



## Service Sector of India and International Market

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### ORIGINAL ARTICLE



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### ABSTRACT

The three main sectors of the any economy are Primary, Secondary and Tertiary sectors. The primary sector includes all those activities the end purpose of which consists in exploiting natural resources: agriculture, fishing, forestry, mining deposits. The secondary sector produces goods from the natural products within the primary sector, it consists of processing, manufacturing and construction companies. The tertiary sector of the economy, generally known as the service sector consists of financial services, transportation, communications, health services and consultation etc. Service sector is the Growth Engine of Indian Economy. The service sector has played an important role in India's economic development and as a share of GDP. The service sector contributes 53% of India's GDP. India is a service lead growth economy. The service sector brings down the cost of industrial and agricultural products. At the same time, improving their quality and making their supply and access possible to the consumer. regulated service market will facilitate technological development, skill building and achieving modern economy. This study describes the increasing contribution of the service sector to the economic development, Foreign Direct Investment in the service sector, various major Import and Export services of India, and growth prospects of the service sector in international market. In the research paper, an analytical study of various programs being run by the Government to increase service exports has been done. The purpose of the research paper is to study the contribution of the service sector to the international market. The increasing contribution of the service sector in employment generation also indicates that this sector is important not only

*for sustainable development but also for employment, international trade, and other primary and secondary sector's development. The purpose of the research paper is to study the service sector from an international perspective.*

## **KEY WORDS**

**Service Sector, FDI, International Trade, Economic Growth, Development.**

## **INTRODUCTION**

Generally, as any economic progresses it transmutes itself from an agriculture-based economy to an industrialized economy and finally into a service lead economy. But in Indian case, the industrial sector development could not take place as envisaged by our policy makers. The share of agriculture sector as a percentage of GDP has come down from 53% in 1950-1951 to around 15% in 2017-18. On the contrary, the share of services has increased from 30% to 54% during the same period. This transition of economy from agriculture sector to service sector is called service led growth phenomenon.

The service sector has played an important role in international trade. According to the Economic Survey, service exports grew by 21.6% during the first half of the year 2021-22. India's share in world commercial services exports rose to 4.1% in 2020. India has a prominent place in the export of services in the world. It remained in the top 10 service exporting countries in the year 2020. India is a service lead growth economy. The rapid growth in the service sector indicates that India's promotion of various services in international trade will be conducive to the economic development of the country. The country's business activities have accelerated due to the expansion of various Indian services in the international market.

## **Review of Literature**

Service sector empowering our economy through employment generation, providing varieties of service and customer satisfaction. **Vandermerwe & Chadwick** (1989) recognizes the importance and role of good components in service sector. **Rachna S. Singh** provide reasons for the growth of service in India. Economic Liberalization, Market orientation, changing the role of women, export potential etc, are some of the reasons for the growth of Indian service sector. **Das & Raut** (2014) found that the service sector employs a wide range of staff, including professional from a large number of academic background. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive service in the information technology and professional service segments.

## **Objects of the Study**

1. To study the contribution of service sector in Economic Development of India.
2. To study the various Import and Export Services of India.
3. To study the FDI in service sector.
4. To study the contribution of Service Sector in International Market.
5. To study the growth prospects of the service sector in international market.

## **Research Methodology**

The data is collected from secondary sources with the aid of Books, Newspaper, Magazine, Journals, internet and Economic Survey reports of India.

## **Service Sector- The Growth Engine of Indian Economy**

The service sector has become the fastest growing economic sector in India. The service sectors which contribute nearly 53% of GDP employs nearly one fourth of work force. The share of service sector in the

workforce increased from 20.5% during 1991 to 26.7% during 2011. In the process of economic development, the contribution of service sector in GDP and employment increases.

## Service Sector and International Trade

The service sector has also played an important role in the field of international trade. India's service exports during 2021-22 grew by 18.4% over the same period one year ago and grew by 11.0% over 2019 to US\$ 177.7 billion, and exceeded pre-pandemic levels. The main reason for this has been the head three services, which include computer, Business and Transportation services, which account for more than 80% of the total export services. Service imports during the same period increased by 21.5% to US\$ 103.3 billion as compared to the same period one year ago. The increase in imports of services has been mainly due to trade. Transportation, travel and payment for computer services.

### Service Trade

Import and Export	In Billion US\$		
	2019-20	2020-21	2021-22
Service Export	213	206.1	177.7
Service Imports	128	177.5	103.3

(Source: RBI and Commerce Department)

## Service Exports and Imports

India's Export and Imports of Services 2021-22(Q2)

US\$ Million

S.No.	Sector	Export	Import
01	Manufacturing service on physical inputs owned by others	75	16
02	Maintenance and Repair's Service n.i.e	74	418
03	Transport	7584	8181
04	Travel	2147	3919
05	Construction	716	715
06	Insurance and pension service	796	575
07	Financial Service	1303	1463
08	Charges for the use of Intellectual Property n.i.e	202	2189
09	Telecommunication, Computer & Information services of which: Computer Service	3082329965	36513184
10	Other Business Service*	13858	12457
11	Personal Cultural and recreational service	713	1243
12	Government goods and services n.i.e	217	198
13	Others	2915	811

(Source: Reserve Bank of India)

**Note:** \*As Per the IMF Manual on (BPM6) "Other Business Services" are classified under three broad heads: Research and Development services, professional and Management Consultancy services and technical trade related and other business services.

Service constitutes the fastest growth sector in international trade and take many forms:

- Tourism and Transportation
- Service performance
- Asset use

## Tourism and Transportation

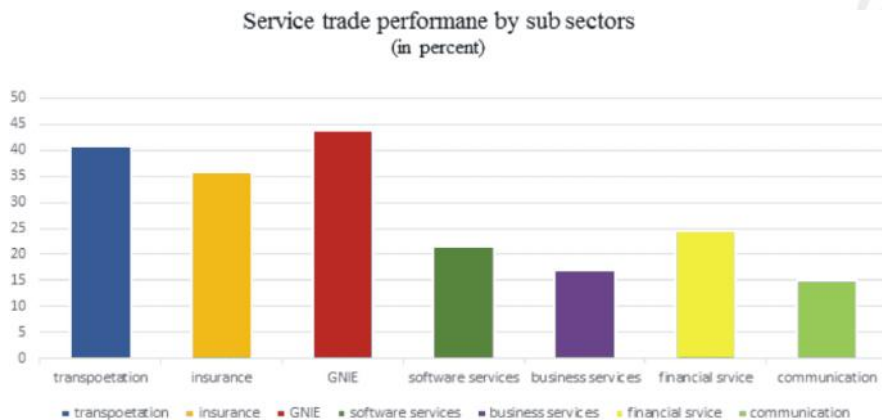
Tourism and transportation are important source of revenue for airlines, shipping companies, travel agencies and hotels.

## Service Performance

Some service including banking, insurance, rental, engineering and management services, Net earnings in the form of fees payment for the performance of those services. For example, companies receive fees for engineering and management services.

## Asset Use

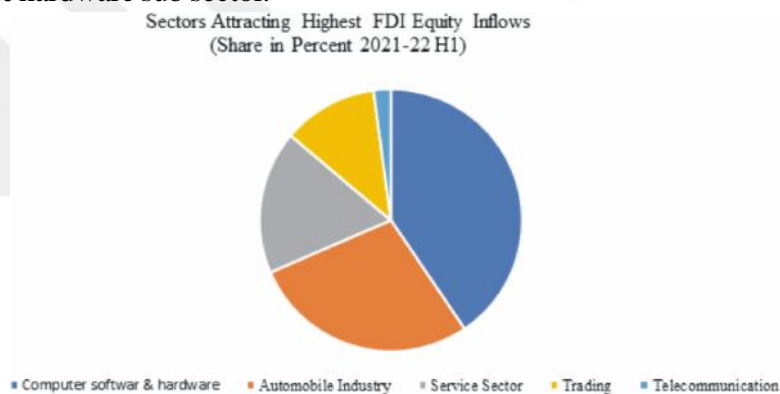
Companies receive royalties from licensing agreements, whereby they allow others to use some assets, such as trademarks, patents, copyrights or expertise. Companies also receive royalties from franchising, a contract in which a company assists another on a continuous basis and allows use of its trademark.



**Note:** Government not included elsewhere (GNIE)' represent remittances towards maintenance of foreign embassies, diplomatic missions and international/ regional institutions, while payments record the remittances on account of maintenance of embassies and diplomatic missions abroad.

## FDI Inflows into Service Sector

Service sector is the largest recipient of FDI (Foreign Direct Investment) inflows in India. According to the World Investment Report 2021 by UNCTAD, India was the fifth largest recipient of Foreign Direct Investment in 2021. In 2020-2021, India registered highest ever annual FDI inflows of US\$81.97 Billion. During H1 2021-22 service sector received US\$ 16.73 Billion FDI equity inflows. This is over 29% lower than the FDI equity inflows into service sector in the corresponding period last year. This fall is driven by computer software & hardware sub sector.



(Source: DPIT)

**Note:** Service sector includes Financial, Banking, Insurance, Non-financial/ business, Outsourcing, R&D, courier Tech.

## Findings

- The service sector employs nearly one fourth of work force and contribute 53% of India's GDP.
- In the field of International Trade service exports grew by 18.4% and service imports increase by 21.5% during 2021-22.
- According to the World Investment Report 2021, India was fifth largest recipient of FDI. Highest FDI inflows in Computer software and Hardware sector.
- Reason for increasing service exports has been the head three services which include computer hardware and software, business and transportation.
- The information Technology- Business Process Management (IT-BPM) sector is major segment of India's services.

## Discussion

The development process of all countries is different. The development process depends on the population, natural resources, technological progress and the socio-political and economic environment of that country. Because the service sector in India is growing rapidly therefore, various efforts are being made by the Government of India to increase service exports and expand the service sector. Presently for the comprehensive development of the service sector various projects are being undertaken which are as follows:

- Electronic platform for preferential certificate of origin (CoO).
- Infusion of capital in Exim Bank.
- Market access Initiatives (MAI).
- Special Economic Zone (SEZ) Scheme.
- Emergency credit line guarantee scheme (ECGS).
- Pradhan Mantri Gati Shakti National Master Plan (NMP).
- Sagarmala program.
- Startups in India have grown remarkably over the last six year, most of these belong to the service sector.

The strong growth witnessed in services exports may also be attributed to key reforms undertaken by Government, which inter alia include liberalizing the Other Service Providers (OSPs) in November 2020 and further in June 2021 announcing reform package for Telecom sector to infuse liquidity, encourage investment and reduce regulatory burden on the telecom service providers. If the various projects being run by the Government of India are successfully implemented, then multifaceted development is possible in them.

## CONCLUSION

Well Regulated services markets ensure access to skill, technology, information, fundings and market in a modern, increasingly digital economy. Intermediate services reduce costs, improve quality and match suppliers and customers around the world. Moving up the value chain, therefor depends on a local business service sector open to ideas, skill and investment from cutting edge firms wherever they may be found.

## Suggestion

It is suggested that successful implementation of various projects to strengthen the business side of the service sector. Effort should be made to increase service exports and reduce the imports. Instead of importing services from abroad, try to get these services in the country itself. Infrastructure should be developed to promote tourism.

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