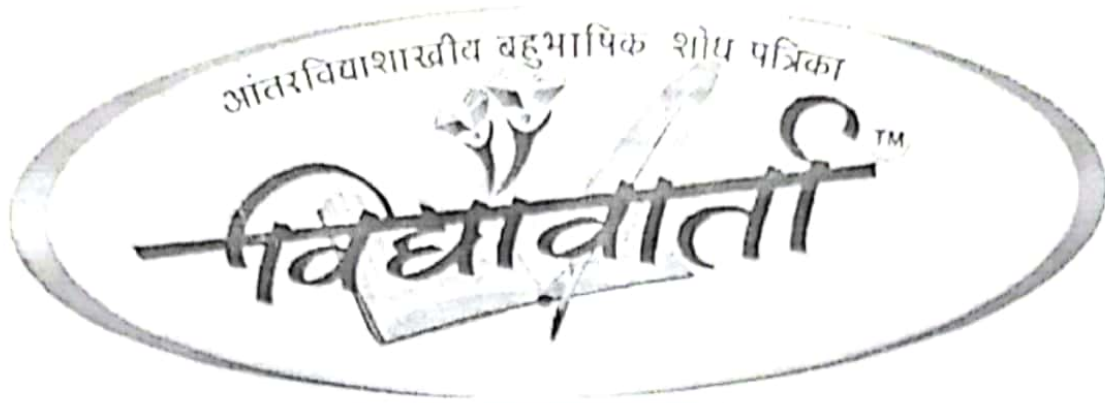


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SERVICE SECTOR: THE BACKBONE OF INDIAN ECONOMY

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ABSTRACT

The service sector, which is also recognized as residual sector is absolutely necessary for economic development in any economy. It has developed as the fastest-growing sector within the global economy in the last three decades. The paper will be making a complete analysis of Indian service sector while examining its growth and contributions in the national economy. The study confirms that service sector has grown at the sufficiently higher rate in comparison to other sectors of Indian economy. Service sector's share in GDP conceals the poor performance of agriculture sector. The employment percentage in service sector is rising while in agriculture sector, it is falling continuously. Indian population with large number is still engaged in agriculture sector. The next largest employer after agriculture sector is service sector where hotels & restaurants, trade, social & personal services are the significant generator of employment. Thus, service sector which is dominant in terms of its growth & shares hence it serves as an engine of growth for Indian economy. It is important for a developing country like India with a large number of young population to generate quality employment and move up the value chain. India needs private investments in key infrastructure services such as transport, energy and telecommunications, information technology etc.

KEYWORDS: *Services Sector, Gross Domestic Product, Economic Growth, Residual Sector, Information Technology, Quality Employment.*

DEFINITION OF THE SERVICE SECTOR

In any discussion of the service sector, it is essential to define first the field covered by this sector. The term "the service sector" is not associated with any definite or particular set of industries and to some extent it could be claimed that all industries provide services. Economists have for some time been accustomed to a threefold division of the economy, a division which date back to the time of Plato and Aristotle and reappeared again in the work of Fisher (1935) and Colin Clark (1940) have divided the economy into primary sector, secondary sector and tertiary sector. The primary sector covers perceptible goods in agriculture, forestry, fishing, and hunting. The secondary sector includes mining, manufacturing and other activities such as gas, electricity and water supply involving activities with a perceptible end product. The tertiary sector consists of trade and public

Services. This division on economic activities is bound to change as economist change the activities in the list and also there is overlapping of many activities. Later on there has been shifting of economic activities been done from one sector to other sector. At present the primary sector includes agriculture, animal and husbandry, forestry and fisheries etc., the secondary sector

activities include mining, manufacturing, electricity, gas, water supply, construction etc., the service sector activities incorporate trade, commerce, information technology, transport, communications, hotel and restaurant, banking and finance, health and education, tourism, share market, film industry, insurance, astrology industry, advertisement industry, sports, legal service, publishing industry, mass media etc.,

SERVICES SECTOR PERFORMANCE: AN OVERVIEW

Indian service sector today contributes more than 50 percent of India's Gross Domestic Product (GDP). Significant change is noted in the contribution of each sector to India's GDP over a period of time. In the year 1950-51 the primary sector was contributing about 56.5 percent to the Indian GDP which is followed by the secondary sector with 13.6 percent and tertiary sector with 29.9 percent. In 1990-91 the share of agriculture sector's contribution in India's GDP was 34 percent which was followed by secondary sector with 23.2 percent and tertiary sector with 42.8 percent. During the year 2007 the primary sector's contribution towards GDP came down to 18 percent while industrial sector increased to 29 percent and service sector increased to 53 percent. During 2008-09 the share of primary sector was 15.7 percent, the share of secondary sector was 28 percent and the share of service sector was 56.4 percent which shows that the share of tertiary sector is raising constantly over a period of time. The share of services in India's GDP at factor cost (at current prices) increased from 33.5 percent in 1950-51 to 56.8 per cent in 2010-11 and to 58.2 per cent in 2011-12. If construction is also included, the service sector's share increases to 65.0 per cent in 2012-13. There is a notable variation in the rate of growth of each sector in Indian GDP. The services sector's importance in the Indian economy has continued to increase in a significant way, with the sector now contributing for around 55 per cent of total size of the economy and Gross Value Added growth, two-third of total FDI flows into India and about 38 per cent of total exports. The share of services sector now has exceeded to 50 per cent of Gross State Value Added in 15 out of the 33 states and UTs of India, where the share is more than 80 per cent in Delhi and Chandigarh. There was moderation in services sector activity during 2019-20 according to data on GVA growth, high-frequency indicators and sectoral trends. There was deceleration seen in Bank credit to services sector, air passenger traffic and rail freight traffic, while foreign tourist arrivals and port traffic have continued to ease during 2019-20. However, the very latest readings on most of these indicators suggest a recovery. The gross FDI equity which flows into services sector have registered a strong recovery whereas services exports have maintained their pace during April-September 2019. Services exports have performed better in goods exports in the recent years, due to which India's share in world's commercial services exports has risen steadily over the past decade and has reached to 3.5 per cent in 2018, twice the share in world's merchandise exports which is at 1.7 per cent. India's education services imports have increased notably in the recent years, up from about US\$ 2.3 billion in 2013-14 to US\$ 5.0 billion in 2018-19. The shipping turnaround time at ports has almost come down to half from 4.67 days in 2010-11 to 2.48 days in 2018-19.

SERVICE SECTOR and COVID19 PANDEMIC

India's services sector activity seen a large contraction in the month of March, bearing the impact of the Covid-19 pandemic that hinder the demand, especially in overseas markets, as voluntary spending were knocked by public health measures aimed at stemming the outbreak. The Services Business Activity Index recorded downfall to 49.3 in March from February's 85-month high of 57.5. According to study readings above 50 indicates expansion, while a reading below 50 indicates contraction. A report shows that the business activity was reduced due to weaker demand as the pandemic reportedly led to a fall in new orders from clients, particularly overseas. The latest survey data pointed to the first fall at Indian service providers since September 2019. The limited demand for fuel brought down India's import bill. India's exports have rose for the first time in February, up by 2.9 per cent due to growth in shipments of sectors such as petroleum, engineering and chemicals. But for April-February period of the current financial year, exports dropped by 1.5 per cent to \$292.91 due to pandemic. Indian IT services industry is expected to see an adverse impact for a short-term due to COVID-19 outbreak. The IT sector is suffering a lower growth of 3-5 per cent in current financial year, according to ratings agency ICRA. It was previously expected the sector to grow at 6-8 per cent.

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