

AN OVERVIEW OF SERVICE SECTOR IN INDIAN ECONOMY

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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. Our wide range of service provides an end to end solution to all our needs in the education sector. The expansion of both health and education sector have made the advancement of service sector. As per Economic Survey (2010-11), services sector of Indian economy is contributing 55.2 percent in Gross Domestic Product (GDP). It is generating only one quarter of total employment for country.



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Introduction

As civilization progresses human desires increases leading to the evolution of economic activities. Normally primary activities such as hunting, animal husbandry and agriculture emerged. Later on as science and technological development took place which led to the evolution of industrial sector. The expansion of both these sectors made the advancement of service sector. 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.

The services sector is an important component of any economy. It makes a direct and significant contribution in GDP and job creation and provides crucial Inputs for the rest of economy, thus having a significant effect on the overall investment climate, which is an essential determinant of growth and development. Some services such as health, education, water and Sanitation sectors are also directly relevant to achieving social development. It

accounts for a significant proportion of GDP in most countries including low Income countries to high income countries.

Service sector also known as the tertiary sector of the economy is expanding at a faster rate. It is one of the three sectors of the economy. “Soft” part of the economy in the service sector includes all activities which people offer their knowledge and time to improve productivity, performance, potential and sustainability and also known as advice, experience and discussion include the service sector. Service sector involves of activities beginning from the production of goods and service until it reaches to the consumer. For the last 30 years there has been a substantial shift from the primary and secondary sector to the service sector. Now it has become a largest sector of the economy.

Objectives

1. To analyze the service sector growth in India.
2. To analyse the service sector’s share in GDP and its contribution to GDP growth.
3. To study the share of service sector in employment.

Methodology

The study is based on secondary sources obtained from economic survey Government of India. Information about specific parameters outlined in the objectives was collected for the period between 1950-51 and 2010-11. The detailed information was collected from economic survey 2010-11.

Service Sector in Economic Development

Trade as a service sector activity facilitates the exchange of the goods and services between producers and consumers. Finance as a service sector activity plays an important role in undertaking any economic activities. Finance refers to funds of monetary resources required by individual, business houses and the government. Government needs funds to provide various services to its subject. Finance institutions provide funds to various groups of people for variety of activities. In this process the service sector activities provides income and employment to the people of a country.

Trade, transport and storage activities ensure distribution of goods and services where and when needed by consumers. Business and financial services facilitate mobilization of resources and their development in the activities of different sector of the economy. Service sector activities generally require relatively less capital investment than activities in other sectors. But a majority of these activities also require relatively less space for operations service sector is a

knowledge intensive sector and substantial HRD inputs are the necessary for developing most of the services sector activities.

Contribution of Service Sector in India

The share of services sector in total GDP is 47 percent in low income countries, 53 percent in middle income countries and 73 percent in high income countries (World Bank, 2010). In case of India, the shares of services are increasing in all sectors of economy. It increased from 33.5 percent in 1950-51 to 55.1 percent in 2010-11 and 56.3 percent in 2011-12. If construction is also included, it increases from 63.3 percent to 64.4 percent in the same period. In fact, growth of services sector is higher than the growth of agricultural and industrial sector.

There is a significant change in sectoral contribution of each sector to India's GDP over a period of time. In 1950-51 the primary sector was contributing about 56.5 percent to the Indian GDP. It is followed by the secondary sector with 13.6 percent and tertiary sector with 29.9 percent. During 1990-91 the share of agriculture sector in India GDP was 34 percent. It was followed by secondary sector with 23.2 percent and tertiary sector with 42.8 percent.

During 2008-09 the share of primary sector was 15.7 percent, the share of secondary sector was 28 percent and the share of service sector was 56.4 percent (GOI, 2010) which highlights the fact that the share of tertiary sector is raising constantly over a period of time. India stands one of the leading economies because its growth has been led by the Service sector. It's a larger part of the Indian economy both in terms of employment potential and its contribution to national income. The Indian economy has contributed to the services sector of about 55.2 per cent share in G.D.P it's growing by 10 per cent annually, contributing to the total employment, a high share in foreign direct investment and one -third of total exports and recording very fast at 27.4 per cent in export growth of the first half of 2010-11.

Sectoral Growth Rate

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.

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
Agriculture	2.1	4.4	3.1	4.8	2.5	2.5
Industry	15.3	6.8	5.8	7.3	4.3	9.3
Services	4.5	6.6	7.5	7.3	7.9	9.3
Total GDP	3.5	5.8	5.8	6.6	5.5	7.8

Source: Planning Commission of India

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 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% of India’s GDP.

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, 2010-11, published by GOI

Employment in the services Sector

The services sector has emerged as an indisputably important component of the country’s overall gross domestic product. Although the share of agriculture in GDP has come down drastically, it still remains the largest employer. The share of agriculture in total employment has come down from 68.6 percent in 1983 to 56.4 percent in 2010 and it again came down to 52 percent in 2012. Industry has shown a modest increase in the total employment from 13.8 percent to 18.8 percent in the same period. However the services sector which now contributes a major share of over 60 percent in GDP has employed only 24.8 percent in 2004-05 up from 17.6 percent in 1983, reflecting an increase of 7.2 percent. One reason for slow growth in employment creation in the services could be drastic increase in productivity and

another reason is drop in employment elasticity of growth from 0.40 to 0.15 during 1993-94 to 1990-2000, indicating a period of jobless growth (Banga, 2005).

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

Conclusion

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. 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. 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.

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