NITI Aayog Highlights Rising Role of India’s Service Sector

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Service Sector Latest News

- India’s services sector is in the news after NITI Aayog released two comprehensive reports highlighting that the sector now contributes 55% to India’s GVA and nearly 30% to total employment.

India’s Service Sector: Driving Jobs and Growth in a Transforming Economy

- India’s **service sector** has emerged as the **core pillar of its economic transformation**, shaping the country’s journey from an agrarian economy to a knowledge and innovation-driven one.
- Encompassing a wide range of industries, including **information technology, financial services, communications, education, healthcare, transport, tourism, and retail**, the sector not only drives GDP but also represents India’s global competitiveness.

- The sector’s contribution to **India’s Gross Value Added (GVA)** has steadily risen over the years, while its employment potential has expanded across both traditional and modern sub-sectors.
- India is today the **7th largest exporter of services in the world**, with a share of over **4% in global services exports**.

Key Highlights and Insights from the NITI Aayog Reports

- **Employment Growth and Rising Share in Workforce**
    - According to the **latest twin reports released by NITI Aayog**, *“India’s Services Sector: Insights from Employment Trends and State-Level Dynamics”* and *“India’s Services Sector: Insights from GVA Trends and State-Level Dynamics”*, between **2017-18 and 2023-24**, India’s service sector added nearly **40 million new jobs**, raising its employment share from **26.9% in 2011-12 to 29.7% in 2023–24**.
    - This means almost one in three Indian workers is now engaged in the services economy.
    - The report also notes an improvement in **employment elasticity**, which rose from 0.35 pre-pandemic to 0.63 post-pandemic, indicating that job creation is increasingly responding to output growth.
    - The sector’s ability to absorb labour displaced from agriculture and low-productivity industry makes it a crucial driver of inclusive growth.
- **Contribution to GDP and Economic Stability**
    - The services sector’s contribution to India’s **Gross Value Added (GVA)** increased from **49% in 2011-12 to 55% in 2023-24**, outpacing the secondary and primary sectors.
    - It also recorded a **Compound Annual Growth Rate (CAGR) of about 7%**, showing consistent resilience even during economic downturns.
    - Sub-sectors such as **Information Technology (IT), financial and professional services, communication, and logistics** have been the key growth engines.
    - For instance, **Computer and Information Services** GVA increased nearly **fourfold**, from Rs. 2.4 trillion in 2011–12 to **Rs. 10.8 trillion in 2023–24**, highlighting India’s digital dominance and the rapid expansion of knowledge-based services.
- **Traditional vs Modern Services**
    - While traditional services such as **trade, repair, and transport** continue to employ a large section of the population, modern services like **IT, finance, R&D, and consulting** have seen faster growth and higher productivity levels.
    - The **Professional, Scientific, and Business Services** segment alone contributes about **20% of total services output**, underlining the importance of high-skilled and innovation-driven activities.
    - Conversely, postal, courier, and insurance services remain underperforming and require modernisation and digital transformation.
- **Regional Trends and State-Level Dynamics**
    - The NITI Aayog’s state-level analysis reveals significant disparities in the development and composition of the services sector across India.
    - **Leaders:** Karnataka, Maharashtra, Telangana, Tamil Nadu, Delhi, and Kerala dominate the modern service economy, driven by IT, finance, and professional consulting. Together, they account for **40%**

of total services output.
    - **Lagging States:** Bihar, Uttar Pradesh, Jharkhand, and Odisha remain concentrated in low-value traditional services, with limited participation in high-value segments.
    - **Emerging Catch-Up:** Encouragingly, lower-income states are showing **“beta convergence”**, meaning they are growing faster in services GVA, narrowing the regional gap over time.
- **NITI Aayog recommends a “Build–Embed–Scale” framework to strengthen state-specific service ecosystems:**
    - **Build** – Invest in physical and digital infrastructure.
    - **Embed** – Link services with industrial and skill ecosystems.
    - **Scale** – Promote innovation and decentralised service delivery.
- **Linkages with Income, Exports, and Digitalisation**
    - The correlation between a state’s **service sector strength and its per capita income** is strong; states with higher service contributions, like Karnataka and Telangana, record higher incomes.
    - At the macro level, India’s services sector has become the **largest recipient of FDI** and a key contributor to **foreign exchange earnings**.
    - India’s **digitally deliverable services exports**, such as software and IT-enabled services, have surged, supported by **Global Capability Centres (GCCs)** that employ over **1.6 million professionals**.
    - The report also highlights the growing importance of **Digital Public Infrastructure (DPI)**, including UPI, DigiLocker, and e-governance systems, in enabling service delivery and financial inclusion across Tier-2 and Tier-3 cities.

Policy Priorities for the Road Ahead

- NITI Aayog stresses that service-led growth must be **inclusive, sustainable, and regionally balanced**. Key policy priorities include:
    - Expanding **digital and physical infrastructure** across smaller cities.
    - Establishing **skill hubs** for emerging areas such as fintech, AI, and healthcare.
    - Promoting **MSME integration** into service supply chains.
    - Strengthening **data and institutional capacity** for evidence-based policymaking.
    - Encouraging **green and sustainable services** to align with India’s climate goals.

Source : TH | BW
