



Growth of service sector in India

Description

Theme:

- In 2020–21, India's service sector accounted for 53.89% of the total gross value added (GVA) of the country. Compared to it, the industry sector contributed 25.92% and the agriculture and allied sector contributed 20.19%. This is a matter of concern when we see that 54.6% of the total workforce of India is engaged in agriculture, and still, this sector's contribution is the lowest.

Structural change in the Indian economy:

- When a country is in a state of underdevelopment, the primary sector (agriculture and allied occupations) makes the largest contribution to the national income.
- Western and South East Asian economies experienced first a shift from the primary to the secondary sector (manufacturing sector) and only in their advanced stage did they experience a significant shift in favour of the tertiary sector (service sector). Western and South East Asian economic development enabled them to transfer a growing labour force from the primary to the secondary sector. In India, this has not been possible because the secondary sector has not expanded fast enough to absorb the growing labour force. Indian economy experienced rapid growth in the service sector when compared with the manufacturing sector. This pattern of structural change in the Indian economy has deviated from the development pattern of Western and South East Asian economies.

Reasons for this change:

- A very important factor has been the arrival of information technology and the knowledge economy. This has led to the growth of the high as well as low-productivity segments of the services sector in India.
- A large part of the service sector consists of essential infrastructure such as banking, insurance, finance, transport and communication and social and community services such



as educational and medical facilities.

- Increased mobility brought forth by growing international trade, tourism, and cultural and educational tours created enormous prospects for the service sector.
- Increasing urbanisation in India is another cause of the expansion of the service sector in the economy. In fact, urbanisation is closely associated with a rise in demands for infrastructure services such as communications, public utilities and distribution services.
- With the increasing complexities of modern industrial organisation, manufacturing industries have become service oriented.
- Due to cheap labour, several countries are outsourcing skills like accounting, finance, legal services, advertisement, marketing, public relations, etc to India.

Benefits of the growth of the service sector in India:

- The Information Technology and Communication service industry generate a large number of employment opportunities in the country.
- Efficient delivery of services increases the productivity of both labour and capital in the economy as a whole.
- The emergence and expansion of new services such as advertising, publicity, marketing, etc in India provide essential service inputs to the industrial sector and service sector in India and also develop strong linkages with the rest of the economy.
- The fastest-growing segment of services is the rapid expansion of knowledge-based services, such as professional and technical services. India has a tremendous advantage in the supply of such services because of a developed structure of technological and educational institutions, and lower labour costs.
- The ageing population in the developed world implies that the demand for services will continue to grow.

Challenges:

- The growth of the service sector is constrained by slower growth in the manufacturing sector.
- In India, service reforms have developed haphazardly rather than as part of a comprehensive plan. Given the strong interlinkages between different services, opening a particular services sector may not yield results if not backed by corresponding reforms in other complementary services.
- The lack of development in the manufacturing sector limits the increase in the employment of the labour force. The labour demand created by these service industries is not big enough for the Indian population.

Conclusion:

India has a problem with unemployment, which is brought on by the manufacturing sector's inability to absorb enough labourers as well as the lack of employable skills among job seekers. The importance of developing employable skills should be highlighted throughout the education system. Additionally, there are several distinctive practices that are particularly specific to certain regions, such as tea planting, agricultural practices, and traditional weaving, that have enormous



business potential but are neither supported nor acknowledged as essential talents. The government must identify and promote these regionally specific skills and make entrepreneur skill development programmes available at every school and college and to every person.

Your Turn:

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References:

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