

A  
PROJECT WORK ON  
***GROWTH OF SERVICE SECTOR IN INDIA***  
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## REPORT

A project on “**Growth of Service Sector in India**”, prepared by the students of Department of Economics during the month of February- 2020. Total 10 numbers of students participated in the project work. The study is based on the secondary data from 1960 to 2017 which were collected from different published sources like: RBI Bulletins, Online Data, Research Journals, Articles, Newspapers, economic survey Government of India. The objective of the study was to investigate the pattern of growth of the service sector and to discuss about the hurdles faced by the services sector. It is found from the study that the services sector has witnessed a continuous expansion with a share of total national income. One of the major problems in the growth pattern in India is the sustainability of a relatively high GDP growth in recent years driven by growth of the services sector alone. It would be difficult to maintain over a long horizon. The departmental faculties guided the students to conduct this project and project is original.

**Signature of the Guide**

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## CHAPTER-1

### INTRODUCTION

As civilization progresses human desires increase leading to the evolution of economic activities. Normally primary activities such as hunting, animal husbandry and agriculture emerged. Later on as science and technological development took place which led to the evolution of industrial sector. The expansion of both these sectors made the advancement of service sector. Fisher (1935) and Colin Clark (1940) have divided the economy into primary sector, secondary sector and tertiary sector. The primary sector covers tangible goods of agriculture, forestry, fishing, and hunting. The secondary sector includes mining, manufacturing and such activities as gas, electricity and water supply involving activities with a tangible and product. The tertiary sector consists of trade and public services. But this is not a clear cut division on economic activities as economist change the activity in the list and also there is overlapping of economic activities. Later on the economic activities have been shifted from one sector to other sector. At present the primary sector includes agriculture, forestry, animal and husbandry and fisheries etc., the secondary sector activities incorporate mining, manufacturing, electricity, gas, water supply, construction etc., the service sector activities include trade, commerce, 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., Service sector also known as the tertiary sector of the economy is expanding at a faster rate. It is one of the three sectors of the economy. "Soft" part of the economy in the service sector includes all activities which people offer their knowledge and time to improve productivity, performance, potential and sustainability and also known as advice, experience and discussion include the service sector. Service sector involves of activities beginning from the production of goods and service until it reaches to the consumer. For the last 30 years there has been a substantial shift from the primary and secondary sector to the service sector. Now it has become a largest sector of the economy. Further, the service sector activities can be grouped into: 1. Trade, hotel and restaurants. 2. Transport, storage and communication. Transport includes roads and railways, airways and inland and overseas, water transport. 3. Financial institutions, insurance, real estate and business services. 4. Community, social and personal services. Community services include government establishment and its departments and personal services such as health, and

education, NGOs etc. Even though there is a thin margin in distinguishing between private sector and public services, because some services are being provided by both the sectors. We can classify the service sector activities coming under the both sectors. Private services include trade, commerce, transport, communication, hotel and restaurant, tourism, insurance, cinema, advertisement, sports, health and education, level service and NGOs etc. Government sector includes government establishment including legislature, executive, judiciary, its various departments at central and state government and its autonomous bodies and local bodies.

The services sector, with around 52 per cent contribution to the Gross Domestic Product (GDP) in 2014-15, has made rapid strides in the past decade and a half to emerge as the largest and one of the fastest-growing sectors of the economy. The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. The Service sector, also called the tertiary sector covers a wide range of activities ranging from services which are provided by different sectors. Services play a central role in the economies of both developed and developing countries. They account for over half of the gross domestic product of all developed economies and constitute the single largest sector in most developing economies. Main reasons behind the growth of services include rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy. The successful growth of the primary and secondary activities in the economy, to a large extent, is dependent on services offered by banking, insurance, trade, commerce, entertainment, maintenance of machinery and equipment and numerous other services categorized as tertiary activities.

Today, we live in a service economy, which is the largest of the three constituent sectors in terms of contribution to Gross Domestic Product (GDP). It is a large and most dynamic part of the Indian economy both in terms of employment potential and contribution to national income. With the passage of time, the importance of skill intensive services has risen and this has coincided with a period of rising relative wages and quantities of high skilled labour (Buera&Kaboski, 2009). With increase in wages or income, people divert more towards services and the share of service sector in Gross Domestic Product (GDP) increases due to the consumption of more services. To provide high skill services to the people, high skilled labourers lead to rise of the service economy. The most important services in the Indian economy have been health and education. They are one of the largest and most

challenging sectors and hold a key to the country's overall progress. A strong and well-defined health care sector helps to build a healthy and productive workforce as well as stabilize population. The era of economic liberalization has ushered in a rapid change in the service industry. As a result, over the years, India is witnessing a transition from agriculture-based economy to a knowledge-based economy. The knowledge economy creates, disseminates, and uses knowledge to enhance its growth and development. One of the major functional pillars of this economy is Information Technology (IT) and IT-enabled services (ITeS) industry. The 'Department of Information Technology' has been making continuous efforts to make India a front-runner in the age of Information revolution. IT continues to be a dominating sector in the overall growth of the Indian industry. A large number of Indian software companies have acquired international quality certification. Several policies have also been framed on the key issues of IT infrastructure, electronic governance as well as IT education.

### **Role of Service Sector in Indian Economy**

1. The services sector is not only the dominant sector in India's Gross Domestic Product but has also attracted significantly to exports as well as provided large-scale employment .
2. India services sector grew at approximately 8 per cent per annum and contributed to about 64 per cent of India's GDP in 2015-16.
- 3.The services sector is the key driver of India's economic growth .The sector contributed around 66.1 per cent of it's Gross Value Addedgrowth in 2015-16,thereby becoming an important net foreign exchange earner and the most attractive sector for FDI inflows .
- 4.India is the eighth largest services exporter in the world .Out of overall services sector , the sub-sector comprising financial services , real estate and professional services contributed 21.6 per cent to the GDP, and grew the fastest among all sub-segments at 10.3 per cent year-to year 2015-16 .
- 5.The sub-sector of trade , hotels, transport, communication and services related to broadcasting contributed 12.6 per cent the GDP .The third largest sub-segment comprising public administration defence and other services contributed nearly 12.6 per cent to the GDP.

### **Factors behind Growth in Services Sector:**

India's service sector is the 12th largest in the world by nominal GDP and 4th largest when purchasing power is taken into account. The service sector provides employment to 27% of the population. In the past two decades, India has been making sustained progress on a scale, size and pace that is unprecedented in its own history. A low income country with mass poverty at the time of independence in 1947, India now comes in the ranks of the world's middle income countries. Over these 66 years, the country has been successful on a number of fronts, it has maintained electoral democracy, reduced absolute poverty by more than half, dramatically improved literacy, vastly improved health conditions, became one of the world's fastest growing economies and emerged a global player in information technology, business process outsourcing, telecommunication and pharmaceuticals. India was a latecomer to economic liberalization. The economic reform process has been steady but gradual because of a need for wide consultation and broad consensus so necessary in a democratic society. Service sector is growing at very fast pace since last two decades, especially in 1991 – a decade of major trade and industrial reforms in India. During 1981-90, service sector output grew at a rate of 6.6 percent per annum. During 1991-2000, the growth of services, industry and agriculture sector was 7.5 percent, 5.8 percent and 3.1 percent per annum respectively. India thus seems to be following a growth path, which is not different from those countries which are developed today and this path is characterized by services-led growth. Services are extensively used by people day by day in all aspects of life. From education to entertainment, finance to fast food, travel to telephone, advertisement to amusement parks, market research to maintenance services, and retailing to recreation and so on. Today services are increasingly being used by corporate as well as household sector and services of increasing quality and sophistication. The tremendous growth of service sector has resulted in its increased importance to the world economies. There are some changing factors of our society which really boost the service sector of Indian economy in one way or the other:

(a) Life expectancy has raised which results in expanding more retired population. Due to increase in retired population demand is increasing for travel and leisure, as well as for healthcare, nursing and life insurance.

(b) The number of working women has increased and led to perform traditional functions outside the home. With this increase in income of the households has created a greater demand for consumer services including retailing, real estate and personal financial services. Living standard has increased due to increase in income which has led to spend more on entertainment, travel and hospitality services.

(c) Due to communication and travel, aspiration level of children and adults has increased. Due to this, they are making new demands for learning new things to grow and learn new skills to compete. This has opened avenues for knowledge and information based services. Due to Globalization, the demand for communication, travel and information services has increased. Information technology has helped to fulfil this demand.

Advertising and marketing services are providing support to all sectors of the economy.

(e) The size of the government has grown creating a huge infrastructure of service departments. With the growth in international trade, the demand on legal and other professional services has increased across national boundaries.

(f) Changing structure of the families in Indian economy has diverted people to service sector. Emergence of nuclear family system in place of traditional joint family system, has generated demand for service like transport, health care, entertainment, telecommunication, education and so on. There are numerous factors which are responsible for the growth of service sector in Indian economy. Let us look into some other factors that have led to the growth of the service sector in India:

- **Development of Markets:**

Both the urban and the rural areas have witnessed wide spread retailing and whole selling. In fact retailing has even extended to remote rural areas.

- **Health Care Consciousness:** The present generations are becoming more and more diet and health conscious. They are resorting to services of gymnasiums and fitness clubs to maintain their physical and mental health.

- **Economic Liberalization :**

The opening up of the Indian economy in 1991 was followed by a policy of disinvestment. This facilitated the entry of multinational Corporations leading to its' accompanying increase in demands. This acted as a spurt for the development of the services sector.

- Migration from Rural to Urban Areas:

With rapid industrialization and other developments in this era of globalization, there takes place large scale migration from the rural to the urban areas. This changes the life-style and enhances the demand for services.

- Export Potential :

The services offered by India to various parts of the world include banking, insurance, transportation, company data services, education, software services, tourism etc. In fact tourism and software services are among the major foreign exchange earners of the country.

- Service Tax:

The coverage of this tax has been extended. The tax net covers hotels and restaurants, transport, storage and commercialization, financial services, real estate, business services and social/personal services.

- Economic Affluence:

The Indian society is characterized by an increasing middle class. In addition the liberalization of the Indian economy has had a positive impact on the Indian households. Their income and expenditure has been pushed up fostering the demand for goods and services;

- Changing Role of Women:

Earlier women were a neglected lot, who only had to carry out household chores. But with time there has been a change in the way of thinking. Women are educated and allowed to work. They are employed in several erstwhile male dominated services such as defence services, police services, postal services, software services, health services etc.

An increase in the number of working women has led to the creation of a market for a number of products and services.

- Changing Culture:

The traditionally common joint family system is slowly disintegrating and making way for a nuclear family way of living. This has been accompanied by an increased demand for a number of services like education, health care, entertainment, tourism etc. There has

also been a marked change in a person's way of thinking with respect to investment, recreation and time perception leading to increased demand for services.

• **Growth of IT Sector:**

In India information technology and business outsourcing are amongst the fastest growing sectors having a cumulative growth rate of revenue. The growth of IT sector can be attributed to several factors such as increased specialization and availability of a large pool of low cost, highly skilled educated and fluent English speaking workers. This supply is matched by increased demand from foreign customers who are interested in India's service exports or those looking to outsource their operation.

• **Development of Markets:**

Both the urban and the rural areas have witnessed wide spread retailing and whole selling. In fact, retailing has even extended to remote rural areas.

**OBJECTIVES:**

1. To investigate the pattern of growth of the service sector.
2. To discuss about the hurdles faced by the services sector.
3. To discuss about the investment made in the services sector.
4. To study about the impact of service sector in Indian economy.

**DATA AND METHODOLOGY:**

The study is based on the secondary data from 1960 to 2017 which were collected from different published sources like: RBI Bulletins, Online Data, Research Journals, Articles, Newspapers, economic survey Government of India. Information about specific parameters outlined in the objectives was collected for the period between 1951-2011 and 2011-17. The detailed information was collected from economic survey 2017.

## CHAPTER -2

### REVIEW OF LITERATURE

**Parasuraman et al.(1985)** they worked on a conceptual model of service quality and its implication for future research. In their customer satisfaction can thus be based not only on the judgment of customers towards the reliability of the delivered service but also on customer's experiences with the service delivery process. They further viewed that services are intangible since their performances and experiences rather than objects that can be precisely manufactured. Services are heterogeneous, that is, their performance often varies from producer, customer to customer, and day to day. More importantly, production and consumption of services are inseparable. Unlike goods that can be engineered at a manufacturing plant and delivered intact to the customer, quality in services often occurs during service delivery, which is the interaction between a customer and a service provider. Given the differences between services and goods as previously mentioned, quality of service is more difficult for customers to evaluate than quality of goods. Customers evaluate service quality not only on the outcome of the service but also on the process of service delivery, and from how well a service provider actually performs given their expectations of service performance.

According to **Jay Kandampully (2009)**, the service sector will play an important role in economic growth in developing countries like India. However, he said that as income levels increase, people will be able to afford more services while they will be spending this additional income on quality services such as education, health, travel, etc. On the other hand, small-scale entrepreneurs can step in to meet this need of the people for more and more services with growth in income levels and lifestyle changes while the service sector will provide more employment opportunities than manufacturing sector. Moreover, 80% of the employment opportunities in the U.S. are in the service sector whereas the three factors crucial to success for entrepreneurs in the service industry are customer focus, reliability and consistency of services.

During the last two decades it has been observed, in both developed and developing countries, that the service sector has emerged as the main driver of economic growth as compared to the primary and secondary sectors.

As per **G. Ramakrishna's (2010)** reports: apart from growth in service sector; industry, agriculture and the open policies of 1990s also had a positive impact on India's economic growth though the service sector appears to contribute more. The sources of service sector growth in India appear to be income elasticity of demand, open policies and the growth in the other areas like communications, business, banking and insurance and trade services.

**Kassem (1989)** has opined that service companies can ill afford to neglect customer service quality issues. In the past, quality was the prerogative of manufacturing sector. However, in the modern day fiercely competitive service sector, quality of services has become as important as quality of goods.

**Berry et al., (1990)** are of the view that the sole judge of service quality is the customer and to get a positive feedback from him; the service companies should implement the five imperatives of service quality viz. Reliabilities, Assurance, Tangibles, Empathy and Responsiveness in their services. The authors have advocated knowing the expectations of the customers on the said fronts and further measuring their actual perception. It becomes imperative for service companies to improve themselves on whichever front expectations of the customers outscore their perception.

**Nataranjan and jahera (1999)** have found the Indian customers becoming more demanding for service quality since mid 1990s. This is on account of the fact that Indian banking sector was opened up by this time and it suddenly led to enhanced choices for Indian customers.

Victor Fuchs has written one of the most comprehensive studies on the expansion of service employment. He carefully analyzes various data sources and looks at the demand side of the story by means of, among others, households budget surveys. His findings support Baumol's cost-disease hypothesis according to which demand shifts play only a minor role and the share of service employment is mainly increasing because productivity growth in services is lagging. Analyzing consumption data for 48 US states over the period 1938 to 1958, Fuchs finds that the income elasticity of goods is 0.97 and of personal services 1.12. Using data from the Consumer Expenditures Survey 1960-1961 gives similar results; an income elasticity for goods of 0.93, and for services of 1.12. The income elasticity for spending of local governments is also just above one.

Interestingly, Fuchs also analyzes causes of the slower productivity growth in services as compared to manufacturing. He corrects his labor productivity measures (output per person employed) for so-called 'labor inputs', such as hours worked and skills. He estimates that

service sector productivity growth lags behind manufacturing productivity growth mainly because skill-upgrading has been less pronounced in services, although this cannot fully explain the productivity growth differential between services and manufacturing.

On structural change, the literature is vast mainly categorize into four different theoretical explanation; the Cambridge, Dutch disease, the Bacon and the Secular trend view Ansari (1994). Cornwall (1977) explained the Cambridge view included the deindustrialization and high export failed to pay import. More over the output growth reduced for the reason that negative impact of balance of trade. Corden and Neary (1982) explained the Dutch-disease; the resource movement and effect of spending defined the structural change. Also, resource and manufacturing sector presupposed boomed and lagged in three sector economy, both sector considered tradable and the service sector comprised non tradable. However the increases in marginal product of labor rose when the resource sector boomed in the particular sector, which lead away resources from manufacturing and service sectors. The inward shift of supply curve was due to the excess service demand and lead to more absent resources from manufacturing sector and in boom real income rose which show the way spending too raised as well.

**Chenery (1961) & Kasper (1978)** found the secular view as the resources reallocate because the change in income and taste of society, as the income increased the primary goods demand fall so that the percentage of spending of income fall on primary products. However the secondary and tertiary sector developed in this stage at the cost of primary sector. In fact after reaching primary sector into its minimum, growth in tertiary sector occurs at the cost of secondary sector for the reason of high growth in income. The structural change in Bacon-Eltis appeared for the reason that rapid growth of public sector and the resources are shifted from services sector because government biasness toward services. Simultaneously government spending refused to paid by public in terms of high taxes. Therefore the government spending is paid by consumption of national saving, reduction in investment and net exports. Consequently, manufacturing sector set under pressure because of high demand of wage through trade union. The views are different in different developing countries because of its significance. More likely to the present situation i.e. declining the manufacturing sector is related more with Cambridge views. In India, Pakistan and Sri Lanka the manufacturing sector gained ground in relative terms. However the Dutch-disease has little significance in case of Pakistan because of two major reasons, scarcity of resources and net outcome in terms of service sector leads to unambiguous results, the resource progress and spending movement defined the total effect

of Dutch- disease model. The service sector increase with spending and reduced by the resource movements. In Pakistan the Bacon-Elits views are much more acceptable in terms of bearing service sector, which further defines as the fast growth of service sector is because of government spending Ansari (1995).

**Megha J. Gupte (2015)** the existence of a strong service sector is one of the pre-conditions of economic progress of any country. The service or tertiary sector covers a wide range of services ranging from the most sophisticated ones to those provided by the unskilledworkers in the unorganized sector. India has made substantial progress on this front since the attainment of independence and is credited with having the second fastest growing service sector in the world. Several factors have contributed to the growth of this sector in India. These include growing affluence, improving status of women, growth of IT sector, development of markets, health care consciousness, opening up of the economy etc. However, the sector has to face a number of hurdles in the form of inadequate infrastructure, absence of customer friendly attitude, bureaucratic inertia, and existence of multiple public bodies and slow implementation of reforms.

## CHAPTER-3

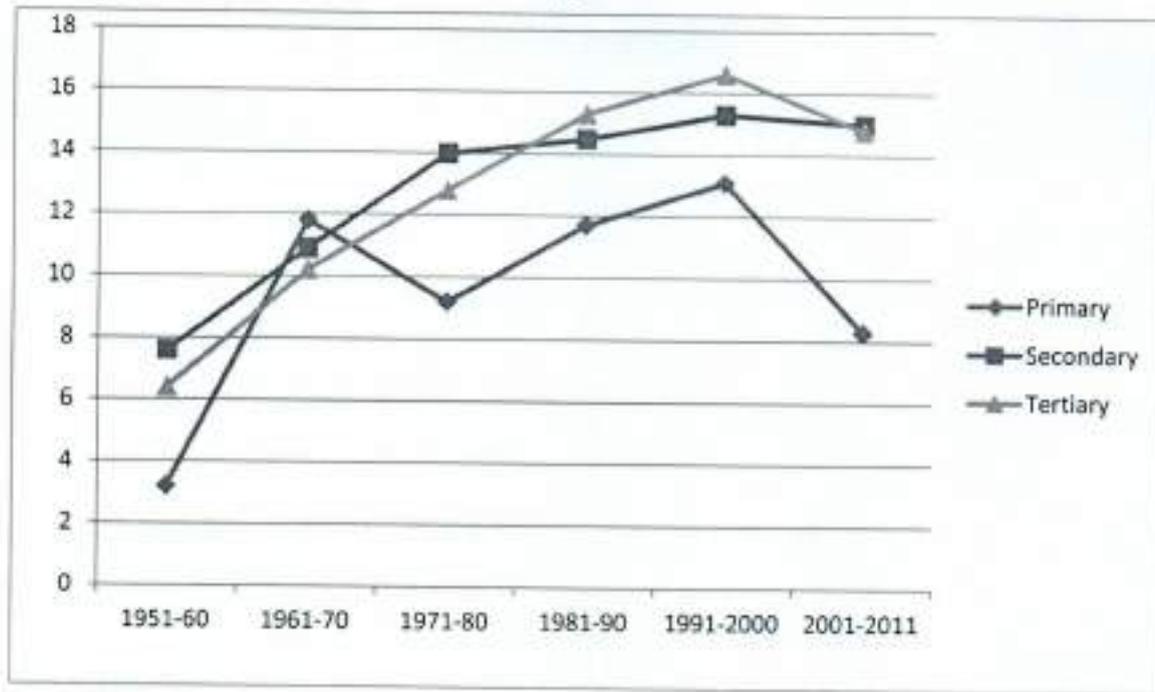
### GROWTH OF THE SERVICES SECTOR IN INDIAN ECONOMY

India has the second fastest growing service sector in the world, with a compound annual growth rate of 9% which is just below the Chinese growth of 10.9% in the period between 2001 and 2012. One can say that the share of the secondary sector in the GDP increased moderately in the Post-Independence Period. The primary sector on the other hand has been registering a continuous decline in its share of GDP. The said period however has witnessed a sharp increase in the service sector with the latter accounting for more than half of the GDP.

Table 1: Compound Growth Rate Sector Wise

| Years     | Primary | Secondary | Tertiary |
|-----------|---------|-----------|----------|
| 1951-60   | 3.2     | 7.60      | 6.40     |
| 1961-70   | 11.80   | 10.9      | 10.20    |
| 1971-80   | 9.20    | 14.00     | 12.80    |
| 1981-90   | 11.70   | 14.50     | 15.30    |
| 1991-2000 | 13.10   | 15.30     | 16.60    |
| 2001-2011 | 8.3     | 15.00     | 14.8     |

Figure-1



The graph clearly indicates the trends in the three sectors. The share of the primary sector, barring two periods 1961-70 and 1991-2000, has been consistently falling. The secondary sector had a more gradual rise till 1991-2000 and has grown at a constant rate thereafter. The Indian tertiary sectoral compound growth rate has a steep slope reaching its peak in the period 1991-2000.

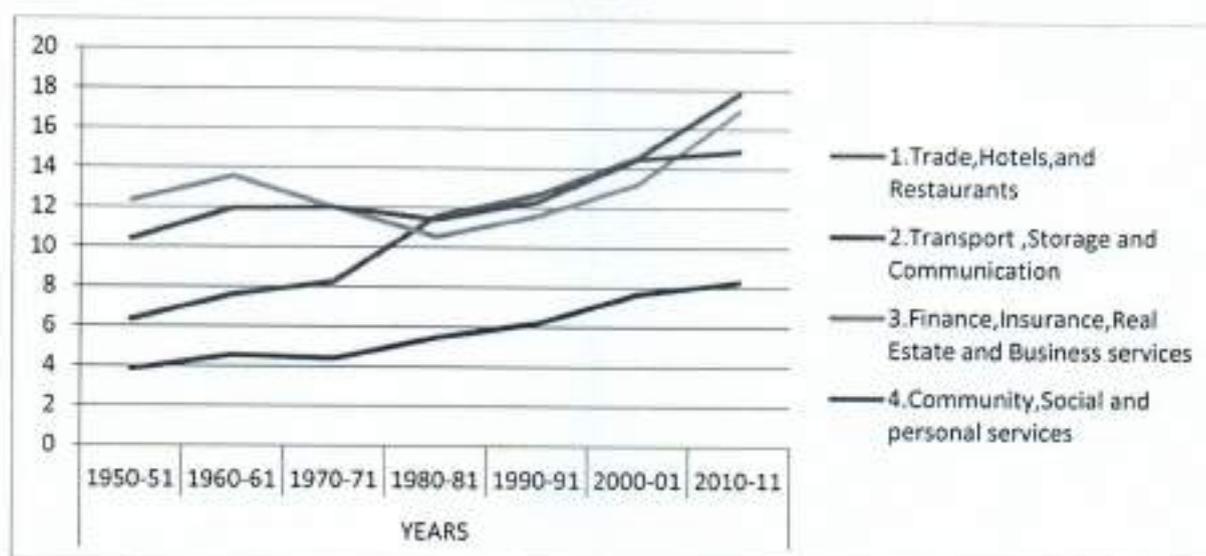
The service sector accounted for 30% of the total GDP in 1950s which increased to 38% in 1980s, 43% in 1990s and about 56.5% in 2012-13. This can be illustrated by the table given below

Table 2: Percentage Share of Service Sector in Gross Domestic Product

| COMPONENTS                             | YEARS   |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|
|  | 1950-51 | 1960-61 | 1970-71 | 1980-81 | 1990-91 | 2000-01 | 2010-11 |
| 1.Trade, Hotels, and Restaurants       | 6.35    | 7.61    | 8.29    | 11.6    | 12.69   | 14.59   | 17.80   |
| 2.Transport, Storage and Communication | 3.84    | 4.56    | 4.41    | 5.47    | 6.21    | 7.68    | 8.30    |
| 3.Finance, Insurance, Real Estate and  | 12.34   | 13.56   | 12.00   | 10.57   | 11.62   | 13.23   | 16.90   |

|   |       |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|-------|
| Business services                         |       |       |       |       |       |       |       |
| 4.Community, Social and personal services | 10.43 | 11.96 | 12.02 | 11.43 | 12.32 | 14.49 | 14.90 |

FIGURE-2



A look at this table and the following graph shows that post liberalization period has witnessed the largest contribution by trade, hotel and restaurants followed by community, social and personal services; and finance, insurance, real estate and business services.

The contribution of trade, hotels and restaurants picked up after 1990-91, -that is after the introduction of reforms. The share of transport, storage and communication has had a steady increase while community, social and personal services reached the peak in 1960-61, followed by a fall in 1980-81 and since then are making a steady contribution to India's GDP. The contribution of finance, insurance, real estate and business services was the highest in 1960-61, and fell drastically in 1980-81 only to rise once again.

Foreign direct investment in the services sector declined sharply by 37.6% to US 6.4 billion as compared to an overall growth in the FDI inflows at 6.1%. On a more general basis one can say that the Indian services sector attracted the highest number of foreign direct investment equity inflows amounting to US Dollars 40, 684, 98 million which amounts to about 18% of the total capital inflows.

India's share in world services exports increased from 0.6% in 1990 to 1.1% in 2000 and further to 3.3% in 2013 and has been increasing faster than its share in world merchandise exports. Exports of software services account for 46% of India's total service exports. They declined from 5.9% in 2012-13 to 5.4% in 2013-14. Travels which account for a near 12% share witnessed a negative share

In any country economic development depends on the growth and evolution of the three sectors of the economy. However in recent years the service sector growing at a very faster rate in the developing countries and is contributing a major share in terms of output, income and employment. Even the productivity per worker is becoming higher in service sector when compared to agriculture and industrial sectors. Already the service sector is dominant in the developed countries. If agriculture sector is stagnant, new service activities are emerging and adding to the service sector making the economy to grow. Hence service sector is playing a major role in economic development of any country. The importance of the services sector can be gauged by its contributions to different aspects of the economy. Business include both domestic trade as well as foreign trade. Trade as a service sector activities facilitates the exchange of the goods and services between producers and consumers. Domestic trade refers to the exchange of goods and services with in the country. Which provides income and employment to the people who have engaged in this activities. Foreign trade plays a major role in the development of the country. Imports of machinery and equipment which cannot be produced in the initial stages at home are essential. Such imports which either help to create new capacity in some lines of production or enlarge capacity in the other lines of production are called developmental imports. The imports which are made in order to make a full use of the productive capacity are called maintenance imports. Finance as a service sector activity plays an important role in undertaking any economic activities. Finance refers to funds of monetary resources required by individual, business houses and the government. People needs funds to meeting their current requirement or day to day of expenses for buying capital goods. A business house require funds for paying wages and salaries, for buying raw materials, for purchasing new machinery or replacing an old one etc. Government needs funds to provide various services to its subject. Finance institutions provides funds to various groups of people for variety of activities. In this process the service sector activities provides income and employment to the people of a country. In the previous days this sector is responsible for distributing the output of the primary and secondary sectors for the intermediate and final consumption and also for the providing a variety of services to producers as well as consumers. Trade, transport and storage activities ensure distribution of goods and services where and when needed by consumers. Business and financial services facilitate mobilization of resources and their development in the activities of different sector of the economy. Service sector activities generally require relatively less capital investment than activities in other sectors. But a majority of these activities also require relatively less space

for operations service sector is a knowledge intensive sector and substantial HRD inputs are the necessary for developing most of the services sector activities.

Today, in India service sector accounts more than 50 percent of India's Gross Domestic Product (GDP). There is a significant changes in sectoral contribution of each sector to India's GDP over a period of time. In 1950-51 the primary sector was contributing about 56.5 percent to the Indian GDP. It is followed by the secondary sector with 13.6 percent and tertiary sector with 29.9 percent. During 1990-91 the share of agriculture sector in India GDP was 34 percent. It was followed by secondary sector with 23.2 percent and tertiary sector with 42.8 percent. During 2007 the contribution of primary sector came down to 18 percent, and industrial sector increased to 29 percent sector to 53 percent (Misra and Puri, 2009). 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 (GOI, 2010) which highlights the fact that the share of tertiary sector is raising constantly over a period of time.

The segment of the economy that provides services to its consumers is the tertiary sector. This includes wide range of businesses and also including financial institutions, schools, transports and restaurants. And also known of the tertiary sector or service industry / sector. India stands one of the leading economy because its growth has been led by the Service sector. It's a larger part of the Indian economy both in terms of employment potential and its contribution to national income. Demand and supply factors have led to this growth. In the demand side high growth of services is the economy was mostly due to the factors such as the increasing input usage of services by other sectors. In the supply side is the increased trade in services following trade in liberalization policies and other reforms of 1990s induced this growth. The trade liberalization is responsible for the development of finance, transport communication and other service sector activity including in service hotel and restaurant. Along with this the increase in demand for health and education also led to expansion of these sector. The services sector in future providing about the 70 per cent of the new job opportunities in the economy as the share agriculture in total employment already falling, in the coming years, the share of services would increase. The Indian economy has contributed to the services sector of about 55.2 per cent share in G.D.P its growing by 10 per cent annually, contributing to the total employment, a high share in foreign direct investment and one-third of total exports and recording very fast at 27.4 per cent in export growth of the first half of 2010-11. While latest available data has been taken from the national and international sources. Some services, such as infrastructure include the roads, railways, civil aviation, financial services and social services. The social

services including the health and education play a major role in enhancing the contribution of service sector to its Indian economy. In India the contribution of service sector to the Indian G.D.P ( Gross Domestic Product) is classified in three heads. In the first head Trade, Hotels, Transport and Communication. In the second head Financing, Insurance, Real estate and Business services. In third head Other services along with Public Administration and defense and Health and Education sectors have been incorporated.

Till the global financial crisis of 2008, India's services exports was registering a good growth for almost a decade. Services export growth reduced to 11.9 per cent CAGR during 2005-06 to 2014-15 from 21.6 per cent CAGR during 1994-95 to 2004-05 .As a result of pick up in some sectors such as transportation and business services, services exports grew by 5.7 per cent in 2016-17.In 2016-17, software services exports, which account for 45.2 per cent of total services , declines by 0.7 per cent due to a challenging global business environment and pricing pressure on traditional services.(CAGR-Compound Annual Growth Rate.

## CHAPTER-4

### **THE HURDLES FACED BY THE SERVICES SECTOR:**

The service sector in India faces a number of hurdles as mentioned below:

Firstly, there is want of adequate infrastructure not only in the rural areas but also in the urban areas. Our megacities face constraints in the form of power cuts, bumpy roads, traffic congestion and pollution. This has a telling effect on the quality of services provided.

Secondly, while the share of the service sector was 56.9% in 2012, the share in employment was only 28%.

Thirdly, tourism is a lucrative service in view of India's natural beauty and other pleasing factors, but bureaucratic delays and harassment /cheating by touts and agents act as an impending factor.

Fourthly, good mannerism and etiquettes are the hallmarks of service providers but many of our banks, hotels, restaurants and hospitals are seriously lagging on this front. The problem is even more adverse in case of the public sector institutions.

- **After GST, Services Sector Face New Challenges in India :**

The service sector is a key driver of economic growth in India, contributing to over 50% of the country's overall Gross Domestic Product (GDP) . Key services in terms of revenue generation include business activities such as trade, hotel and restaurants, real estate, logistics and ware housing, finance and insurance .

The Goods and Services Tax (GST) launched on July 1, 2017 is likely to have a significant impact on the growth of these services . This is because it substantially affects the valuation of the service categories, their operations in each state via multiple returns filing and stringent tax compliance .

Some of the major challenges faced by service providers under GST are discussed below.

- **A four- tier rate structure :**

Unlike the previous tax regime where in a uniform service tax of 15 percent was applicable, including a 0.5 per cent Swatch Bharat cess and 0.5 per cent of Krishi Kalyan cess .

services under GST will be taxed under a four- tier GST rate structure: 5 per cent , 12 per cent ,18 per cent and 28 per cent .

As per the latest rate schedule released by the government , most services such as banking, insurance, credit card, and information technology (IT) will fall under the 18 per cent tax bracket .This will inevitably make most services and work contracts costlier by the differentially tax amount from the previous tax system .

| GST Schedule for 2017 : Tax slab for services |  |
|---|--|
| GST rate                                      | Services   |
| No tax  | Hotels and lodges with tariff below US \$15.5(Rs.1,000) ;grandfathering service.   |
| 5%  | Transport services (railways, air transport ) ; and small restaurants .  |
| 12%   | State-run lotteries ; non-ac hotels ; business class air tickets, fertilizers ; and work contracts   |
| 18%   | Telecom services ; IT services ; financial services , including banking , insurance premiums, and credit cards; AC hotels that serves liquor ; branded garments ; hotels with room tariffs between US \$ 39 (Rs.2,500) and US \$ 116(Rs. 7,500); and restaurants inside five-star hotels . |
| 28%   | Private-run lotteries authorized by the states; hotels with room tariffs above US \$116 (Rs.7,500) ; five-star hotels; race club betting ; and cinema .  |

- Multiple Registration of Place of business :

The main challenge for the services sector under GST is the provision for multiple registration. Previously, services were taxed only by the federal government and could benefit from an optional facility of centralized registration . Services could avail input credits, discharge service tax liability, undergo audits and apply for refunds from a selected single location.

However, the transition into a dual tax structure entails compliance related challenges for service providers operating in more than one state, under the new tax structure, both the federal government and state government are empowered to collect tax on services .

In other words, the service providers must register with every state government where they have operations . This provision is in particular challenging for the financial, logistics, and IT service providers that have a pan – India presence . Companies offering such services

need to have secured separate registration in all 36 states in the country, including union territories, to comply with GST norms.

- **Filing Multiple Returns :**

While previously tax payers were required to file only two returns per financial year, under GST they must file three returns on a monthly basis .

The provision for service providers to register in every state where it operates also means that they will now have to file returns in total in one financial year, instead of 3 return files .

Besides this, the returns must be filed-electronically, which is both a financial and technological challenge for small service providers .

## CHAPTER-5

### RECENT INVESTMENTS IN INDIAN SERVICE SECTORS:

The Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000-September 2015, amounting to about US\$ 45.38 billion which is about 17 per cent of the total foreign inflows, according to the Department of Industrial Policy and Promotion (DIPP).

- Major investments by companies in the Service Sector :

Credit Analysis and Research (CARE Ratings) has signed Memorandum of Understanding (MoU) with Japan Credit Rating Agency, Ltd (JCR) to collaborate with each other as strategic business partners. Indian logistics platform Rivigo has raised US\$ 30 million in debt and equity in Series B financing round, led by SAIF Partners. The firm aims to use the raised funds to achieve its target of scaling 10 times in the next 12 months. Fairfax India will look to acquire controlling stake in collateral management and weather advisory firm National Collateral Management Services (NCML) where the deal size could be \$150-180 million. Amazon, the world's largest online retailer, plans to invest Rs 31,700 crore (US\$ 4.76 billion) in India in addition to the US\$ 2 billion investment it committed two years ago, in expanding its network of warehouses, data centers and increasing its online marketplace, besides launching an instant video and subscription-based ecommerce services for high-end buyers, called Amazon Prime, later this year. The private security services industry in India is expected to register a growth of over 20 per cent over the next few years, doubling its market size to Rs 80,000 crore (US\$ 12 billion) by 2020.

Apart from these , some of the developments and major investments by companies in the services sector in the recent past are as follows :

- Urban Clap, an Indian home services start-up, has raised US \$ 21 million in a series C funding round led by capital, an internet investment fund . The company will use the funds for expansion to more cities, investment in technology and addition of vendors.
- Piramal Finance Ltd, an arm of Piramal Enterprises Ltd, invested Rs. 485 crores (US \$74.92 million) in the subsidiary of Apollo International Ltd, called Apollo LogiSolutions (ALS), a logistics solutions provider.
- Mpaani Solutions pvt.Lmt, a consumer and retailer data analytics start-up, has raised US \$ 1.35 million in a pre-series A funding round led by IDG venture with the aim of

deploying capital for scaling technology and data science functions along with spending on marketing and sales.

- FM Logistic Asia, outlined plans of investing around EUR 50 million (US \$ 56.14 million) in India in the next four years, to contribute to a better efficiency of logistics market in the country .
- Caisse de Depot et placement du Quebec (CDPQ), Canada's second largest pension fund, plans to invest around US \$155 million to acquire a minority stake in TVS Logistics services Limited, a privately held subsidiary of the TVS group .
- WNS Global services has made an announcement to acquire Denali Sourcing Services for US \$ 40 million, with the aim of improving its sourcing services and procurement capabilities .
- Uber Technologies, Inc plans to launch UberEATS, its food delivery service to India, with investments made across multiple cities and regions.
- International Finance Corporation (IFC) the investment arm of World Bank, plans to invest around US \$ 10 million Bengaluru- based online freight- booking service provider Zinka Logistics, which will be used to expand Zinka's service offerings and further technology development.
- Reliance Jio information Ltd. and Uber have announced a strategic partnership, which will enable Uber riders to pay for their rides using Jio money.
- The domestic and foreign logistic companies are optimistic about prospects in the logistics sector in India , and are actively making investments plans to improve earnings and streamline operations.

- Government initiatives to improve service sectors in India :

The Government of India recognizes the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others. The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

The Central Government is considering a two-rate structure for the goods and service tax(GST), under which key services will be taxed at a lower rate compared to the standard rate, which will help to minimize the impact on consumers due to increase in service tax. By December 2016, the Government of India plans to take mobile network to nearly 10 per

cent of Indian villages that are still unconnected. The Government of India has proposed provide tax benefits for transactions made electronically through credit/debit cards, mobile wallets, net banking and other means, as part of broader strategy to reduce use of cash and thereby constrain the parallel economy operating outside legitimate financial system. The Reserve Bank of India (RBI) has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and has also allowed white label ATMs to tie up with any commercial bank for cash supply.

Prime Minister Narendra Modi has stated that India's priority will be to work towards Trade Facilitation Agreement (TFA) for services, which is expected to help in the smooth movement of professionals. The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

- Ministry of Civil Aviation, Government of India, launched 'Digi Yatra', a digital platform for air travelers that aims to develop a digital ecosystem providing consistent service and a delightful experience at every touch point of the journey.
  - Mr. Nitin Gadkari, Minister of Road Transport and Highways and shipping, Government of India, launched INAM-Pro's upgraded version, INAM-pro+, an online platform to bring together buyers and sellers of construction materials, equipments/machinery and services.
  - The Indian service sector is expected to facilitate a knowledge based economy, and the economy, and the manufacturing sector will be dominated by services as a result of servicification of manufacturing said Ms. Nirmala Sitharaman, Minister of commerce and industry, government of India.
  - The Ministry of Electronics and Information Technology has launched a services portal, which aims to provide seamless access to Government services related to education, health, electricity, water, and local services, justice and law, pensions and benefits through a single window.
- Foreign Direct Investment in service sectors in India:

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken

many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. According to Department of Industrial Policy and Promotion (DIPP), the total FDI inflows soared by 24.5 per cent to US\$ 44.9 billion during FY2015, as compared to US\$ 36.0 billion in FY2014. FDI into India through the Foreign Investment Promotion Board (FIPB) route shot up by 26 per cent to US\$ 31.9 billion in the year FY2015 as against US\$ 25.3 billion in the previous year, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results. Data for FY2015 indicates that the increase in the FDI inflows was primarily driven by investments in infrastructure and services sector. Within Infrastructure, Oil & Gas, Mining and Telecom witnessed higher FDI inflows, whereas IT services and trading (wholesale, cash & carry) drove the services inflows. Most recently, the total FDI inflows for the month of September 2015 touched US\$ 2.9 billion as compared to US\$ 2.5 billion in the same period last year.

- Recent foreign investment in India :

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs 5,000 crore (US\$ 770 million). Some of the recent significant FDI announcements are as follows Japan has won the right to construct India's first bullet train, while offering a loan of US\$ 8.11 billion to India for the same. Chinese mobile handset maker, Coolpad Group Limited, has committed US\$ 300 million for setting up a research and development (R&D) centre and its own assembly line in India by 2017. Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015, as Amazon.com invested more than US\$ 700 million in its India operations since July 2014. The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for the purpose of creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport, with an investment expectation of Rs 3,200 crore (US\$ 500 million). Google plans to invest Rs 1,500 crore (US\$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.

- Government initiatives to improve FDI in service sector :

The Government of India has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low

cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing. The Government of India has recently relaxed foreign direct investment (FDI) policy in 15 sectors, such as raising the foreign investment limit for some sectors, easing the conditions for others and putting many on the automatic route for approval. The sectors that benefited from the relaxation include defence, real estate, private banking, defence, civil aviation, single brand retail and news broadcasting. The new rules provide for easier exit from investment in the construction sector while foreign investment limit in defence and airlines was allowed up to 49 per cent through the automatic route. Banks were allowed fungible FDI investment up to 74 per cent, which means that FII investment in private banks can rise to this limit. The Government of India recently relaxed the FDI policy norms for Non-Resident Indians (NRIs). Under this, the non-repatriable investments made by the Persons of Indian Origin (PIOs), Overseas Citizens of India (OCI) and NRIs will be treated as domestic investments and will not be subject to FDI caps. The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment, and non-resident investment.

India's cabinet cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the initiative does not allow foreign firms to operate trains, it allows them to invest in areas such as creating the network and supplying trains for bullet trains etc. The Government of India plans to further simplify rules for Foreign Direct Investment (FDI) such as increasing FDI investment limits in sectors and include more sectors in the automatic approval route, to attract more investments in the country.

The Indian services sector has attracted FDI equity inflows in the period April 2000-June 2017, amounting to about US \$ 61.36 billion which is about 17.92% of the total foreign inflows, according to the Department of Industrial Policy and Promotion (DIPP).

- **Investment In Financial Service Sector :**

India has a diversified financial sector undergoing rapid expansion, both in terms of strong growth of existing financial services firms and new entities entering the market. The sector comprises commercial banks, insurance companies, non-banking financial companies, co-

operatives, pension funds, mutual funds and other smaller financial entities. The banking regulator has allowed new entities such as payments banks to be created recently thereby adding to the types of entities operating in the sector. However, the financial sector in India is predominantly a banking sector with commercial banks accounting for more than 64 per cent of the total assets held by the financial system. The financial services sector has been an important contributor to the country gross domestic product (GDP) accounting for nearly 6 per cent share in 2014-15. The Government of India has introduced several reforms to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for Micro and Small Enterprises, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by both government and private sector, India is undoubtedly one of the world's most vibrant capital markets.

- Recent investments in financial sector :

Foreign Direct Investment in the insurance sector stood at US\$ 341 million in March-September, 2015, showing a growth of 152 per cent compared to the same period last year. Insurance firm AIA Group Ltd has decided to increase its stake in Tata AIA Life Insurance Co Ltd, a joint venture owned by Tata Sons Ltd and AIA Group from 26 per cent to 49 per cent. Canada-based Sun Life Financial Inc plans to increase its stake from 26 per cent to 49 per cent in Birla Sun Life Insurance Co Ltd, a joint venture with Aditya Birla Nuvo Ltd, through buying of shares worth Rs 1,664 crore (US\$ 249 million). Nippon Life Insurance, Japan's second largest life insurance company, has signed definitive agreements to invest Rs 2,265 crore (US\$ 348 million) in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent.

- Government initiatives in financial sectors :

The Government has also announced several schemes to improve the extent of financial inclusion. The Prime Minister of India has launched the Micro Unit Development and Refinance Agency (MUDRA) to fund and promote microfinance institutions (MFIs), which would in turn provide loans to small and vulnerable sections of the business community.

## CHAPTER-6

### **IMPACT OF SERVICE SECTOR IN INDIAN ECONOMY:**

India has taken substantial steps towards economic liberalization during the last few years, having worked out strategies for bringing about rapid economic development. With the increasing standards in education, which in India is provided free of cost and compulsory till the age of 14 years by the Indian government, there will be increasing demand for educational services? The demand for primary schools, secondary and higher secondary schools, junior degree colleges are also higher, with the increase in population and an awareness of the benefits of seeking education. As the number of students goes on increasing, there is also increasing demand for tuitions, private coaching classes, etc. With the establishment of technical institutes, there is also an increase in demand for the services of professionally qualified people. With the increasing amount of trade and business covered by road, the demand for transport services have increased considerably with an added benefit to various automobile manufacturers as well. Banking services are very necessary to meet the financial requirements of the public. The electric services provide benefits to the society, industry and so on. Adequate hospital services are essential for the well being of the society. Personal care services are also essential to develop a perfect personality and positive image projection of the people. Hospitality services (hotels & restaurants) satisfy their customers through their services in terms of comfort and satisfaction. The tourism industry is also gearing itself to make tourists enjoy the holiday in destinations of their choice, and take them away from the monotonous life of cities. The entertainment industry equally plays an important role towards this end. All these services rendered to the public only signify that they have unlimited potentialities and we have to explore these opportunities and tap them for our benefit.

Services are extensively used by people day by day in all aspects of life. From education to entertainment, finance to fast food, travel to telephone, advertisement to amusement parks, market research to maintenance services, and retailing to recreation and so on. Today services are increasingly being used by corporate as well as household sector and services of increasing quality and sophistication. The tremendous growth of service sector has resulted in its increased importance to the world economies. There are some changing factors of our society which really boost the service sector of Indian economy in one way or the other:

- (a) Life expectancy has raised which results in expanding more retired population. Due to increase in retired population demand is increasing for travel and leisure, as well as for healthcare, nursing and life insurance.
- (b) The number of working women has increased and led to perform traditional functions outside the home. With this increase in income of the households has created a greater demand for consumer services including retailing, real estate and personal financial services. Living standard has increased due to increase in income which has led to spend more on entertainment, travel and hospitality services.
- (c) Due to communication and travel, aspiration level of children and adults has increased. Due to this, they are making new demands for learning new things to grow and learn new skills to compete. This has opened avenues for knowledge and information based services.
- (d) Due to Globalization, the demand for communication, travel and information services has increased. Information technology has helped to fulfil this demand. Advertising and marketing services are providing support to all sectors of the economy.
- (e) The size of the government has grown creating a huge infrastructure of service departments. With the growth in international trade, the demand on legal and other professional services has increased across national boundaries.
- (f) Changing structure of the families in Indian economy has diverted people to service sector. Emergence of nuclear family system in place of traditional joint family system, has generated demand for service like transport, health care, entertainment, telecommunication, education and so on.

## CHAPTER-7

### FINDINGS, SUGGESTIONS AND CONCLUSION

This chapter deals with the summary of the study, followed by the discussions and the implications for the future policy development, curriculum design and implications for future research considerations. Firstly, the background of the study will be presented, followed by the discussions of the findings. Implications are drawn followed by the conclusion to the study.

#### FINDINGS:

There is no doubt that the service sector is by far the largest sector in the Indian economy.

1. Technological advancements over the past few decades have led to increasing demand for services. The services sector has witnessed a continuous expansion with a share of total national income.
2. One of the major problems in the growth pattern in India is the sustainability of a relatively high GDP growth in recent years driven by growth of the services sector alone. It would be difficult to maintain over a long horizon.
3. In the absence of adequate growth in other sectors of the economy, the services sector alone in the long run would be adversely affected by demand constraints and its performance would then depend upon the uncertainty in demand.
4. Also, as production of services requires input from other sectors, there could be supply constraints due to slowdown in the growth of productive capacity in the rest of the economy.
5. The service sector contributes some 80% in value added terms and 81% of employment.
6. The sector is diverse ranging from highly technical services, such as in developing computer software, to the more mundane, such as hospital cleaning.
7. The service sector employs a wide range of staff, including professionals from a large number of academic backgrounds.

8. It is the sector which will provide the greatest opportunities in employment growth with export of services becoming increasingly vital to the future of the Indian economy.

9. The services sector improved its share from 55 percent to 60 percent in urban male and from 37 percent to 52 percent in urban female and 12 percent to 18 percent in rural male and 48 percent to 68 percent in rural female.

## **SUGGESTIONS**

1. The results revealed Foreign Direct Investment create significant impact on retail sector in India, the FDI are meticulous about their profit motives and also showing special enthusiasm in choosing the portfolios. It is suggested that SEBI is to take advantage of the situation and avoid selective policy intervention and focus on clear-cut and transparent policies and procedures in reducing procedural and bureaucratic hurdles.
2. In the case of Foreign Direct Investments the inflows are recently inflated through the retail sectors of both Software & Hardware sectors. While the government has lifted sectoral caps for FDI over the last decade, policies have thus far been piecemeal and ad-hoc and a source of uncertainty. The industrial reforms are contributing in attracting FDIs; it is suggested that they need to be supplemented by more infrastructure reforms.
3. The Foreign Direct Investment in a country-wise analysis clearly showed the investment of developed countries in India. So it is strongly recommended to the Government of India to organize a well-established relationship with both developing and underdeveloped countries. This would be helpful to analyze the specialization and lucrative channels of investments from these countries.
4. In the span of 10 years the Gross Domestic Product (GDP) growth due to FDI inflows shows a rapid increase and prove the inflow strengthen of FDI. It is suggested that the globalized economy should be more liberalized and remove hurdles on account of persistence of high transaction costs arising from poor infrastructure, inflexible labor policies in the formal sector and opaque land markets, to attract more inflows contributing to GDP.
5. It is found that Foreign Direct Investment is meticulous towards certain important towards retail sectors like software, automobile and chemical industries. It is

suggested that Government of India is to attract more FDIs, by lifting restrictions on foreign investment into prohibited sectors such as multi-brand retail. The focus should not just be on the amount of Greenfield FDI inflows but also the consequent positive externalities from them, including technological transfer and technological development. The best type of policy intervention would involve general steps to enhance overall human capital and technical capabilities of the domestic economy on a nondiscriminatory basis.

6. The retail sectors in India create employment opportunities and turnover significantly. Therefore it is suggested that the Government should take special care for the FDI inflows to create more employment opportunities to the retail sectors in India.
7. The FDI inflows and arrival of giant malls segment, The Indian economy into highly potential, moderately potential and low potential. Therefore, it is suggested to the retail sectors to implement the CRM process to catch hold of their customers.

## CONCLUSIONS

As we have discussed the service sector is the fastest growing sector in India, contributing significantly to the GDP and is projected to rise even further. However, the increase in employment is not in keeping with the share of the sector in the GDP and even among those employed the big question is how many of these work in the organized service sector.

India has a number of problems which are socio economic in nature. Poverty and accelerated population growth are major constraints, thereby depriving several people of access to basic health and education.

A number of obstacles hamper the progress of this sector and its contribution to inclusive growth. Bureaucratic inertia, multiple government bodies having their own sets of rules and regulations, rampant corruption and absence of a uniform concrete policy have an adverse effect on the system. Slow reform process, restrictions on foreign direct investment, poor infrastructural facilities, absence of uniformity in the quality and standard of education, in spite of having renowned Brain Power and the existence of unemployable educated youth are all limiting factors.

India, however, has vast potential for promotion of service economy. This is attributed to factors such as emergence of a new middle class with increasing aspirations, opening of the

economy leading to the availability of a wide range of goods and services, growing retail and improving domestic and international market for Information Technology. With just the right policy mix, propelled further by the revival of the US economy and the potential for India's IT and Business Process outsourcing sectors in different parts of the world together with increased domestic demand will no doubt take our country to greater heights.

Of all the service sectors which participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector. The agriculture sector contributed 17.2%; manufacturing industry contributed 29.1% while the service sector had a contribution of 52.7% according to 2008 estimates. The growth rate as seen in 2011 was 19.5% in IT-BPO services, 18.5% in exports and 22.8% in domestic IT related services. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional service segments. The New Economic Policy includes reduction in government expenditure, opening of the economy to trade and foreign investment, adjustment of the exchange rate from fixed exchange rate system to flexible exchange rate system, deregulation in most markets and the removal of restrictions on entry, on exit, on capacity and on pricing. A shift in the consumption pattern of this nature indicates that the demand-side impetus to services growth will continue to get stronger in the years to come.

However, along with the growth of the service sector, the agricultural and industrial growth is also of paramount importance to meet the needs of the burgeoning world population.

Make in India is a major new national programme of the Government of India designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best in class manufacturing infrastructure in the country. The primary objective of this initiative is to attract investments from across the globe and strengthen India's manufacturing sector. It is being led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India. The Make in India programme is very important for the economic growth of India as it aims at utilizing the existing Indian talent base, creating additional employment opportunities and empowering secondary and tertiary sector. The programme also aims at improving India's rank on the Ease of Doing Business index by eliminating the unnecessary laws and regulations, making bureaucratic processes easier, making the government more

transparent, responsive and accountable. The focus of Make in India programme is on 25 sectors. These include: automobiles, aviation, chemicals, IT & BPM, pharmaceuticals, construction, defense manufacturing, electrical machinery, food processing, textiles and garments, ports, leather, media and entertainment, wellness, mining, tourism and hospitality, railways, automobile components, renewable energy, biotechnology, space, thermal power, roads and highways and electronics systems.

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Department of Economics

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