

The Services-Led Growth in India: Analyzing the Trends and Theoretical Underpinnings

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ABSTRACT

India has always been a labour abundant country. Before most of the labour, mostly unskilled ones used to get employed in the agricultural sector but as India progressed, people began upskilling themselves through various government skills development and education programmes. Looking into India's Economic growth journey over the past few decades we can find that it has followed an unusual path. As most of the country's move from agricultural sector to manufacturing sector and then to services sector, but India took a direct leap from Agriculture sector led growth to the Services sector one. This study aims to seek into the shift of sectors and how it has become a catalyst for growth. This paper uses a mix of theoretical framework which explores the Structural Transformation theory and also analyzes the trends in the sector's Contribution to GDP, Employment generation, foreign Investments and Trade. It also specifies major hurdles this sector faces. Further it looks into the government policies and measures which are discussed to ensure that India can harness the full potential of the Services Sector.

KEYWORDS: *Services Sector, Employment, GDP, Foreign Investment, Structural Transformation*

INTRODUCTION

India is amongst the world's fastest growing economies, currently it's is ranked as 5th largest economy in the world in 2025 but it is predicted that soon it will surpass Japan and secure 4th position amongst the world's top 10 largest economies. In the last two decades India has experienced a significant shift between the sectors as India was majorly an agricultural country and its economy was driven by agriculture which witnessed the emergence of the tertiary or services sector which became the dominant contributor towards India's GDP.

The significant development of India's tertiary or services sector (includes IT, BPO, Finance and healthcare) played a pivotal role in enhancing the productivity, creating employment putting up India amongst the largest global economies.

The aim of the study is the dive in the conceptual as well as empirical aspect of India's service sector and its contribution towards India's growth. By using theoretical framework and analysing the empirical raw data, as is purpose is to provide deeper understanding of how services sector has helped in strengthen economic growth, looking into the aspect such as Structural transformation, employment, technological advancements and export growth.

LITERATURE REVIEW

Services sector is the key sector for our economic growth being said that India lacks the infrastructure and appropriate policies to utilize the endogenous growth (Mukherjee 2013) also mentions in the paper that there is no uniform standards for quality education leads to no guaranteed employability. According to the India

Skill Report 2025 the employability rate amongst the Indian graduates is standing at 51.25% which means half of the population of Indian graduates are not skilled enough to be employed.

(Das, Raut 2014) In this study it points out that services sector contributed at least 80% of value added terms, 81% of employment and India's export in terms of services has provided largest opportunities for employment which is significant for the economy.

As India faces the reality of population boom it is necessary for the country to look towards its growing services as it has significant work to create new jobs for the people (Pattanaik, Nayak 2011) this paper investigates the intensity with which services sector could generate employment, many macro-economic factors are taken into consideration the time frame taken into consideration is 1960-61 to 2004-05.

(Verma, 2008) Undertook a study aimed to build a simple three sector quantitative model which was able to show the contribution of Services sector in GDP after liberalization. We know how resilient the growth of services sector is and it has been taken by (Eichengreen, Gupta 2011) In their work they have investigated into the employment aspect of services sector where both unskilled and skilled labour in manufacturing and services sector are similar mostly. So therefore vast majority of unskilled is moving towards manufacturing and highly skilled labour is looking forward to modern services. Concluding that shifting of labour into both manufacturing and services sector is necessary for sustainable economic growth and raising living standards.

(Wu 2007) did a comparison between two growing economy's services sector that is India and China, this paper studied the two Asian giants and its development in concerned sector. Also examines the determinants of demand for services on both the countries. (Gordon, Gupta 2004) looked into the growth and rapid expansion of Services sector they found that majority of contribution of Services sector is from communication growth, banking, business services (including IT sector) they also revealed that the growth rate of employment in Indian Services sector is less thus indicating the need to develop the remaining two sectors too.

(Banga 2005) raised some major questions in relevance with "Service-led growth" which were related to lack of corresponding employment growth in this particular sector, can this growth be sustained, constraints concerning external and domestic trade in different services and to explain the growth of this sector. Also this paper discusses the direction of the policies formed in the favour of the this sector.

(Singh 2006) investigates into a detailed overview of India's growth which is led by services sector it draws on input output model analysis also this paper considers international trade in services which is of growing importance.

(Ramaswamy, Agrawal 2012) explored the employment and job quality generated by the two major sectors manufacturing and services in urban India the study's time frame ranges between 1999-2000 to 2009-2010.

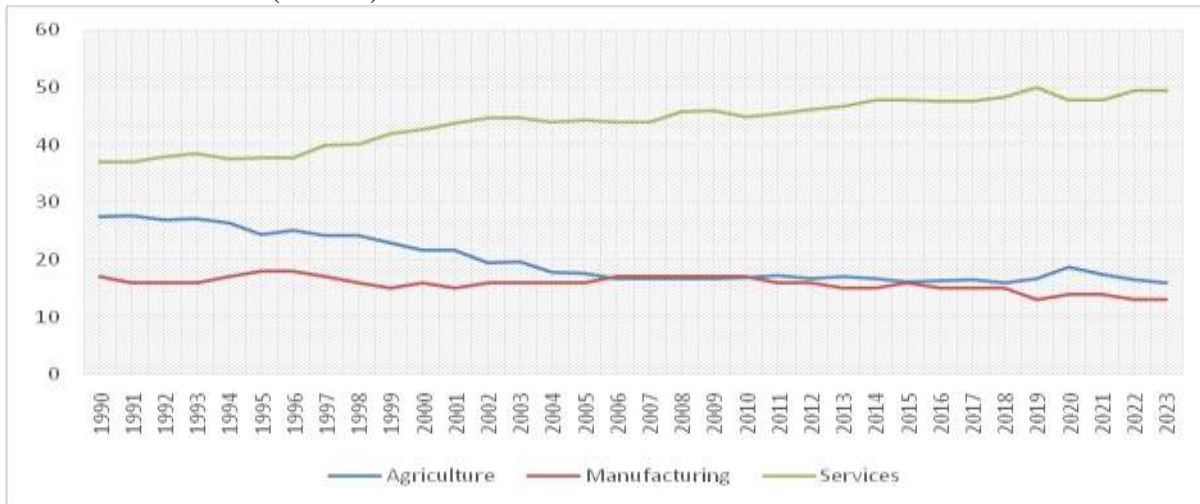
THEORETICAL FRAMEWORK

In recent years India has witnessed an astounding growth of Services sector and its contribution towards its economic growth be its employment generation or rising GDP contribution. As rooted in the classical development economics in the works of eminent economists Lewis, Kuznets and Hollis The Structural Transformation theory highlights four core dynamics that is decline in agriculture's share in GDP and employment followed by Industry and Services sector growth as their employment level rises and contribution towards its GDP also rises as well.

But if we look into India's path of development it reflects a non-traditional Structural Transformation. It's mainly due to many bottlenecks faced by the Indian Industrial/Manufacturing sector such as weak institutional capacity, governance challenge and socio-economic inequalities which leads to slow and uneven distribution and allocation of labour and capital. On the other hand if we look into services sector due to

expansion of Services sector as India opened its economy in 1991 onwards it saw a rapid growth in IT, Finance and telecom.

Chart 1: Value Added (% GDP) Sector wise



Source: World Bank database

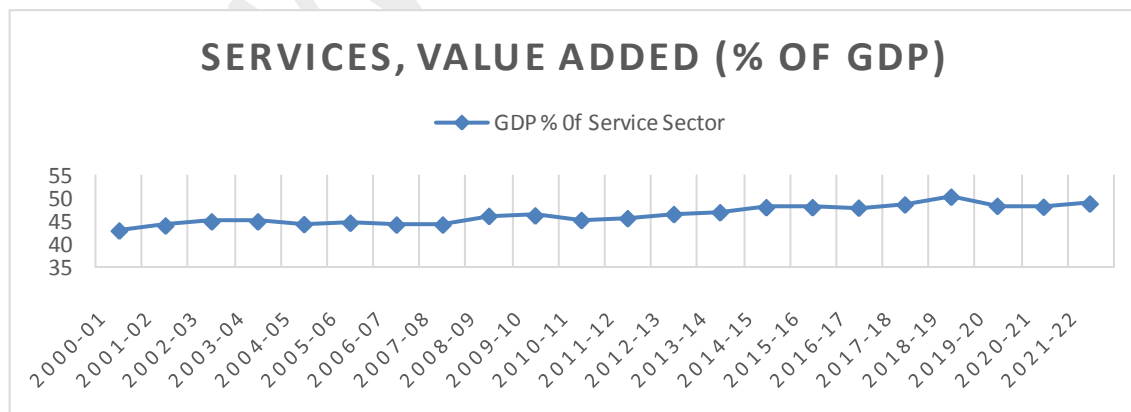
Contribution of the Services Sector: A Trend Analysis

Services sector has played a significant role on India's Economic growth and has impacted much on various aspects of the economy. These are discussed below:-

a. Contribution to GDP

The services sector saw a noteworthy push since in the last few decades and now it has reached 50% of India's GDP with growth rates often exceeding the growth rate of agriculture and manufacturing sector. There are some important sub-sectors such as Information Technology (IT) and Business Process Outsourcing (BPO) which majorly caters towards the global clients ultimately contributing to foreign exchange reserves.

Chart 2: Contribution to GDP



Source: World Bank Database

b. Employment generation

The services sector has become the critical source of employment majorly for the Urban areas. As for 2025 the services sector has employed around 30.7% of the total workforce. These are some aspects to be included as the jobs are available for the skilled labour and providing such jobs thus reducing the unemployment rates amongst the employable population

Chart 3: Employment in Services

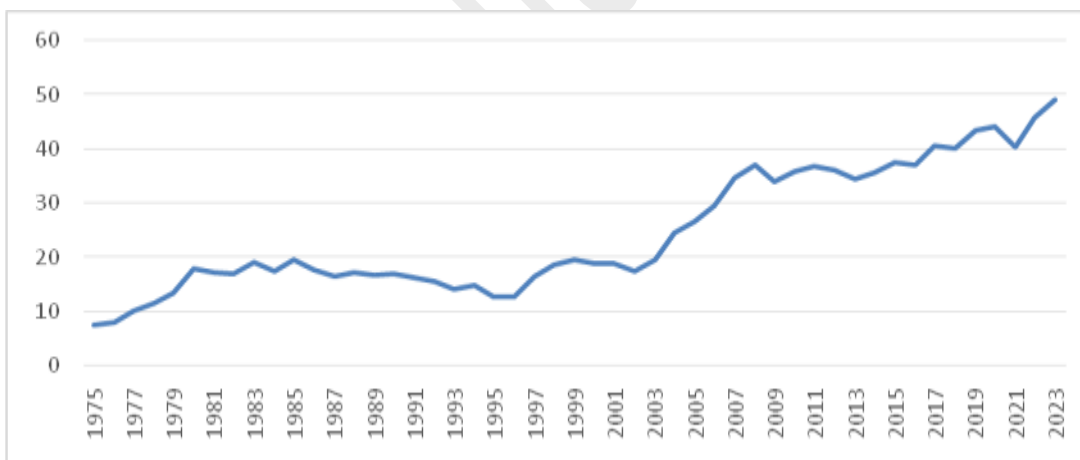


Source: World Bank Database

c. Export Growth and Foreign Investment.

India has been a major exporters of Services and it has been a critical driver of economic growth particularly in sub-sectors such global IT and software industry. In 2024-25 the export of Services sector had reached to \$387.5 billion and India stands at 6th rank in terms of Services export.

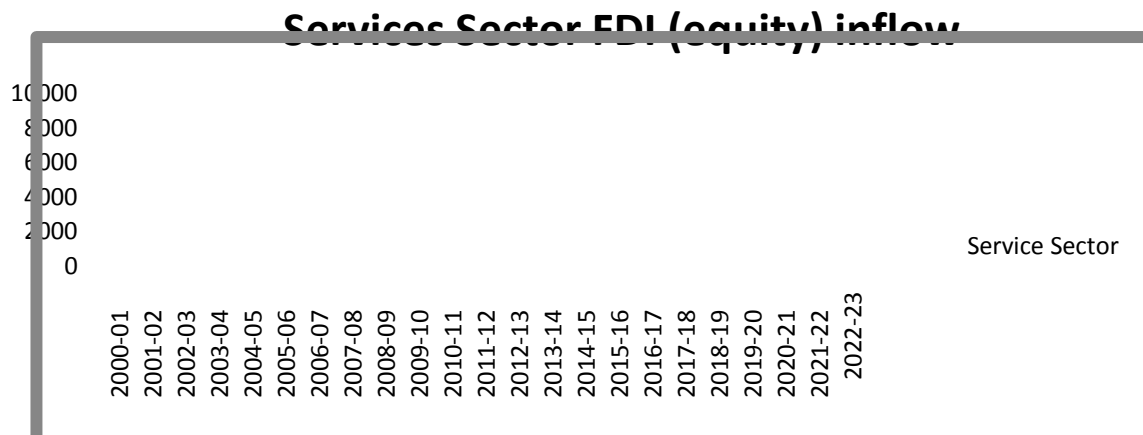
Chart4: Proportion of services sector over total export



Source: World Bank Database

Not only in exports but also in investment, services sector has excelled too. The foreign direct investment insures that the economy becomes prosperous and leading to better and major opportunities for the host countries.

Chart5: FDI in Services Sector



Sources: DPIIT, Factsheet of DPIIT

However if we see in the above graph there has been times when the sector has seen upward trajectory but in the recent years it has face a downfall. This can be attributed towards low performance in major sub-sectors such as IT and BPO. But these are not the only thing which hinders the FDI equity inflow it also includes regulatory hurdles, lackof proper implementation of policies and also bureaucratic red tapism. These inconsistencies are becoming a challenge which our country needs to overcome and restore investors' confidence and attract sustained FDI inflow.

Challenges and Policies

While it is evident that services sector has been a significant contributor towards India's Economic progress it has to face some challenges as well.

As stated in the study before the services sector majorly creates jobs which requires skilled labour and that is what India is lacking. The demand for skilled labour is faced with shortage and its gap can be seen particularly in rural and semi-urban areas which clearly affects negatively towards the growth potential of this sector.

Infrastructure bottlenecks are another challenge which be seen in terms of connectivity and access to high speed internet and modern utilities which is seen adequately present in Urban areas but not in Semi-Urban and Rural areas.

India's regulatory environment is quite rigid and complex which becomes a hurdle or a barrier for the businesses to obtained licenses and approval as it's often cumbersome bureaucracy which is also known as red tapism.

Environment sustainability is another challenge for this sector as it is connected with high-energy industries such as telecommunications etc which is a threat towards environment sustainability.

Being aware of the hurdles would make us equipped with better instruments, policies and strategies which will in turn help us to be able to harness the full potential of this sector. The government should look into the matters of education and enhancement of skill through vocational training systems particularly targeted towards the semi-urban and rural areas. There are certain government skill development programs such as Pradhan Mantri Kaushal Vikas Yojana(PMKVY) and Skill India Digital Hubs (SIDH).

Policies should also be directed towards enhancing infrastructure such as expanding high speed internet access, reliable electricity supply in rural areas which is vital for this sector to reach these backward areas.

Simplification and Sustainable policies should be implemented which might improve ease of doing business and accelerate the growth of the sector. Sustainability should be towards green energy which is in the favour of our environment.

CONCLUSION

Being the major driver of Indian economy or it can be said "Services-led economic growth" can be seen through its contribution towards GDP, Employment export and Foreign Investment. From preceding analysis both theoretical and empirical it can be concluded that though India is emerging as a strong economy but it certainly lacks in major aspects which are directly hindering the services sector to reach its potential. The government needs to prioritize those policies which cater towards our youth and upskilling them so that a well-functioning service sector is obtained which can provide opportunities and maintain its workforce according to the global standards. The government should implement proper and comprehensive policies to address the challenges faced by services sector, which is appropriate for the Indian economy.

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