iJRASET
International Journal For Research in Applied Science and Engineering Technology



INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 3 **Issue:** V **Month of publication:** May 2015

DOI:

www.ijraset.com

Call: 08813907089 | E-mail ID: ijraset@gmail.com

International Journal for Research in Applied Science & Engineering Technology (IJRASET)

An Analysis of Services Sector in Indian Economy

Mrs. Mukesh Chahal
Dept. of Economics, R.K.S.D College, Kaithal, Haryana, India

Abstract: Service sector also known as tertiary sector is essential for economic growth in any economy including India. It has emerged as the biggest and fastest-growing sector in the global economy in the last two decades. This sector continues to live a star performer and by contributing significantly to GDP, GDP growth, employment, trade and investment. . A large part of the employment is in the non-corporate or unorganised sector, with limited job security. Although India is portrayed as a major exporter of services, its rank among WTO member countries in services exports is lower than that of China's and its export competitiveness concentrate in few sectors and a few markets. Its respectable share in foreign direct investment (FDI) inflows as well as in total exports makes it the engine of economic growth. The present study makes an analysis of service sector in Indian economy. This sector contribution in GDP, employment and exports are also rising considerably. To maintain and accelerate the growth & contributions of this sector.
Keywords: Services, Employment, Economic growth, GDP

I. INTRODUCTION

Service sector also known as tertiary or residual sector is essential for economic growth in any economy including India. It has emerged as the largest and fastest-growing sector in the global economy in the last two decades. On the basis of this observed development pattern of countries some economists like Fisher (1939) Clark (1940) Rostov (1960) and Kuznets (1971) have suggested that development is a three stage process. The dominance of the services sector in the growth process is associated with the third stage of development. However in India the acceleration in growth in recent years has been due to the dynamism of the service sector while the contribution of industry has tended to stagnate over the last two decades. Service now contribution almost 59%to India `s GDP and have contribution to more than 60% of India's growth during the period of the last decade and a half. Firstly, Fisher classified the economy into primary, secondary and tertiary sector. Later on Kuznets introduced the term 'services' instead of tertiary, there by bringing the sector into economic discussion (Kuznets, 1972). The objective of this paper is to provide an overview of the Indian services sector.

A. Growth of service sector in India, its share in GDP and its contribution to GDP growth.
B. Comparative growth of different sub sector of the service sector.
C. Share of service in employment
D. concludes the study with policy implications

II. SECTORAL GROWTH RATE

The Indian economy has grown at a robust rate during the few years and a striking feature of this growth performance has been the strength of the service sector. Table first shows that on average service grew slower than industry between 1950 and 1990.growth of service picked up in the 1980s, and accelerated in the 1990s when it averaged 7.5% per annum,''thus providing a valuable prop to industry and agriculture ,which grew on average by 5.8% and 3.1% respectively. The slowdown in the Ninth plan (1997-2002) was confined to agriculture and industry with the services registering a remarkable rate of growth of 7.9% per annum.the expansion of services accelerated further in the years after 2002-03.over the Tenth year plan period (2002-07), services grew at a rate of 9.3% per annum and Eleventh year plan period (2007-12), services grew at a rate of 9.7% per annum. Table 1 and above discussion clearly brings out the fact that what the Indian economy has witnessed in recent period is a services led growth.

©IJRASET 2015: All Rights are Reserved

Volume 3 Issue V, May 2015
ISSN: 2321-9653
International Journal for Research in Applied Science & Engineering Technology (IJRASET)

Table 1: Sectoral Growth Rates during the Planning Period
(Percent per annum)

Sector	1951-80	1981-90	1991-2000	1992-97	1997-2002	2002-2007	2007-2012
Agriculture	2.1	4.4	3.1	4.8	2.5	2.5	3.7
Industry	5.3	6.8	5.8	7.3	4.3	9.3	7.2
Services	4.5	6.6	7.5	7.3	7.9	9.3	9.7
Total GDP	3.5	5.8	5.8	6.6	5.5	7.8	7.9

Source: Planning Commission of India

III. CONTRIBUTION OF THE SERVICES SECTOR TO INDIA'S GDP

After India's independence, for more than a decade share of services in the GDP was less than 30%. Table 2 shows that overtime the share of services in GDP has increased while that of agriculture has declined. In the last decade, the share of services has surpassed the combined share of agriculture and industry, making it the most important provider to the country's output. In 2009-10, services, industries and agriculture correspondingly accounted for 57.3%, 25.7% and 16.9% of India's GDP.in 2010-11, service, industry and agriculture correspondingly accounted for 57.7%, 27.8%, and 14.5% of India's GDP.In 2011-12, service, industry and agriculture correspondingly accounted for 59%, 27%, and 13.9% of India's GDP. During the period of economic reforms the share of service has increased very rapidly.

Table 2: Decadal average of the year on year share of the different sectors in India's GDP for the period 1950-**2010**

Sector	1950/51-1959/60	1960/61-1969/70	1970/71-1979/80	1980/81-1989/90	1990/91-2000/01	2000/01-2009/10
Agriculture	55.3	47.6	42.8	37.3	30.9	21.8
Industry	14.8	19.6	21.3	22.3	23.3	24.5
Services	29.8	32.8	35.9	40.3	45.7	53.7

Source**:** Economic Survey, 2011-12, published by GOI, Author's own calculations from National Income Accounts, CSO, MOSPI. The calculations are made on GDP at constant prices, constant at 1999-00 and 2004-05

IV. CONTRIBUTION OF SERVICES SUB-SECTORS TO INDIA'S GDP

There are variations in growth and performance of different sub-sectors of services. Business services (including IT), communications and trade have grown faster than the overall services sector growth in India. Others such as real estate, legal services, transport, storage and personal administration and defence services have grown-up at the same rate as the overall services sector growth (see Gordon and Gupta 2003). Existing literature shows that services such as IT, telecommunications and financing services have contribute to the high growth of the services sector. Hansda (2001) and Joshi (2008) has pointed out that the increase in the export demand of IT has led to high services growth in India.

Table 3 shows that the share of different subsectors of services in the GDP and services sector has changed overtime. After the economic reforms of the 1990s, the share of all the services subsectors in GDP has increased. The share of financing, trade and transport sectors in total services sector has increased while that of community, social and personal services has declined.

©IJRASET 2015: All Rights are Reserved

Volume 3 Issue V, May 2015
ISSN: 2321-9653
International Journal for Research in Applied Science & Engineering Technology (IJRASET)

Table 3: Decadal Average of the Year on Year Share of Services Sub-sectors in Total Services Sector and GDP (in %)

Items	1970/71-1979/80		1980/81-1989/90		1990/91-2000/01		2000/01-2009/10	
	Share In Services	Share In GDP	Share in services	Share in GDP	Share in services	Share in GDP	Share in services	Share in GDP
Community, social & personal services	35.1	12.6	33.2	13.4	30.3	13.9	26.1	14.0
Public administration & defence	14.3	5.1	15.2	6.1	13.2	6.2	11.2	6.0
Other services	21.0	7.5	18.0	7.3	16.7	7.6	14.9	8.0
Financing, insurance, real estate & business services	20.3	7.3	22.0	8.9	26.2	12.0	27.3	14.7
Banking & insurance	5.9	2.1	7.6	3.1	10.7	4.9	12.0	6.5
Real estate, ownership of dwellings & business services	14.3	5.1	14.5	5.8	15.5	7.1	15.3	8.2
Trade, hotels & restaurant	30.2	10.8	29.3	11.8	28.5	13.0	29.4	15.8
Trade	28.0	10.0	27.3	11.0	26.2	12.0	26.7	14.3
Hotels & restaurants	2.1	0.8	2.0	0.8	2.2	1.0	2.6	1. 4
Transport, storage & communication	14.5	5.2	15.5	6.2	15.0	6.9	17.3	9.3

©IJRASET 2015: All Rights are Reserved

Railways	4.5	1.6	3.9	1.6	2.9	1.3	2.1	1.1
Transport by other means	8.3	3.0	9.5	3.8	9.6	4.4	9.8	5.3
Storage	0.3	0.1	0.3	0.1	0.2	0.1	0.1	0.1
Communication	1.6	0.6	1.7	0.7	2.3	1.0	5.3	2.8

Source: Author's own calculations from National Income Accounts, CSO, MOSPI.
Note: The calculations are made on GDP at constant prices, constant at 1999-00 and 2004-05.

V. EMPLOYMENT IN THE SERVICES SECTOR

There has been a lot of debate on employment generating capacity of services sector. It has been argued that employment growth in services sector has not be commensurate to the income growth in the sector (Bosworth and Maertens, 2010) or the increase in its share in India's GDP (Kocher *et. al.* 2006). The change in the production structure from agriculture to services has not be reflected by a proportionate change in the occupational structure (Bhattacharya andMitra 1990). As a result, services-led growth has be a jobless growth (Banga, 2005 and Bhattacharya and Sakthivel 2004).
Over the years, the percentage of people employed in agriculture has declined and employment in services has increased, though the broad pattern of employment has remained the same with agriculture having the highest share. Table 4 explores that percentage share of services sector in total employment is increasing since 1972-73. Though the employment percentage in agriculture sector is highest in comparison of other sectors yet its share is declining continuously. However, the services sector is the second largest employer after agriculture for Indian population.

Table 4: Sector wise percentage share in employment

Year	Agriculture	Industry	Services
1972-73	73.9	11.3	14.8
1977-78	70.9	12.6	16.5
1983-84	68.6	13.8	17.6
1987-88	64.9	17.0	18.1
1993-94	64.5	14.3	21.2
2004-05	57.0	18.2	24.8
2007-08	55.9	18.7	25.4
2009-10	51.3	22.0	26.7

Source**:** Economic Survey, 2010-11, published by GOI. Various rounds of NSS data on employment and unemployment

It is clear from the table 5 that community, social & personal services is the primary contributor of employment till 2001. But, in 2004 the percentage share of trade, hotels & restaurants in employment was highest i.e. 39.27 per cent. Except community, social &personal services, the percentage share of all other subsectors in employment have increased over the period. Consequently, service sector is gaining primary position in its employment contribution.

©IJRASET 2015: All Rights are Reserved

Table 5: Percentage Share of Service Sub-Sectors in Employment

Year	Trade, Hotels & Restaurants	Transport, Storage & Communication	Financing, Insurance, Real Estate & Business Services	Community, Social & Personal services
1961	29.24	11.13	1.53	58.10
1971	30.14	14.43	2.84	52.60
1981	31.83	14.66	2.25	51.26
1991	36.10	13.66	2.25	48.00
2001	37.21	15.65	7.56	39.59
2004	39.27	14.47	8.51	37.74

Source: Various rounds of NSS data on employment and unemployment

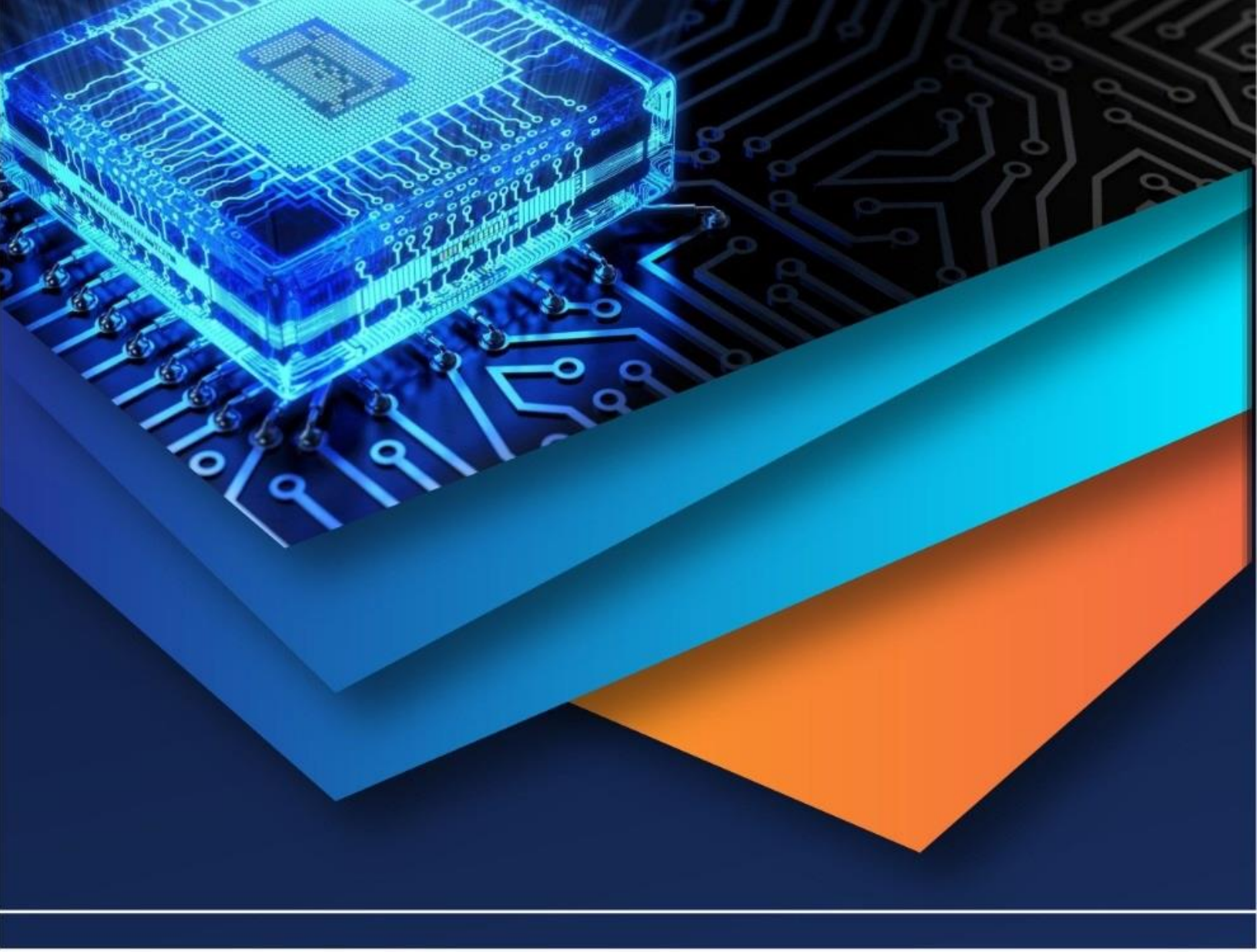
VI. CONCLUSIONS AND POLICY IMPLICATIONS

The present paper makes an analysis of Indian services sector through examining its growth and contributions in the economy. The study confirms that services sector have grown at the significant rate in comparison to other sectors. Its growth rate is found to be higher than growth of overall GDP. Rising share of this sector in GDP over covers the poor performance of agriculture sector. As a service sub-sector, trade is dominant all in terms of its contribution in Indian GDP. The employment percentage in service sector as well as in industry sector is rising while in agriculture, it is falling continuously. A large proportion of Indian population is still engaged in agriculture sector and the next largest employer is service sector where trade, hotels & restaurants and community, social & personal services are the significant generator of employment. Thus, service sector which is dominant in terms of its growth & shares serves as an engine of growth for Indian economy. The paper highlights reform measures that will enable the services sector to not only to grow at a fast pace but also create quality employment and attract investment. It is important for a developing country like India with a large and young population to generate quality employment and move up the value chain. India needs private investments in key infrastructure services such as transport, energy and telecommunications.

REFERENCES

[1] Ansari, M.I. (1995), “Explaining the Service Sector Growth: An Empirical Study of India, Pakistan, and Sri Lanka”, Journal of Asian Economics, Vol. 6, No. 2, pp. 233-246.
[2] Banga, Rashmi (2006), “Statistical Overview of India’s Trade in Services” in R. Chanda (ed.), Trade in Services and India: Prospects and Strategies’, Wiley India, New Delhi.
[3] Banga, Rashmi and Bishwanath Goldar (2004), “Contribution of Services to Output Growth and Productivity in Indian Manufacturing: Pre and Post Reforms”, ICRIER Working Paper No. 139, July 2004.
[4] Francois, J. and Hoekman, B. (2010), ‘Services Trade and Policy’, Journal of Economic Literature 48, no.3: 642–92.
[5] Bhattacharya, B.B. and Arup Mitra (1990), “Excess Growth of Tertiary Sector in Indian Economy: Issues and Implications”, Economic and Political Weekly, Vol. 25, No. 44 (Nov. 3, 1990), pp. 2445-2450.
[6] Government of India (2010-11, 2011-12 & 2012-13), ‘Economic Survey of India’
[7] Bosworth Barry, and Annemie Maertens (2010), “Economic Growth and Employment Generation: The Role of the Service Sector”, in Ejaz Ghani (ed), The Service Revolution in South Asia, New Delhi: Oxford University Press.
[8] Jensen, J. B. (2011), ‘Global Trade in Services’. Washington: Peterson Institute for International Economics
[9] Bosworth Barry, Susan M Collins and Arvind Virmani (2007), “Sources of Growth in Indian Economy”, NBER Working Paper 12901.
[10] Reserve Bank of India (2011-12), ‘Handbook of Statistics on Indian Economy
[11] Joshi, Seema (2008), “Service Sector in India’s Economy: Performance, Problems and Prospects”, Country Paper submitted for “Study Meeting on Expansion and Development of the Services Industry in Asia”, organised by Asian Productivity Organization at Seoul, Republic of Korea, June 17-20, 2008
[12] Papola, T.S. and Sahu, P.P. (2012), ‘Growth and Structure of Employment in India’, Institute for Studies in Industrial Development, New Delhi
[13] Jain, Sunil and T.N. Ninan (2010), “Servicing India’s GDP Growth”, in Acharya, Shankar and Rakesh Mohan (ed.), “India’s Economy: Performance and Challenges - Essays in Honour of Montek Singh Ahluwalia”, Oxford University Press, pp. 328-365.
[14] Joshi, S. (2008), ‘Growth and Structure of Tertiary Sector’. New Delhi: Academic Foundation
[15] Misra S.K,Puri V.K Himalaya Publishing House

©IJRASET 2015: All Rights are Reserved



10.22214/IJRASET

45.98

IMPACT FACTOR: 7.129

IMPACT FACTOR: 7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Call : 08813907089 (24*7 Support on Whatsapp)