

Empowering the Service Sector: The Backbone of India's Journey Toward a \$5 Trillion Economy

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Abstract

The global shift from manufacturing-led development toward service-driven economic systems has significantly elevated the strategic importance of the service sector. The ambition to attain a \$5 trillion economy marks a critical phase in national economic advancement, encapsulating both structural constraints and growth possibilities associated with large-scale economic transformation. This research evaluates the prevailing macroeconomic environment by examining patterns in output composition and long-term growth dynamics, thereby establishing an analytical foundation for assessing the contribution of services to overall economic expansion. It systematically reviews the scope and internal structure of the service economy, focusing on high-impact domains such as financial intermediation, healthcare delivery, educational services, tourism activities, and information technology, and assesses their respective shares in gross domestic output. In addition, the study incorporates a prospective analytical lens by exploring anticipated trends and forecasted developments to explain how service-led growth can be strengthened to support the realization of the \$5 trillion economic objective. The analysis ultimately positions the service sector as a pivotal engine of sustained economic advancement and proposes strategic directions through which policymakers and industry stakeholders can effectively leverage its growth potential.

Keywords: GDP, \$5 Trillion, Service Sector, Healthcare, Tourism.

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1. Introduction

Economic progress within a country is shaped by the relative performance and interaction of three core sectors: the primary, secondary, and tertiary sectors. While each sector operates with a distinct functional focus, their activities remain deeply interdependent within the broader economic framework. The primary sector is centered on activities that involve the direct use of natural resources, including agriculture, mining, fishing, forestry, and related fields. The secondary sector builds upon this foundation by changing raw materials into manufactured and semi-processed goods through industrial and manufacturing processes. Supporting both production and consumption is the tertiary sector, or service sector, which encompasses a wide range of activities such as healthcare delivery, education systems, transportation networks, trade and commerce, financial services, tourism, and information technology. Over time, the service sector has changed over its traditional role as a supporting component of economy and has emerged as a major source of growth and value creation. Its increasing contribution to employment creation, foreign exchange resources, and investment inflows has positioned it as a central pillar of contemporary economic development. In the Indian context, services have become the dominant contributor to Gross Domestic Product (GDP), while also serving as a main driver of foreign direct investment and export expansion. This shift has enhanced economic diversification and reduced vulnerability to sector-specific disruptions.

Despite this structural transition, a significant share of India's workforce remains dependent on the primary sector, where productivity levels are comparatively low and disguised unemployment persists. Although policy initiatives have sought to strengthen the manufacturing base, progress has been moderated by infrastructural limitations and regulatory constraints. In this setting, the continued expansion of the service sector presents a viable solution for absorbing surplus labor and creating sustainable income opportunities, particularly in urban and semi-urban areas. India's service sector ranks among the most dynamic segments of the global economy. Estimates from international institutions indicate that services contribute nearly half of the country's GDP while employing a substantial portion of the labor force. The sector has shown strong resilience and adaptability, with industries such as information technology, financial

services, telecommunications, healthcare, and tourism achieving global competitiveness. This sustained performance underscores the critical role of services in shaping India's long-term development path and advancing the objective of becoming a \$5 trillion economy. To strengthen India's position in global services trade—where its present market share stands at approximately 4.4 percent—and to enable a substantial expansion in national output, targeted policy interventions are required. The service sector recorded a growth rate of 8.4 percent during the financial year 2022, reflecting its robust momentum. Moreover, it emerged as the leading recipient of foreign direct investment, according to data released by the Department for Promotion of Industry and Internal Trade (DPIIT). These trends highlight the sector's capacity to act as a primary engine of growth, provided supportive institutional and policy frameworks are sustained.

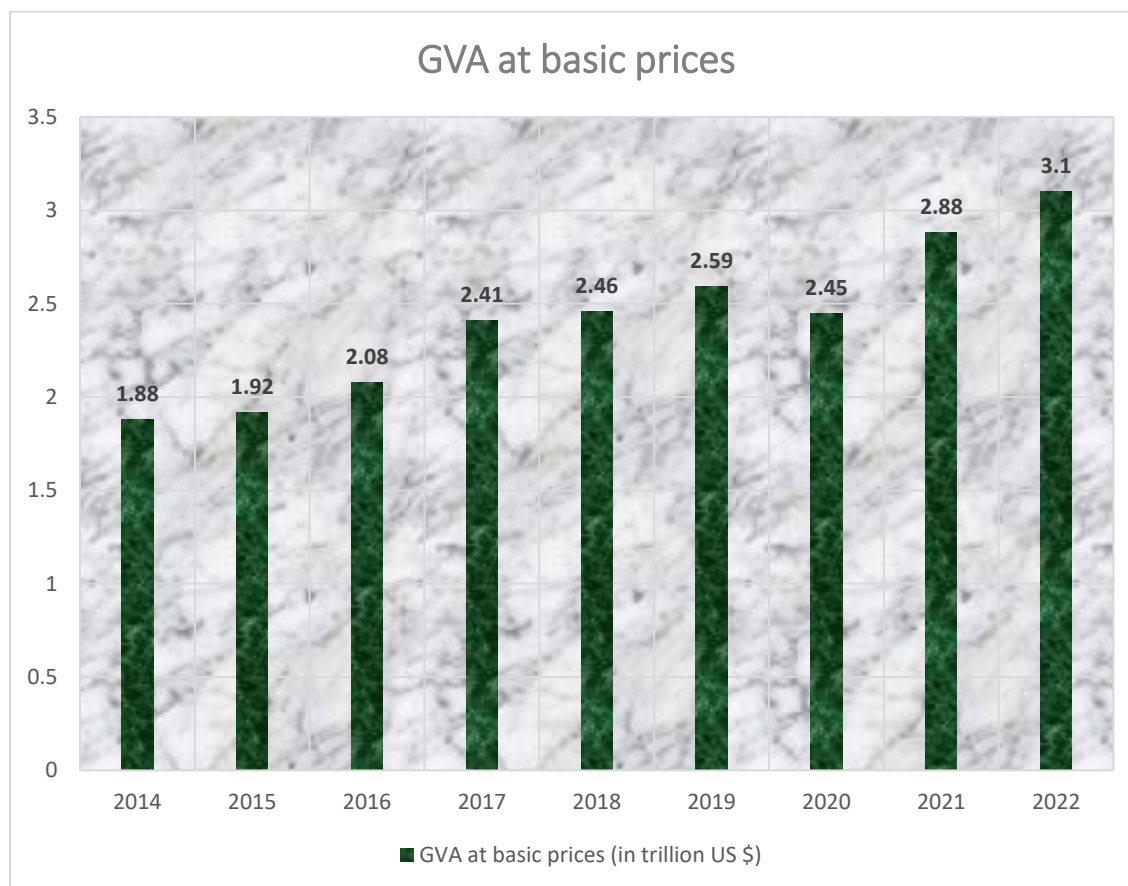
2. Significance of Service Sector

The service sector plays a very important role in India's economy. Indian service sector is popular for its competency and efficiency. In seven decades of independence, Indian service sectors have witnessed phenomenal growth. Here are some main and important contributions of the Service sector in India.

2.1 Economic Growth

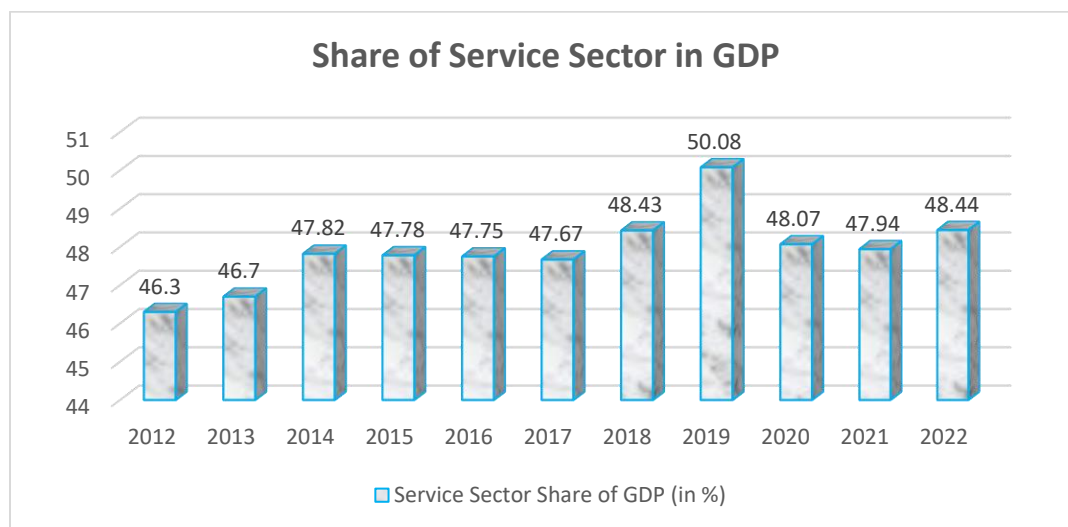
GVA (Gross value added) thus adjusts gross domestic product (GDP) by the impact of subsidies and taxes on products and thus considered as better gauge to the economy. Gross Value Added (GVA) represents the net value generated by economic activities on after accounting for the cost of intermediate inputs and raw materials directly used in production process. It serves as a key indicator of an economy's productive performance. According to World Bank data, India's GVA expanded to approximately USD 3.1 trillion, reflecting a steady rise from USD 2.45 trillion in 2020 and USD 2.88 trillion in 2021 (where one trillion equals one lakh crore). This upward trend indicates sustained improvements in overall economic output. In recent years' service sector has demonstrated consistent expansion and has come out as a major contributor to national economic growth. Data released by the Ministry of Statistics and Programme Implementation (MoSPI) indicate that the Indian economy maintained strong resilience, recording a growth rate of 7.6

percent in the financial year 2023–24, compared to 7 percent growth in 2022–23. This performance underscores the growing strength of service-led activities in supporting economic stability and long-term growth momentum.



Source: World Bank

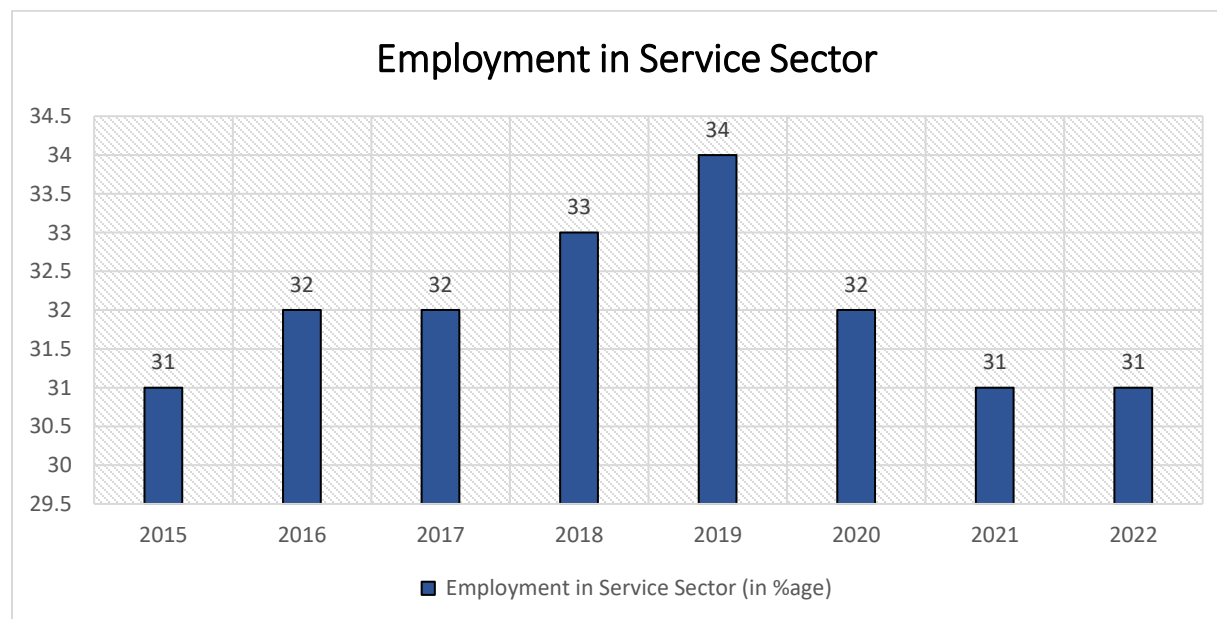
The service sector forms one of the largest shares of India's economic output. By 2022, services contributed nearly half of the country's GDP, reflecting a gradual increase over the past decade. Key segments include telecommunications, information technology, and software services. Among these, the IT industry plays a central role, covering areas such as software development, consulting, digital services, and business process management (BPM).



Source: India; World Bank

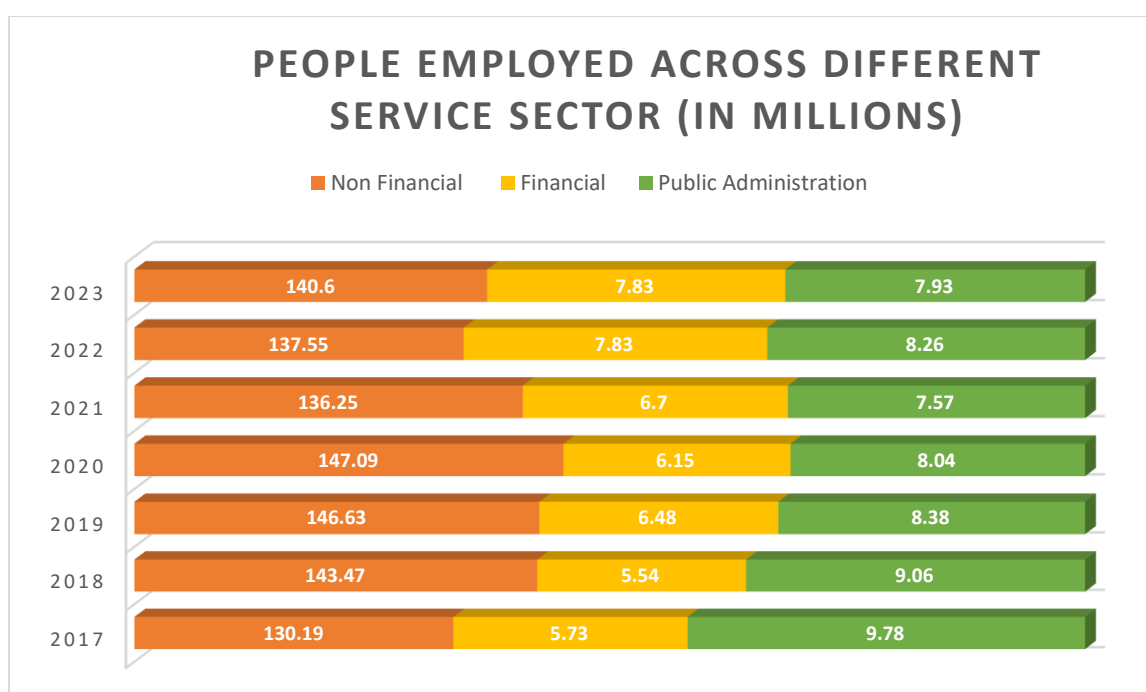
2.2 Employment Generation

The service sector has the highest employment generation among sectors that means a major source of employment in India. In 2022, as per the world bank collection development indicators, compiled from officially recognized sources, employment in services (% of total employment modeled as per ILO estimate) in India is reported at 34%, 32%, 31%, and 31% in 2019, 2020, 2021 and 2022.



Source: World Bank

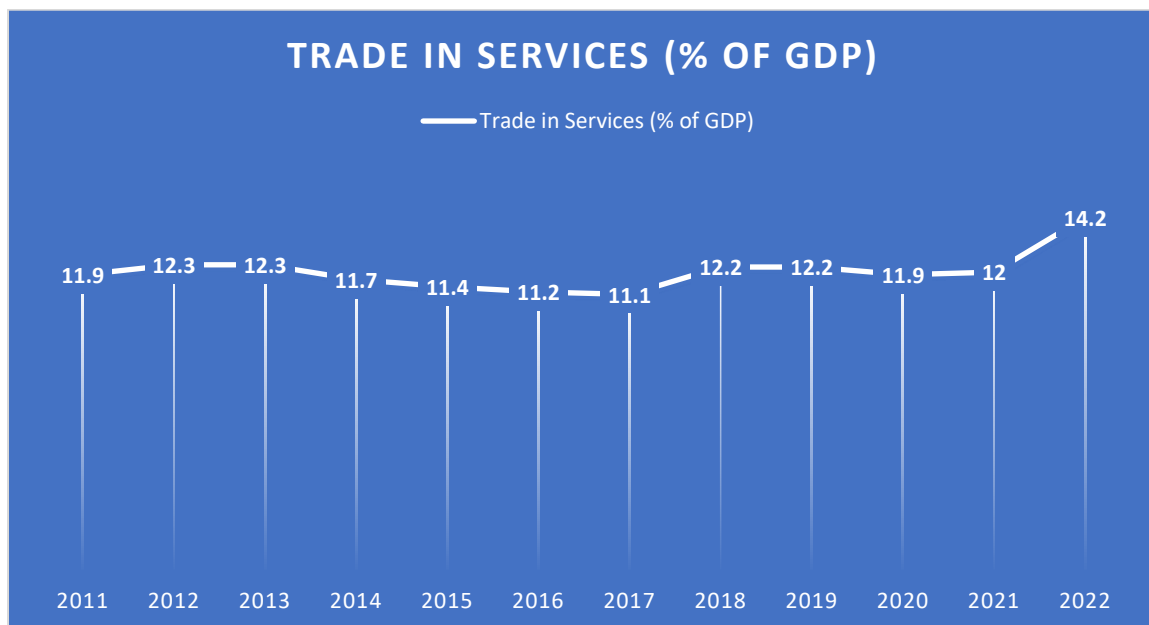
Among the three segments of the service sector of India, it was the non-financial services segment that constituted the greatest number of employees in financial year 2023 at 140.6 million (1 million = 10 Lacs). Meanwhile, the other two segments number of employees stood below eight million. The service sector has become important to rise not only our GDP, as well as make it the key vehicle for employment generation.



Source: Statista and World Bank

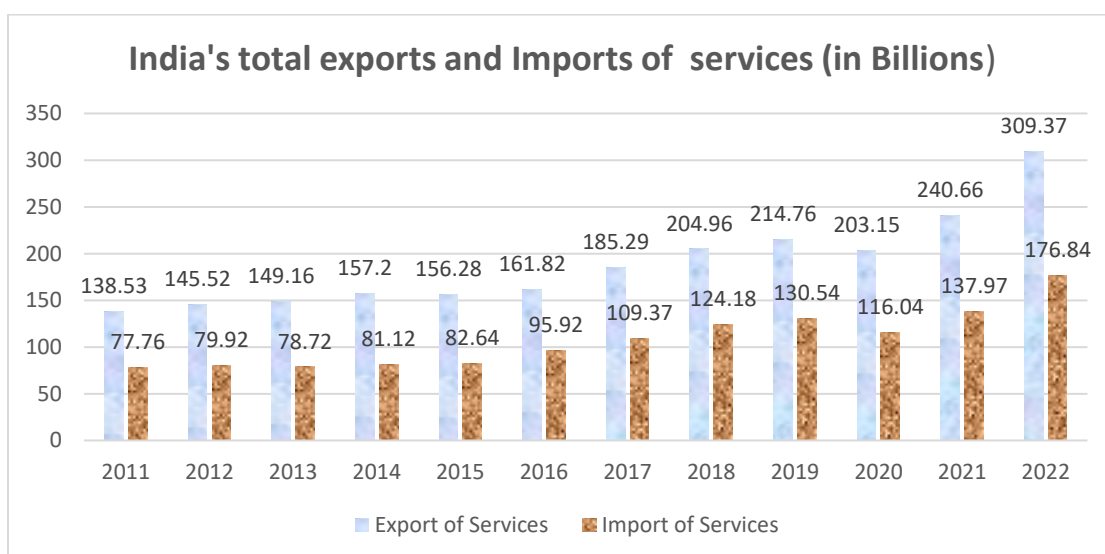
2.3 Foreign Exchange Generation

Service-based industries such as IT, BPO, and medical tourism have emerged as major Trade in services refers to the exchange of services between domestic residents and foreign entities, including services delivered through overseas affiliates. As indicated in the chart, India's share in global services exports increased by 2.3 percent during the period from 2020 to 2022sources of foreign exchange inflows for the Indian economy.



Source: World Bank & IMF

According to chart shown above, in financial year 2022, service sector accounted for 309.37 billion i.e., 37.2% of the total exports in India {1 billion = 100 Crores (1 Arab)} while Imports accounted for 176.84 billion i.e., up to 19.2% of the total imports. The share of services in the world trade had increased in the past two decades and it is one of the primary drivers of the domestic growth.



Source: World Bank, IMF

2.4 Improvement in Quality of Life

The service sector has played a key role in enhancing the overall quality of life by improving access to essential services such as education, healthcare, banking, insurance, transportation, and communication. These improvements have contributed to better living standards and human well-being, thereby positively influencing India's Human Development Index (HDI). As a result, India's position in the United Nations Human Development Index improved to 134th among 193 countries.

2.5 Contribution to Startups and Innovation:

India's startup ecosystem has expanded rapidly in recent years, with a large share of new enterprises emerging from the service sector. Continuous policy support and institutional initiatives have encouraged entrepreneurial activity across the country. According to the Department for Promotion of Industry and Internal Trade (DPIIT), the number of recognized startups increased to 1,17,254 as of 31 December 2023, compared to around 61,000 in January 2022. These startups have generated over 12.42 lakh direct employment opportunities, making a significant contribution to innovation, job creation, and economic growth..

3. Challenges

3.1 Shortage of Skilled Workforce

One of the large constraints affecting service sector, particularly Micro, Small, and Medium Enterprises (MSMEs), is the limited availability of adequately trained manpower. Owing to skill gaps, many enterprises are compelled to employ workers who lack formal training, which often results in lower service quality and difficulty in meeting domestic as well as international standards. In addition to workforce challenges, MSMEs frequently encounter financial constraints. Complex lending procedures, stringent documentation requirements, and limited access to institutional credit restrict their ability to secure business loans or extend financial support to employees.

3.2 Taxation Burden

The service sector is subject to multiple layers of direct and indirect taxation, making it one of the most heavily taxed segments of the economy. Despite its expanding contribution to national income, the sector has received limited tax-related incentives. Neither central government nor state governments have introduced targeted tax concessions or holiday schemes specifically designed to support fast-growing service-based industries.

3.3 Inadequate Infrastructure

Infrastructure deficiencies continue to pose serious challenges, particularly in rural and semi-urban regions where many service enterprises operate. Limited access to banking facilities, poor transport networks, and unreliable digital connectivity increase operational costs for businesses. As a result, firms often depend heavily on government intervention and public investment to develop essential infrastructure in these regions.

3.4 Limited Employment Generation

Although the service sector is the main contributor to economic growth, its capacity to generate employment remains relatively modest. This can be stems from a variety of factors. First, the expansion of service output is often linked to increased trade volumes, especially imports, which have limited employment absorption. Second, while tourism has strong job creation potential, infrastructural shortcomings prevent the sector from fully realizing this opportunity. Third, growth in IT and IT-enabled services has largely been driven by technological advancements and more labor productivity rather than large-scale job creation. Additionally, sectors such as real estate primarily offer seasonal, low-skilled, and low-wage employment.

3.5 Uneven Growth Across Sub-Sectors

Growth within the service sector has been uneven, with IT-BPM and financial services dominating overall performance, while other segments such as tourism, transport, and communication have

expanded at a slower pace. The IT-BPM sector faces challenges such as stricter visa regulations, global economic uncertainty, rising skill requirements, and increased competition from emerging service hubs in Latin America. The banking sector continues to struggle with issues including the dominance of public sector banks, political influence in decision-making, and high levels of non-performing assets. Real estate services are affected by delays in regulatory approvals, high transaction costs, rising debt levels, and a shortage of skilled labor. Similarly, tourism remains constrained by inadequate infrastructure, weak connectivity, limited basic amenities, and concerns related to safety and security.

3.6 Barriers to Market Access

India's services trade with non-WTO partner countries is often restricted by various external barriers. These include limited access to foreign markets for Indian service exports, restrictions on the mobility of skilled professionals, stringent visa regulations, and the withdrawal of preferential trade benefits such as the Generalized System of Preferences (GSP). Such constraints reduce the global competitiveness of India's service sector and limit its export potential.

3.7 Government Initiatives to Promote the Service Sector

The Government of India has undertaken many initiatives in recent years to strengthen the service sector and align it with emerging economic and technological trends. The establishment of 157 new medical colleges by December 2023 and the launch of the Ayushman Bharat Health Infrastructure Mission reflect a strong focus on expanding affordable and digital healthcare services. To support technology-driven services, schemes such as the Production Linked Incentive (PLI) for telecom equipment and the BharatNet Programme have been implemented to improve digital connectivity, especially in rural and remote areas. Skill development remains a priority through initiatives like the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) and the Mahatma Gandhi National Fellowship, which emphasize new-age, digital, and industry-relevant skills.

India has also strengthened global cooperation in services through strategic dialogues and MoUs with countries such as the UK, Japan, and Australia, particularly in areas like 5G,

cybersecurity, and digital infrastructure. Policy reforms such as the increase in FDI limits in insurance and the Service Exports from India Scheme (SEIS) further aim to enhance service exports and attract foreign investment.

4. Future Prospects

The outlook for India's service sector remains strong in the current economic environment. The healthcare industry is expected to grow significantly, while India's digital economy is projected to reach USD 1 trillion in the coming years. Emerging technologies such as artificial intelligence are likely to accelerate productivity and contribute to higher long-term growth.

The implementation of GST has created a unified national market and is expected to reduce service costs over time through input tax credit mechanisms. Additionally, India's software and IT services industry is projected to reach USD 1 trillion by 2030, reinforcing the service sector's role as a key driver of economic growth and India's \$5 trillion economy vision.

5. Conclusion and Suggestions

The service sector plays a vital role in India's economy by supporting employment, income growth, and international competitiveness. Its steady expansion in areas such as IT, healthcare, finance, and tourism has made it a strong pillar of economic progress. Government initiatives like the Production Linked Incentive Scheme, Ayushman Bharat Health Infrastructure Mission, and the National Digital Health Mission highlight a clear focus on strengthening infrastructure, improving service standards, and encouraging innovation. These efforts are helping India move closer to becoming a global centre for services. Skill development programmes, including the Pradhan Mantri Kaushal Vikas Yojana and apprenticeship schemes, have improved youth employability by reducing skill gaps across service industries. Platforms such as Internshala and the Service Exports from India Scheme have further supported internships and service exports, increasing global exposure for Indian talent and businesses.

Despite this progress, challenges related to taxation, infrastructure gaps, market access, and uneven growth across sub-sectors still exist. Continued support for digital expansion, foreign

investment, and healthcare improvement is essential to maintain momentum. Looking ahead, the service sector is well positioned for sustained growth with consistent policy support. Investment in digital systems, skilled manpower, and modern infrastructure will ensure that the sector remains a main driver of India's economic future and strengthens its global leadership in service exports.

5.1 Suggestions

The service sector contributes over 54% to India's GDP and is essential for achieving long-term economic growth. To strengthen its role in the \$5 trillion economy vision, focused and practical measures are required.

- Creating a strong global identity through a **“Services from India”** initiative can improve India's image in IT, healthcare, education, and professional services. A National Services Mission with clear goals will help increase exports and service quality.
- Export competitiveness can be improved by strengthening the Service Export Promotion Council and supporting high-value services such as research, consulting, and legal services. Resolving issues related to data policies and visa rules through global cooperation will further support service exports.
- The IT sector should focus on emerging technologies like AI, cyber security, and block chain. Clear rules for the gig economy will protect workers while encouraging digital growth.
- Targeted investment in healthcare, tourism, finance, and education can unlock new opportunities. Medical tourism, eco-tourism, digital banking, and affordable online education should be promoted.
- Skill development must remain a priority through regular training and reskilling programs. Sector-specific institutes can help meet future workforce needs.
- Improved infrastructure, high-speed internet, 5G expansion, and service hubs in Tier-2 and Tier-3 cities will promote regional development.
- Strong data protection laws, startup support, sustainable practices, and adherence to global standards will further enhance India's competitiveness in the global service market.

In essence, strengthening the service sector through targeted policy reforms, skill enhancement, and infrastructure development is crucial for sustaining India's economic growth. With coordinated efforts from the government and private sector, the service sector can continue to drive employment, competitiveness, and long-term development.

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