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BA Economics Honours | Semester 1 | Calicut University

Sectoral Contributions in Indian Economy

Course Code: ECO1MN103 • Module 4

Module IV: Performance of the Service Sector

The tertiary (service) sector has emerged as the unchallenged powerhouse of the contemporary Indian economy. Generating approximately 54% of national Gross Value Added (GVA) and attracting the vast majority of foreign direct investment inflows, the service sector has earned India a formidable global reputation as the "office of the world."

Unit 19: Growth and Contribution of the Service Sector in India

Since the balance of payments crisis and structural liberalization of 1991, India's service sector has expanded at a compound annual growth rate exceeding 8%, outpacing both agriculture and manufacturing. Key structural drivers include:

- **High Income Elasticity of Demand:** As domestic per capita incomes rise, household consumption expenditures naturally pivot from essential food grains toward telecommunications, private healthcare, air travel, and financial services.
- **Telecommunications Revolution and Cost Arbitrage:** The rapid rollout of transoceanic fiber-optic cable networks in the 1990s enabled high-speed data transmission at minimal cost, allowing Indian IT professionals to deliver software engineering, business process management, and data analytics to multinational corporations in the US and Europe in real-time, capitalizing on vast labor cost arbitrage.
- **Financial Sector Deregulation:** Private sector entry into commercial banking, mutual funds, insurance, and fintech fostered rapid credit expansion and modern transaction rails (UPI, IMPS).

Unit 20: The Service Sector and Employment: The Jobless Growth Debate

Despite contributing nearly 54% of national GDP, the service sector accounts for only ~31% of aggregate employment. This sharp mismatch highlights the fundamental dilemma of **jobless growth** in modern services:

The service sector is internally split into two starkly divergent segments:

- **High-Productivity, Skill-Intensive Modern Services:** Software development, management consulting, investment banking, telecommunications, and corporate legal services. These sectors generate massive revenues and export earnings, but are exceptionally skill-intensive, employing only a small elite fraction of the total labor force (primarily urban English-speaking engineering and business graduates).
- **Low-Productivity, Informal Traditional Services:** Petty retail trade, auto-rickshaw transport, domestic household domestic labor, security guards, and roadside eateries. This informal sector absorbs tens of millions of low-skilled workers who migrate out of rural agriculture, but offers subsistence wages, zero formal job security, and negligible social insurance.

Unit 21: Information and Communication Technology (ICT)

The IT-BPM (Information Technology and Business Process Management) sector stands as the crowning jewel of India’s tertiary economy. Centered in dynamic innovation hubs (Bengaluru, Hyderabad, Pune, Chennai, Gurugram), the sector contributes over $250 billion in annual revenue and directly employs over 5.4 million software engineers and digital specialists. The sector has evolved from low-value business process outsourcing (call centers) toward high-value Global Capability Centers (GCCs), artificial intelligence model development, cloud computing architectures, and software-as-a-service (SaaS) enterprise products.

Unit 22: Foreign Trade in Services

India's foreign trade in services plays an indispensable stabilizing role in the national balance of payments. While India chronically runs a massive merchandise (goods) trade deficit—driven by heavy import dependence on crude petroleum, electronics, gold, and specialized machinery—its massive **services trade surplus** (exceeding $160 billion annually) finances nearly two-thirds of the merchandise trade deficit, preventing severe foreign exchange crises and stabilizing the Indian Rupee.

Service Sector Segment	Share in Service GVA	Skill Intensity	Primary Export Orientation
IT & Software BPM	~15%	Very High (Computer Science / STEM)	Global Export Focus (US, UK, EU)
Trade, Hotels & Transport	~26%	Low to Moderate	Domestic Consumer Market
Financial & Real Estate Services	~22%	Moderate to High	Primarily Domestic Financial Market
Public Administration & Defense	~14%	Moderate (Civil Services)	Pure Domestic Sovereign Governance

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

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However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

Policy Synthesis and Analytical Evaluation

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