

Self Reliant India in Service Sector

Ms.Aparna Sawant

Research Scholar

Bharti Vidyapeeth(Deemed to be university), Pune

Yashwantrao Mohite Institute of Management, Karad

Dr.P.K.Mudalkar

Research Guide

HOD and Associate Professor

Bharti Vidyapeeth(Deemed to be university), Pune

Yashwantrao Mohite Institute of Management, Karad

Abstract:

The services sector is the lifeline for socio-economic growth of any country in the world. If you look at different countries, Services is the largest and fastest growing sector globally. Moreover, in alignment with this rising global trend, the Indian Services sector has also witnessed major growth. It is now considered the biggest contributor to both employment and national income, having added a whopping 55.39 percent to India's Gross Value Added at current price in FY20. Despite the growing evidence of Services forming the backbone of our country, the talk about making India self-reliant almost always focuses on manufacturing. We continue to believe that only manufacturing helps grow and sustain a higher standard of living for our nation. Plus, the higher wages of manufacturing jobs contribute to a better quality of life, which further perpetuates this notion. Even when the Corona virus pandemic came at us, India's key services industries were the first to be hit. Despite that, incentives for survival were only reserved for manufacturing, while the services sector was left to fend for itself. But if we have to battle similar crises in the future, and ensure continued growth of our economy, it is time we put the spotlight on the services sector, making it self-reliant for the sake of India's development.

Keywords: *Service, reliant, economy, nation, development etc.*

Introduction:

The services sector is the lifeline for socio-economic growth of any country in the world. If you look at different countries, Services is the largest and fastest growing sector globally. Moreover, in alignment with this rising global trend, the Indian Services sector has also witnessed major growth. It is now considered the biggest contributor to both employment and national income, having added a whopping 55.39 percent to India's Gross Value Added at current price in FY20.

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Service Sector in the World:

It took centuries for the world's economies to shift from agriculture to manufacturing, but the rise of the services sector is occurring more quickly. The world is in the midst of a radical shift, with the share of total output—world GDP—accounted for by services experiencing a sharp increase in almost all countries. Indeed, a few countries, such as India and Sri Lanka, have broken the historical convention by heading straight to services without developing a significant manufacturing sector at all. This growth in services has likely transformed not only the composition of the world's economic production and employment, but potentially global trading patterns over the past few decades. The relationship between services growth and overall economic growth has become stronger in the past two decades as services' average contribution to GDP and value added has increased. In 2015, services' value added accounted for 74 percent of GDP in high-income countries, up from 69 percent in 1997. The contribution of services' value added to GDP was higher in the United States than among its peer high-income nations. The increase in services' share of GDP was even more prominent in low- and middle-income countries, where it jumped to 57 percent in 2015 from 48 percent in 1997 (figure 1). With services contributing more to output, the corresponding contributions of industry and agriculture to GDP declined; the share of manufacturing fell the most during this period. The growth of the services sector's output has led to employment growth. In fact, for a majority of the world's economies, the services sector is by far the biggest employer. In all Organization for Economic Co-operation and Development (OECD) member countries, more than 70 percent of the employed labor force worked in the services sector in 2017; among high-income industrialized OECD member countries, except for Greece, this proportion exceeded 80 percent. Increasingly, services are being delivered—that is, traded, both within borders and across borders—digitally. This trend will likely continue to increase as more people connect to the internet and trade digitally with the rest of the world. With their increasing tradability and rising importance as inputs to traded goods and services, services are poised to play an increasingly vital role in many countries' economic growth. We do not minimize the importance of manufacturing to the overall health of the economy, but priorities should also recognize services' essential role. A healthy services sector is no less necessary for a strong economy than a healthy manufacturing sector.

Service Sector in India:

The growth of the Services Sector in India is a unique example of leapfrogging traditional models of economic growth. Within a short span of 50 years since independence, the contribution of the service sector in India to the country's GDP is a lion's share of over 60%. However, it still employs only 25% of the labor force. Consequently, agriculture (which is stagnant) and manufacturing (which has not yet risen to its full potential) continue to sustain the majority of our employed population. This presents a unique challenge to future economic growth in India and requires out of the box solutions that will help rapidly harness the potential of the service industry in India. Invest India takes a look at the contribution of the services sector in the Indian economy, its successes and also explores potential enablers for future equitable economic growth. A quick comparison with the American and Chinese economy reveals the unique nature of India's GDP growth from the contribution of the Service sector and its linkages to employment and income distribution (Figures in bracket indicate employment). Over time, a robust manufacturing and productive agriculture sector leads to the Service industry in India becoming the mainstay of GDP and employment. In our context, the Service sector has become extremely important to grow not only our GDP, as well as make it the key vehicle for employment generation. However, the question is - how to increase values add to GDP from Service companies in India, while reducing employment dependency from agriculture, as well as boosting the manufacturing industry.

Service Sector	India	USA	China
Agriculture and Allied	15.4% (53%)	8% (2%)	7% (26%)
Manufacturing and Industry	23% (22%)	12% (19%)	40% (28%)
Services	61.5% (25%)	80% (79%)	52% (46%)

Figure 1: Share of Indian Service Sector.

The current growth of service sector in India is based mainly on labour market arbitrage. Moving forward, India can no longer rely on 'low cost' for 'low value added' services.

Challenges of the Service Sector:

The Indian Service Sector Enterprise is a rarely spoken of segment, although it comprises of some of the most significant sectors of the Indian economy. These include the Travel and Hospitality, Beauty and Wellness, Healthcare, Finance, Business, Real Estate, Transport and Logistics, as well as technology and communication service providers, most of which fall under the SME/MSME and Start-up segment. The easy access to modern technology enablers, has further accelerated the growth of service focused businesses. However, the recent pandemic and the resultant lockdown have lent a major blow to the SME/ MSME and start-up businesses, and more so for the service focused enterprises. While the new 'Atmanirbhar Bharat Abhiyaan', FM Nirmala Sitharaman has announced a lucrative package of INR 20 Lakh Crore, the initiative has also re-defined the MSME segment parameters, and merged the manufacturing and service sectors into terms based on turnover, namely as 'Micro Units' for less than INR 5 Cr. Turnover, 'Small Units' for less than INR 50 Cr. Turnover and 'Medium Units' for less than INR 100 Cr. Turnover.

This merging of enterprises and the re-assignment of businesses based on turnovers, has further made it difficult for service sector enterprises to leverage the benefits of the economic bail-out package, as the specific challenges and needs of the sector continue to go unnoticed, and even may be lost as they try to compete for attention on an unequal playing field. At a time of crisis when the sector was in dire need of special focus and customized solutions by the government, they have been merged with and lost amidst the pool of Medium, Small and Micro Units re-assessment of business, based on turnover. This needs to change, especially because of the following key differentiators of the service sector enterprises:

- a) It's a Perception Driven Industry
- b) People Centric and More susceptible to crisis:
- c) Faster Access to loans:
- d) Tax holidays:

Opportunities in the Indian Service Sector:

Let us now look at the list of service sectors in India that perform, as well as demonstrate strong potential for future growth.

- a) Trade:
- b) Tourism:
- c) Shipping:
- d) Port Services:
- e) Storage Services:
- f) Telecom and Related Services:
- g) Real Estate Services:
- h) IT Services:
- i) Accounting and Auditing Services:
- j) Research & Development Services:
- k) Legal Services:
- l) Consultancy:
- m) Construction:

Conclusion:

Of late, the government's efforts in improving ease of doing business and relaxing regulatory norms have resulted in increasing FDI into the country. The following examples demonstrate the strong linkages that FDI has in unleashing the potential, as well as propelling the growth of the services sector in India:

- Connecting Gujarat and Maharashtra, India's first bullet train has potential similar to that of the Mumbai - Pune expressway, but on a larger scale.
- Manufacturing of Rafale jets in India.
- Building large highway systems in India (expressways and freight corridors), inland waterways (Jalmarg Vikas project), port modernization and new port development (Sagarmala project)
- Amazon India expanding its logistics footprint
- Creation of a Taiwanese tech park in Karnataka
- A dedicated fund of \$ 693 mn, which will be utilised to support sectoral undertakings under the Champion Services Sectors Initiative. These include IT and ITeS, Tourism and Hospitality Services, Medical Value Travel, Transport and Logistics Services, Accounting and Finance Services, Audio Visual Services, Legal Services, Communication Services, Construction and Related Engineering Services, Environmental Services, Financial Services and Education Services. The service sector in India has the highest employment elasticity among all sectors. Thus, it has the potential for huge growth as well as the capability to deliver highly productive jobs - leading to revenue generation. To address the challenge of job creation, the Skill India program aims to achieve its target of skilling/ up - skilling 400 million people by 2022. It aims to do this mainly by fostering private sector initiatives in skill development programs, and by providing them with the necessary funding.

Similarly, the Make in India program - while attempting to bolster the manufacturing sector - will cause a multiplier effect in adding to the portfolio of the Service Sector. In this context, the Startup India initiative is a key enabler for both the manufacturing as well as service industry in India - by offering to support innovative startups.

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