **Infosys, TCS, and Wipro** became global leaders in software services.
      - **BPO (Business Process Outsourcing) and KPO (Knowledge Process Outsourcing) sectors** flourished due to India's skilled, English-speaking workforce and cost advantages.
  - **Growth of Financial and Professional Services:** Liberalization of the banking, insurance, and stock market sectors fueled expansion.
    - Emergence of **legal, consulting, and accounting firms** catering to domestic and international clients.
  - **Tourism and Hospitality:** Growth in **domestic and international tourism** contributed significantly to the economy.
- **Current Trends (2000s Onwards)**
  - **Dominant Role in GDP:** The service sector contributes approximately **55-60% of India's GDP** but **employs only around 32% of the workforce**.
  - **Diverse Sub-Sectors:**
    - **IT and Digital Services:** India is a **global IT powerhouse**, providing software and digital solutions worldwide.
    - **Telecommunication:** With the **rapid spread of internet and mobile services**, India has become the second-largest internet user base.
    - **E-Commerce:** Companies like **Flipkart, Amazon, and Zomato** have revolutionized retail and service delivery.
    - **Healthcare and Education:** Growth of private hospitals and universities has made India a hub for **medical tourism and global education services**.
    - **Media and Entertainment:** **Bollywood, OTT platforms, and sports broadcasting** have emerged as significant contributors to GDP.

## How Services-led Growth Could be the Catalyst for Economic Development for India?

- **Job Creation in Emerging Sectors:** The service sector, **especially IT, digital platforms, and e-commerce**, has become a primary engine of employment growth in India by leveraging its large, skilled workforce.
  - It offers opportunities across the skill spectrum, reducing unemployment and underemployment.
  - For example, the **IT-BPM sector employs 5.4 million professionals** ( as of March, 2023), and India's gig economy is expected to reach **23.5 million workers by 2030**.
- **Global Leadership in Digital Services:** India's competitive edge in IT and emerging technologies positions it as a global hub for digital solutions, supporting economic growth.
  - Sectors like **AI, blockchain, and cloud computing** add strategic importance to exports.
  - India's IT-BPM revenues stood at **\$245 billion in 2023-24**, and UPI has **revolutionised digital payments in the country**.
- **Urban Development through Smart Services:** Service-led urban solutions address urbanization challenges like **traffic management and waste handling**, promoting sustainable growth.
  - Projects like **Smart Cities** enhance urban livability while spurring infrastructure investment.
  - For instance, over **84,000 CCTV surveillance** cameras have been installed in **100 Smart Cities**, aiding in **crime monitoring, improving urban security and efficiency**.
- **Rural Inclusion through Digital Platforms:** Digital services democratize access to healthcare, education, and banking in rural India, reducing regional disparities.
  - These platforms empower rural populations and integrate them into the national economy.
  - For example, the **telemedicine market in India is expected to grow** at a compound

annual growth rate(CAGR) of **31% for the period 2020-25** while 47.8 million rural citizens certified as digitally literate under **PMGDISHA**.

- **Green Services for Environmental Sustainability:** Sustainability-focused services like **green finance and renewable energy consulting** are crucial for mitigating climate change.
  - They drive investments into clean energy while fostering economic growth.
  - The government auctioned **sovereign green bonds** worth **₹20,000 crore in FY24** and **National Green Hydrogen Mission** is projected to **create 6 lakh jobs by 2030, illustrating the green jobs model.**
- **Human Capital Development via Health and Education:** Expanding healthcare and education services fosters a **healthier, skilled workforce, crucial for long-term growth.**
  - EdTech and health schemes are transforming accessibility and outcomes.
  - Over **42 crore health records have been connected to Ayushman Bharat Health Accounts**, facilitating easy access to medical histories and improving healthcare delivery, and India's **EdTech market reached \$5 billion in 2023**, improving service delivery and quality.
- **Financial Inclusion through FinTech:** FinTech innovations are revolutionizing banking, ensuring financial access and reducing economic inequalities.
  - This **digital transformation** enhances savings and formal economic activity.
  - **Unified Payments Interface (UPI)** transactions have grown from 92 crore in FY 2017-18 to **13,116 crore in FY 2023-24**, and **PM Jan Dhan Yojana** accounts crossed **500 million in August 2023**, boosting financial inclusion.
- **Service Exports Driving Trade Balance:** Service exports are critical for offsetting **India's merchandise trade deficit and earning foreign exchange.**
  - India's stronghold in IT and professional services underpins this strategy.
  - India's services exports surged by a **record 26.6% in 2022-23 (FY23)**, reaching **\$322 billion**, as per data released by the **Reserve Bank of India (RBI)**, offsetting deficits and bolstering India's global economic footprint.
- **Catalyzing Infrastructure Growth via PPPs:** Public-private partnerships (PPPs) in services like logistics and transport enhance infrastructure development, fostering economic linkages.
  - The **Delhi-Mumbai Industrial Corridor, with investments of \$17 billion**, integrates industrial and logistics services, driving economic productivity.
    - Such initiatives **anchor sustainable growth strategies.**

## What are the Key Issues Related to the Service-Led Growth Model for India?

- **Jobless Growth in Services Sector:** While the service sector dominates GDP, its ability to **generate large-scale employment remains limited** compared to agriculture and manufacturing.
  - Most jobs created are either low-paying or require specialized skills, leading to rising inequalities. The service sector contributes to **almost half of India's GDP but employs only one-third of its workforce.**
    - Additionally, India's unemployment rate stands at **8.1% (CMIE, April 2024)**, reflecting a mismatch between job creation and workforce demands.
- **Lack of Focus on Manufacturing and Agriculture:** Overemphasis on services diverts attention from manufacturing and agriculture, sectors essential for **large-scale job creation and rural development.**
  - According to the Economic Survey 2023-24, India's workforce stands at nearly 56.5 crore, with **over 45% employed in agriculture and 11.4% in manufacturing.**
  - Sole focus on the service sector would result in **uneven sectoral growth, undermining holistic economic development.**
- **Skewed Regional Development:** Service-led growth is disproportionately concentrated in **urban areas**, leaving rural and backward regions underdeveloped.
  - This creates regional imbalances and exacerbates rural poverty.
  - For example, **Karnataka's IT exports (led by cities like Bangalore )** surged by an impressive **27%**, boosting the **state's share in India's IT exports to 42%.**
    - While states like **Bihar and Jharkhand** remain dependent on agriculture, with poverty at **33.76%** and **28.81%** respectively. (**NITI Aayog**).
- **Dependence on External Demand:** India's service exports, particularly **IT and BPO**, rely heavily on global markets, making the economy vulnerable to external shocks like **recessions in**

## the US or EU.

- Such reliance exposes the sector to volatility in global demand. A report by **Nirmal Bang Securities** suggests that, despite India's robust economic position, the country is not entirely insulated from a potential US recession.
  - Even under "**normal**" economic conditions, global economic pressures have slowed India's domestic growth by **approximately 1.5-2.5%**, implying that **a downturn in the US could have a further impact on India's economy.**
- **Skill Gaps and Workforce Mismatch:** The lack of alignment between the skills of the workforce and industry demands limits the scalability of the service sector.
  - While the sector demands tech-savvy and high-skilled professionals, much of India's labor force remains semi-skilled.
  - The [India's Graduate Skill Index 2023](#) revealed that **only 45% of Indian graduates seeking employment have the skills required to meet the rapidly evolving demands** of the industry.
  - According to the 68th Round of NSSO, **only 4.69% of India's workforce has received formal skill training**, compared to **52% in the USA, 68% in the UK, and 75% in Germany.**
- **Urban Congestion and Infrastructure Strain:** Service-led urbanization has led to overcrowding, traffic congestion, and inadequate infrastructure in major cities.
  - This reduces productivity and livability. Bengaluru, for instance, was ranked as having the **second-worst traffic globally.**
  - India is currently **35% urban, a figure projected to rise to 53% by 2047.** This means the urban population will nearly double, with an **additional 400 million people moving to cities**, which is placing immense pressure on urban amenities.
- **Exclusion of Informal Economy:** The informal sector, which employs over **90% of the workforce**, is largely excluded from the benefits of the service-led growth model.
  - This perpetuates vulnerabilities, with workers lacking social security and income stability.
  - For instance, despite the rise of platforms like **Swiggy and Uber**, [gig workers](#) face wage exploitation (**over 77% earn less than Rs 2.5 lakh annually**) despite overwork.
    - A recent survey across 32 cities in India found that **85% of gig workers work more than eight hours a day** as drivers and riders, with 21% working over 12 hours daily.
- **Low Domestic Consumption of Services:** Service-led growth heavily relies on exports, as domestic consumption of services remains limited due to low income levels and inadequate infrastructure.
  - For example, India's services sector growth slowed in May 2024 due to weakened domestic demand, with the **Purchasing Managers' Index (PMI) dropping to 60.2.**

## How can India Sustain Service Sector Growth While Driving Service-Led Manufacturing and Agriculture Growth ?

- **Promote Skill Development and Industry Collaboration:** India must align skill development programs with industry demands, bridging workforce gaps in both services and manufacturing.
  - Collaborating with private players under initiatives like **Skill India** and **PMKVY (Pradhan Mantri Kaushal Vikas Yojana)** can ensure employability and scalability.
  - For example, partnerships with **IT giants like Infosys can upskill youth in digital technologies**, supporting IT services, while training in advanced manufacturing techniques **under PLI (Production-Linked Incentive) schemes can boost industrial productivity.**
- **Develop Integrated Agro-Processing and Services Hubs:** Setting up agro-processing clusters integrated with logistics and digital services can enhance value addition in agriculture and link rural economies with global markets.
  - Initiatives like **PMFME (Pradhan Mantri Formalisation of Micro Food Processing Enterprises)**, combined with **e-NAM** (National Agriculture Market), can create such hubs.
  - For instance, digital platforms connecting farmers with buyers can increase efficiency, while food processing units generate rural employment and boost exports.
- **Invest in Smart Infrastructure for Urban-Rural Linkages:** Building smart infrastructure, including rural roads, cold chains, and warehousing, can connect rural agricultural production with urban service and manufacturing industries.

- The convergence of [PM Gati Shakti](#) for logistics infrastructure and **Rurban Mission** can address these gaps.
- For example, **well-developed logistics networks can link food surplus states like Punjab to urban markets**, reducing wastage and enhancing supply chain efficiency.
- **Enhance MSME Support with Digital Ecosystems:** Micro, Small, and Medium Enterprises (MSMEs) can act as a bridge between the service and manufacturing sectors if supported through digital transformation.
  - Expanding platforms like **Udyam Portal** for ease of registration, combined with [Open Network for Digital Commerce \(ONDC\)](#), can bring small businesses into mainstream supply chains.
  - For instance, digitizing small manufacturers can enable them to supply parts to large service industries like hospitality or IT.
- **Leverage FinTech for Agricultural and Rural Credit:** Expanding financial access using FinTech innovations can provide farmers and rural enterprises with the credit needed to invest in modern farming and agri-business.
  - Schemes like **PM Jan Dhan Yojana (PMJDY)** combined with platforms like **Kisan Credit Card digitization** can ensure seamless credit delivery.
  - For example, **integrating AI-based risk assessment tools** with rural lending can reduce NPAs and empower farmers to adopt high-yield techniques.
- **Boost Tourism and Hospitality as Rural Employment Drivers:** Promoting rural tourism through homestay programs, cultural circuits, and eco-tourism can create jobs while preserving rural heritage.
  - Schemes like [Swadesh Darshan](#) and **PMEGP (Prime Minister's Employment Generation Programme)** can collaborate to empower artisans and small entrepreneurs.
  - For instance, eco-tourism projects in Uttarakhand provide sustainable incomes to locals while attracting global tourists, linking agriculture with hospitality.
- **Promote Renewable Energy Services to Support Manufacturing:** Scaling up renewable energy services can provide sustainable and low-cost power for manufacturing and agriculture.
  - Schemes like [KUSUM \(solar irrigation\)](#) and [National Solar Mission](#) can collaborate to create energy ecosystems for rural enterprises.
  - For instance, solar-powered cold storages can reduce post-harvest losses while supporting small-scale agro-processing industries.
- **Strengthen Research and Innovation through Public-Private Partnerships (PPPs):** Encouraging innovation through PPPs can lead to advancements in both services and manufacturing.
  - Establishing innovation hubs under [Startup India](#) linked with industrial parks can foster R&D in automation, agri-tech, and logistics.
  - For example, partnerships between **universities and companies like Mahindra Agri Solutions** can create affordable farm machinery, blending services with manufacturing for agricultural transformation.
- **Digitalize Supply Chains for Efficiency:** India can streamline supply chains across agriculture, manufacturing, and services by leveraging digital tools like blockchain and IoT.
  - Schemes like **PM Gati Shakti** can integrate with tech platforms to improve real-time tracking and delivery.
  - For example, **blockchain-enabled traceability in agricultural exports** can ensure compliance with global quality standards, benefiting both farmers and exporters.
- **Expand Export Potential Through Skill and Service Integration:** Integrating manufacturing with high-quality services like logistics, finance, and IT can enhance India's export competitiveness.
  - Aligning PLI incentives with [SEZ \(Special Economic Zone\)](#) policies for service exports can create globally competitive industries.
  - For instance, combining pharmaceutical manufacturing with regulatory consulting services can help tap new markets.
- **Focus on Women's Empowerment in Services and Agriculture:** Women can drive rural economic growth if supported in accessing education, credit, and entrepreneurial opportunities.
  - Linking [SHGs \(Self-Help Groups\)](#) under **Deendayal Antyodaya Yojana** with digital marketing platforms can empower women farmers and service providers.
  - For example, **women-led dairy cooperatives in Gujarat** contributed significantly to **Amul's success**, showcasing synergies between agriculture and services.

## Conclusion:

India's **service-led growth** offers a promising path to sustainable economic development, aligning with **SDG 8 (Decent Work and Economic Growth)** and **SDG 9 (Industry, Innovation, and Infrastructure)**. By leveraging digital services, improving skill development, and promoting inclusive growth through rural and urban linkages, India can address existing inequalities and regional disparities. Also, balancing the growth of services with agriculture and manufacturing remains critical for holistic and long-term development.

### **Drishti Mains Question:**

Services-led growth has been identified as a potential catalyst for economic development in India. Discuss the role of the services sector in driving India's economic transformation, examining the opportunities and challenges it presents in achieving sustainable development.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### **Prelims**

**Q. What does S & P 500 relate to? (2008)**

- (a) Supercomputer
- (b) A new technique in e-business
- (c) A new technique in bridge building
- (d) An index of stocks of large companies

**Ans: (d)**

**Q. In the 'Index of Eight Core Industries', which one of the following is given the highest weight? (2015)**

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

**Ans: (b)**

### **Mains**

**Q1.** Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far the recent changes in Industrial Policy capable of increasing the industrial growth rate? (2017)

**Q2.** 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 the industry in the country? Can India become a developed country without a strong industrial base? (2014)

