



Future of India's Service Economy

This editorial is based on “[Riding the new wave in services, industry](#)” which was published in The Hindu on 28/03/2025. The article brings into picture the transformative role of Global Capability Centers (GCCs) in India's service industry, highlighting their \$65 billion revenue and 1.9 million workforce while stressing the need to address regional concentration, fiscal sustainability, and AI's impact.

For Prelims: [Service industry](#), [National Data Governance Framework](#), [AI Centres of Excellence](#), [Budget 2025-26](#), [Cybersecurity](#), [National Education Policy \(NEP\) 2020](#), [Telecommunication](#), [Skill India](#), [BharatNet](#), [Digital India](#), [Monthly Per Capita Consumption Expenditure](#), [National Logistics Policy](#), [Open Network for Digital Commerce](#).

For Mains: Key Growth Drivers of India's Service Sector, Key Issues Associated with India's Service Sector.

India stands at a strategic crossroads with **Global Capability Centers (GCCs)** transforming its [service industry landscape](#). With approximately **1,700 GCCs** employing **1.9 million Indians** and generating **\$65 billion in revenue**, India hosts nearly half of all GCCs worldwide. While manufacturing sectors increasingly rely on specialized global networks, **service industries are consolidating operations through these fully-owned entities**. India's technical talent pool provides significant competitive advantages, though policymakers must address regional concentration, fiscal sustainability, and AI's impact to maximize this opportunity.

What are the Key Growth Drivers of India's Service Sector?

- **Rise of Global Capability Centers (GCCs) and High-End Outsourcing:** India has emerged as the **top destination for Global Capability Centers (GCCs)**, attracting MNCs seeking operational control and cost efficiency.
 - The **shift from third-party outsourcing to in-house GCCs** has accelerated post-pandemic, driven by demands for data security, analytics, and IP-sensitive services.
 - Cities like **Bengaluru, Hyderabad, and Pune** have become global hubs for financial, tech, and healthcare GCCs.
 - As of 2025, India hosts **1,700 GCCs**, employing **1.9 million people**, contributing **\$65 billion** to revenue (**Indus Valley Report 2025**).
- **Expanding Digital Infrastructure and AI-Powered Innovation:** The central government's aggressive push toward **AI, cloud computing, and digital public infrastructure** has supercharged India's digital services landscape.
 - From **fintech to healthcare**, sectors are being reshaped through AI-led automation and data analytics.
 - The [National Data Governance Framework](#) and [AI Centres of Excellence](#) are

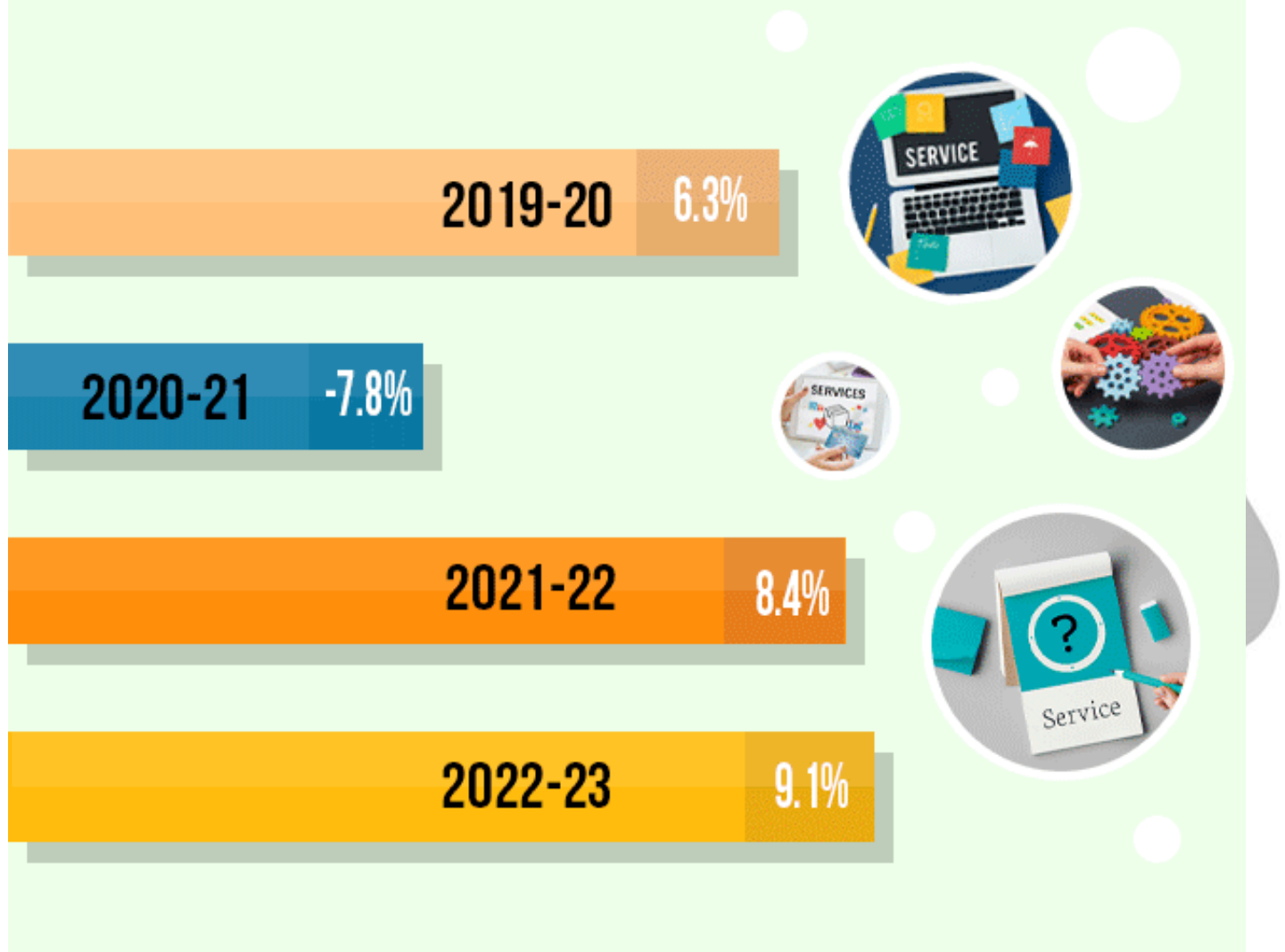
enhancing innovation capacity.

- The government has committed **INR 5 billion** to AI Centres of Excellence (**Union Budget 2024-25**).

- **Rising Foreign Direct Investment and Policy Liberalisation:** Liberalised FDI norms, rising investor confidence, and structural policy changes have made India a **magnet for capital in services** like insurance, telecom, and financial services.
 - The raising of FDI caps and streamlined procedures have made entry easier for global players, while regulatory sandboxes are fostering fintech growth.
 - **Services received \$7.22 billion FDI between April-Dec 2024**, out of India's total **\$40.67 billion FDI inflow** (DPIIT).
 - The FDI cap in **insurance** was raised from 74% to 100% in **Union Budget 2025-26**.
- **Strong Performance in High-Value Service Exports:** India is now the **7th largest global services exporter**, with strengths in IT, consulting, and financial services.
 - The growing demand for **digital transformation worldwide** has helped Indian firms expand in areas like **cloud, cybersecurity, and enterprise solutions**. India's diversified service export base makes it resilient to sector-specific shocks.
 - India's share in global services exports has more than doubled, reaching around **4.3% in 2023**.
 - India ranks **2nd in the world in telecommunication**, computer, and information services exports, 6th in personal, cultural and recreational services exports and 8th in other business services exports.
- **Government-Led Skill Development and STEM Education Push:** The government has aligned national skilling efforts with the needs of the service sector. Schemes like **Skill India, PMKVY, and National Education Policy (NEP) 2020** promote future-ready talent.
 - Integration of the private sector with skills via GCCs enhances workforce employability.
 - India produces **over 1.5 million engineers** annually, a key source for IT and fintech talent.
- **Tier 2 and Tier 3 City Expansion:** With high saturation in **metros, firms** are expanding into **outskirts, smaller cities for cost benefits and new market access**.
 - Government projects like **BharatNet and Digital India** have enabled backend operations and digital services to move into underserved regions.
 - This also supports inclusive growth and reduces migration pressure on metros.
 - For instance, India's **logistics and warehousing sector** is expanding rapidly, with Tier 2 and 3 cities emerging as key hubs in the country.
- **Surge in Domestic Demand Across Rural India: Rising incomes, urbanisation, and aspirations** have expanded the domestic market for services from health and education to entertainment and financial services.
 - Even **rural India has seen a significant increase in service consumption**, showing a clear structural shift. This deepening of domestic demand makes India less export-dependent in services.
 - The urban-rural gap in **Monthly Per Capita Consumption Expenditure** has narrowed to **71% in 2022-23 from 84% in 2011-12**, largely driven by increased spending on services.
 - Sectors like **entertainment, healthcare and digital education** are seeing massive rural growth.

Service Sector Growth

Growth Rate of GVA at Basic Prices



What are the Key Issues Associated with India's Service Sector?

- **Skill Mismatch and Workforce Readiness Gap:** India's services sector increasingly demands **high-end skills in AI, data science, fintech, and cybersecurity**, but the workforce supply remains uneven and undertrained.
 - While we produce graduates in large numbers, **industry-academia alignment is still weak**, leading to underemployment and poor job readiness.
 - The rising need for niche expertise outpaces current skilling efforts, especially in Tier 2/3 cities.
 - For instance, [India's job crisis](#) deepens as **only 42.6% of graduates are employable**, sparking concerns over the growing skill gap
- **Urban Infrastructure Bottlenecks in Service Hubs:** Major service-sector cities face acute infrastructure stress — **from traffic congestion to water shortages and rising real estate costs**.
 - These inefficiencies increase **business costs, lower productivity, and reduce quality of life for skilled workers**, making retention harder. Over-dependence on a few urban clusters is unsustainable for long-term service sector growth.
 - For instance, Bengaluru, which tops India's office space demand as absorption grows **30%**

in 2024 and faces critical issues like [urban flooding](#), water and power shortage.

- **Regional Imbalance in Services Growth:** The bulk of high-value service sector activity is concentrated in a few prosperous states like **Maharashtra, Karnataka, and Tamil Nadu**.
 - States with large labour pools — like **Bihar, MP, and Odisha** — remain underdeveloped in services **due to poor connectivity, education gaps, and lack of investment ecosystems**.
 - This reinforces spatial inequality and limits national job creation potential.
 - In FY23, **Karnataka and Maharashtra together contributed over 25% of India's total service sector** Gross State Value Added (GSVA), while **19 states collectively accounted for just 25% of the sector's GSVA**.
- **High Export Dependence and Geopolitical Exposure:** India's services exports are heavily reliant on markets like the **US and EU**, making the **sector vulnerable to global shocks, protectionism, and visa restrictions**.
 - Changes in **outsourcing trends, recessionary cycles, or trade tensions** (like **recent tariff issues with the United States**) directly impact revenue, employment, and investor confidence. Diversification into new markets remains slow.
 - For instance, around **70% of India's IT services exports go to the US, highlighting significant dependence**.
 - Also, the **U.S. tech sector** is currently grappling with widespread layoffs, significantly affecting Indian workers.
- **Underutilisation of Emerging Technologies in MSMEs:** While large service firms are rapidly adopting AI, automation, and cloud platforms, **MSMEs lag behind** due to cost barriers, lack of awareness, and limited digital infrastructure.
 - This deepens the productivity gap and creates a dual-speed services economy. Unlocking tech adoption in small firms is crucial for inclusive growth.
 - According to the 'SME Digital Insights' study, **only 50% of Indian MSMEs are prioritizing cloud adoption** for business expansion in FY2024.
 - Also, **only 6% of MSMEs actively leverage e-commerce platforms** for sales, underscoring the sector's limited digital adoption.
- **Fragmented Public-Private Collaboration in Infra Development:** The pace of public infrastructure expansion (**digital and physical**) often lags behind the needs of the private services sector.
 - While some partnerships exist, **coordination remains ad hoc**. This limits ecosystem development in education, healthtech, legal tech, and logistics services.
 - For instance, **Mumbai Coastal Road Project**, aimed at reducing traffic congestion and improving coastal access, **has faced delays and cost overruns due to land acquisition issues** and regulatory hurdles.

What Measures can India Adopt to Enhance its Service Sector?

- **Foster Tier-2 and Tier-3 Service Ecosystems:** India must decentralise its service-sector growth beyond metro cities by developing infrastructure, skill clusters, and digital connectivity in Tier-2 and Tier-3 cities.
 - This requires convergence between **smart city initiatives**, [BharatNet](#), and the [National Logistics Policy](#) to create enabling conditions for GCCs and high-skill services.
 - **Strategic** incentives must attract private investment in education-tech, health-tech, and consulting services in these regions.
- **Strengthen Public-Private Skilling Partnerships:** A national framework to align **vocational education under NEP 2020** with **Skill India's modular training programs** can bridge the service sector's skill gap. Industry participation in curriculum design and delivery can make training demand-driven, future-ready, and employment-linked.
 - Focus should be on AI, fintech, digital design, legal-tech, and health-tech to meet evolving service sector demands.
- **Regulatory Sandboxes and Unified Compliance Platforms:** Service-oriented start-ups in fintech, ed-tech, gig economy, and telemedicine need a **light-touch regulatory approach** to grow without friction.
 - India should institutionalise **regulatory sandboxes** across key services (**SEBI, RBI, IRDAI**, etc.) and develop a **pan-India single-window compliance portal** to eliminate

inter-state policy fragmentation, encouraging innovation and operational scalability.

- **Promote Service Export Diversification with Strategic Market Access:** To reduce overdependence on traditional export destinations, India must proactively **target emerging markets** in Africa, Latin America, and Southeast Asia for IT, financial, and education services.
 - Linking the **Champion Services Sector Scheme** with **India's FTAs** and trade diplomacy strategy can provide tailored support for digital trade expansion and cross-border service delivery.
- **AI and Digital Public Infrastructure for Sectoral Transformation:** India must integrate **AI Centres of Excellence**, **ONDC (Open Network for Digital Commerce)**, and **Digital Health Mission** to boost productivity in retail, logistics, healthcare, and financial services.
 - These platforms must be scaled across states with real-time data-sharing frameworks and robust cybersecurity systems, ensuring that smaller players can leverage DPI for scale and reach.
- **MSME Integration into High-Value Service Chains:** Special incentives and subsidised access to cloud platforms, automation tools, and cybersecurity infrastructure can help **digitally onboard MSMEs** into global and domestic value chains.
 - Converging the **Digital MSME Scheme** with **Startup India seed support** and cluster-based incubation can reduce the digital divide within the services sector and build resilience among smaller players.
- **Institutionalise a National Services Competitiveness Council:** A dedicated inter-ministerial body can act as a **think-tank and monitoring agency** for India's service sector, ensuring data-driven policy responsiveness, regulatory coordination, and strategic interventions.
 - This council should involve stakeholders from the private sector, academia, and states to monitor trends, address disruptions, and align policy goals with real-time sectoral dynamics.

Conclusion:

India's service sector stands at a pivotal moment, driven by the **rapid rise of Global Capability Centers (GCCs)**, digital infrastructure expansion, and increasing foreign investment. Policymakers must foster inclusive growth by decentralizing service hubs, enhancing skilling initiatives, and promoting MSME digital adoption. A forward-looking strategy **leveraging AI, regulatory reforms, and diversified exports** will ensure sustained growth and global leadership in services.

Drishti Mains Question:

Discuss the key growth drivers of India's service sector and analyze the challenges that need to be addressed to sustain its global competitiveness.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. What does S & P 500 relate to? (2008)

- (a) Supercomputer
- (b) A new technique in e-business
- (c) A new technique in bridge building
- (d) An index of stocks of large companies

Ans: (d)

Q. In the 'Index of Eight Core Industries', which one of the following is given the highest

weight? (2015)

- (a) Coal production
- (b) Electricity generation
- (c) Fertilizer production
- (d) Steel production

Ans: (b)

Mains

Q1. Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period” Give reasons. How far the recent changes in Industrial Policy are capable of increasing the industrial growth rate? (2017)

Q2. Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? (2014)

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