



India's Service Sector

For Prelims: [Services Sector](#), [GDP](#), [Flash Composite PMI](#), [Manufacturing Sector](#), [Economic Indicators](#)

For Mains: [Business Confidence](#), [Economic Indicators](#), [Challenges and Opportunities for Service Sector](#), [Social Security Portability](#), and Best Practices

Source: [ET](#)

Why In News?

Business activity in India saw robust expansion in May 2024 driven by the dominant [services sector](#), with the **HSBC's flash India Composite purchasing managers'(PMI) Index** compiled by [S&P Global](#) indicating [record export growth](#) and the highest job addition rate in nearly 18 years.

Purchasing Managers Index

- It is a **survey-based measure** that asks the respondents about changes in their perception of key **business variables** as compared with the previous month.
- The purpose of the PMI is to **provide information** about current and future business conditions to company decision-makers, analysts, and investors.
- It is **calculated separately for the manufacturing and services sectors**, and then a **composite index** is also constructed.
- The PMI ranges from **0 to 100**, with scores **above 50 indicating expansion**, below 50 indicating contraction, and exactly 50 signifying no change.
- Released at the **start of each month** and considered a leading indicator of economic activity, the **PMI, compiled by IHS Markit (part of S&P Global)** for over 40 economies, reflects insights from a global leader in information and analytics.
- The PMI is a **key economic indicator**, with high readings signalling strong manufacturing and services sector performance and economic growth, while low readings suggest sector struggles and potential economic downturns.
- **Flash Manufacturing PMI** is an estimate of manufacturing for a country, **based on about 85% to 90% of total Purchasing Managers' Index (PMI)** survey responses each month.

What is the Service Sector?

- **About:**
 - The service sector includes **industries offering intangible services**, such as finance, banking, insurance, real estate, telecommunications, healthcare, education, tourism, hospitality, IT, and BPO.
- **Contribution of India's Service Sector:**
 - The services sector **contributes over 50% to India's GDP**.

- While the [Covid-19](#) pandemic has hurt most sectors of the economy, the services sector has been the worst affected, as its share in India's Gross value added ([GVA](#)) declined from 55% in 2019-20 to 53% in 2021-22.
- India is the **export hub** for software services. The [Indian IT outsourcing service](#) market is expected to grow 6–8% between 2021 and 2024.
- In September 2023, India retained its **40th rank** in the [Global Innovation Index \(GII\)](#), due to successful advancements in services that are technologically dynamic and can be traded internationally.
- The Indian services sector was the **largest recipient of FDI inflows** worth USD 108 billion between April 2000 and December 2023.

What are the Key Highlights of India's Flash Composite PMI?

- **Composite PMI Increase:** The [Flash Composite Purchasing Managers' Index \(PMI\)](#) for India rose to 61.7 in May 2024 from 61.5 in April 2024 indicating robust economic activity.
- **Steep Job Expansion:** May 2024 saw the **sharpest expansion in private sector jobs** since September 2006, driven by strong increases in new orders and capacity pressures.
- **Export Orders:** Both the manufacturing and services sectors saw a record rise in new export orders, **achieving the fastest pace** since the series started in September 2014.
- **Input Costs and Prices:** There was a **faster increase in input costs**, which pushed up the prices charged for Indian goods and services, leading to margin squeezes, particularly for service providers.

What Are the Challenges Related to India's Services Industry?

- **Inadequate Physical Infrastructure:** Inadequate [transport networks](#) lead to delays and higher expenses (**logistics costs in India constituting 14% of GDP**), double the average in developed nations.
- **Digital Infrastructure:** Limited high-speed **internet access** in rural areas and concerns about [cybersecurity](#) and data protection affecting customer trust and international compliance standards.
 - For example, In 2019, a **major data breach at** the Indian Railways Catering and Tourism Corporation (**IRCTC**) exposed the personal information of millions of users.
- **Skill Development:** Educational curricula's misalignment with industry needs and insufficient vocational training exacerbate workforce shortages (as per [World Bank](#), 22% of graduates are deemed unemployable due to skill mismatches).
- **Employment Practices:** Rigid [labour laws](#) hinder hiring and firing flexibility, while many service jobs offer **low wages and lack job security**, sometimes leading to mass layoffs.
- **Taxation Issues:** Multiple taxes and **compliance requirements** increase businesses' administrative burden, and although the [Goods and Services Tax \(GST\)](#) aimed to simplify the system, its implementation has been challenging for many service providers.
- **Domestic Competition:** Intense competition among numerous SMEs limits profitability, while the [unorganised sector](#) in the services industry results in **inconsistent service quality** and standards.
 - Moreover, the Indian service sector devoid of clear upstream-downstream distinctions and indigenous origins, risks resembling foreign setups instead of embodying local cultural and economic characteristics.
- **International Competition:** The presence of **established global companies** in sectors such as IT and finance elevates competition for local firms, while [protectionist measures](#) abroad can restrict market access for Indian service exporters.
 - **For example, the US imposes H-1B visa quotas**, making it difficult for Indian IT companies to send skilled workers to work on projects in the US.
- **Access to Finance:** Limited access to [affordable finance](#) constrains growth and expansion for service providers, hampering investment in research and development, and thus impacting [innovation](#) and [competitiveness](#).
 - It exacerbates disparity in competitiveness and **market reach between traditional physical establishments and their digital counterparts**.

What are the Potential Opportunities for India in the Service Sector?

- **IT-BPO (Business Process Outsourcing)/ Fintech:** This sector is a **major employer and [GDP contributor](#)** in India, with growth potential bolstered by a large pool of skilled IT professionals and government support for the fintech industry.
- **Healthcare & Tourism:** India's rapidly growing healthcare sector is fueled by an ageing population, rising disposable incomes, and a burgeoning [medical tourism industry](#) offering high-quality care at lower costs compared to developed countries.
- **Logistics & Transportation:** India's **underdeveloped [logistics sector](#)** has significant growth potential, bolstered by government infrastructure investments that will create opportunities for logistics and transportation companies.
- **Education:** India's large young population and growing demand for quality education are creating opportunities for companies offering [online education](#) and vocational training services.
- **Professional Services:** India's **vast pool of [skilled professionals](#)** in fields like accounting, law, and consulting is generating opportunities for companies offering professional services to businesses.

Way Forward

- **Social Security Portability:** Design a portable social security system that caters to the **needs of gig workers** and those transitioning between formal and informal sectors.
- **Entrepreneurship and Innovation:** Establish **industry-specific [startup incubators](#)** and accelerators, and promote the expansion of angel investor networks to provide early-stage funding for promising startups.
- **Targeted Programs for Marginalised Groups:** Implement **targeted [skill development programs](#)** for individuals from marginalised communities, similar to the [SMILE initiative](#), to ensure inclusivity and empower active workforce participation.
- **AI and Automation Reskilling:** Equip the workforce for the [rise of automation](#) by offering training in AI, robotics, and data science, enabling workers to adapt to and thrive in the changing job market.
- **Remote Work Opportunities:** Promote the **adoption of technology** by companies to facilitate remote work, enhancing job accessibility for those residing outside urban centres and fostering improved work-life equilibrium.
- **Best Practices:** Implement strategies to encourage informal workers to shift to the formal sector, leveraging insights from [Peru's National Strategy](#), which utilises **decentralised stakeholder involvement** including the state, businesses, academia, workers, civil society, and Indigenous peoples.

Drishti Mains Question:

Q. Discuss the various challenges faced by India's service sector and suggest measures to overcome these challenges.

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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