

SERVICES SECTOR IN INDIA: TRENDS AND PATTERN

Muhammed Aqib⁶ Dr. Jamil Ahmad⁷

ABSTRACT

Service sector has emerged as the most extensive and fastest-growing sector in India. It has become the lifeline for a country's socio-economic growth as it contributes significantly to GDP growth, employment, trade, and investment. The services sector holds the second position after agriculture to generate employment both in several states and in the national economy. This present paper attempts to evaluate the services sector's performance & contribution to the Indian economy using secondary data sources. The secondary data were collected from various published sources like journals, books, reports, websites, etc. The objectives of the study are to examine the significant relationship between different sectors and their growth performance in India. Further, the study also discusses the economic policies and impacts of the services sector. The study will also make and attempt to discuss issues relating to the performance of the Assam tea tourism sector and the foreign and Indian tourists' arrival in the state address the weakness by means of some valid and practical remedial measures.

KEYWORDS

Services, Trade, Investment, Employment, Economic Growth, GDP etc.

I. INTRODUCTION

Service sector is the lifeline for the socio-economic growth of a country. It is the largest and fastest-growing sector, contributes more to global output, and provides more people employment than any other sector. The service sector is also known as the tertiary sector. The service sector in India is contributing more than half of India's Gross Domestic Product. The service sector provides the basic facilities for the primary and secondary sectors. The primary and secondary sectors produce tangible goods like food grains, vegetables, fruits, oil, consumer, and capital manufactured goods. The service sector affords the basic facilities essential to produce to reach into the hands who need them. The service sector includes banking, insurance, communication, transportation, telecommunication, trade, storage, travel and tourism, courier services, consultancy services, and legal services—information and Communication Technology (ICT) advertising agency, media, marketing retail, etc. The service sector has played a significant role in the country's economic development. This sector is highly disordered because of the absence of a well-organized system to maintain a regular and proper statistical record for the sector because many unorganized units dominate it. India's services sector has always served the country's economy well and currently accounting for about 60 percent of the gross domestic product (GDP).

II. REVIEW OF STUDIES

India's growth rate has been noteworthy after the liberalization and Economic Reform in 1991. The Service Sector in India has played a central role in this growth story. The Indian service sector has capable of unprecedented growth during the last two decades. Service-led growth is a common portent in the theory of economic growth. (Clark, 1940; Kuznets, 1957; Chenery, 1960). However, traditionally, the service-led growth has been allied with the tertiary phase of growth, where a significant part of the demand for service comes from the developed manufacturing sector (the secondary sector). With industrialization, the secondary sector became a major contributor to GDP followed by the tertiary and primary sectors, and the economies transformed into developed countries in a period of 75 to 100 years (Kuznets, 1973). Gaur (2006) analyzed India's services sector's changing employment scenario from 1989 to 2001. The study tested whether there is any correlation between the growth of GDP and employment trend. The analysis

⁶Research Scholar, Department of Economics, A.M.U., Uttar Pradesh, India, akibecon@gmail.com

⁷Assistant Professor, Department of Economics, A.M.U., Uttar Pradesh, India, jamilahmad786@gmail.com

showed that the public sector provided more employment in comparison to private sector. Out of subsectors of the services sector, the highest increasing trend in total employment was observed in finance, insurance, real estate and sub-sector transport, and storage and communication showed the lowest growth. Jesim Pais (2014) examines India's services sector's growth and structure through the analysis of the sub-sectors within the services sector at a level of disaggregation that has so far not been effectively analyzed in the literature. It categorizes sub-sectors within services that have contributed mainly to GDP growth. It also categorizes sub-sectors that have contributed primarily to employment growth. The quality of employment in the services sector is observed by analyzing the productivity levels in different services.

III. OBJECTIVE OF THE STUDY

The main objectives of the present study are as follows:

- To examine the trends and patterns of various sectors and their growth performance in India.
- To Study the Impact of Service Sector in Indian Economy.
- To analyses the trends and patterns of growth in the services sector and employment in India.

IV. DATA SOURCES AND METHODOLOGY

The present paper has been focused on estimating the services sector's performance & contribution to the Indian economy during the post-liberalization period, i.e., from 1991 to 2018. Data for the present study has been collected from various secondary sources like RBI Bulletin, Economic survey, Handbook of Statistics, ASI, a various round of NSSO on employment, and unemployment is a concern for the analyses. Some other information related to the services sector is also collected from popular journals, magazines, articles, research papers, Newspapers, etc. To analyses the different variables used in this study, simple statistical tools like percentage growth rate and compound annual growth rates (CAGR) are extensively used.

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

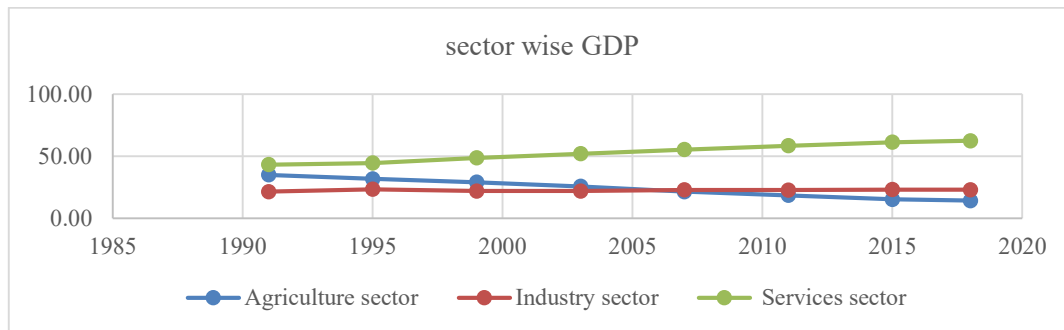
After India's independence, the Service sector's contribution to GDP was less than 30% for more than a decade. The Service sector is the fastest-growing sector of India. The contribution of the Service sector to GDP is continuously increasing in India. In the year 2018-19, this contribution increased to 62.50 percent of GDP. Table-1 shows that over time the share of services in GDP has increased while agriculture has declined. The share of services has exceeded the combined share of agriculture and industry in the last decade, making it the most crucial provider to its output. In 2011-12, services, industries, and agriculture correspondingly accounted for 57.3%, 25.7%, and 16.9% of India's GDP. In 2007-08, service, industry, and agriculture also accounted for 55.43%, 22.97%, and 21.60% of India's GDP. In 2018-19, service, industry, and agriculture correspondingly accounted for 62.5%, 23.13%, and 14.38% of India's GDP. During the period of economic reforms, the share of service has increased very speedily. We can observe (Table-1) that the rate of contribution of GDP for Agriculture and Industry is slowing down steadily. Still, indeed, the Service Sector is on the successive fastest growing stage.

Table-1: Components of Gross Domestic Product (at Constant Prices)

Year	Agriculture	Industry	Services
1991	35.13	21.56	43.32
1995	31.87	23.54	44.59
1999	29.17	22.09	48.74
2003	25.77	22.10	52.12
2007	21.60	22.97	55.43
2011	18.65	22.83	58.52
2015	15.37	23.26	61.36
2018	14.38	23.13	62.50

Sources: Handbook of Statistics on Indian Economy, RBI

Figure-1: Components of Gross Domestic Product (at Constant Prices)



Sources: Handbook of Statistics on Indian Economy, RBI

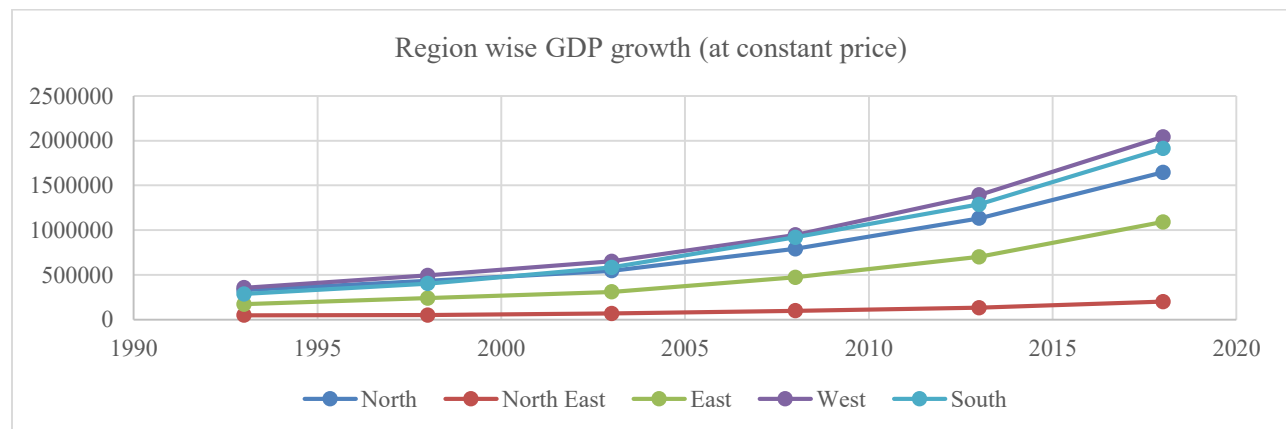
Table-2: Region-wise GDP Growth (at Constant Price in Lakh)

Year	North	North East	East	West	South
1993	328173	48595	171997	356391	285652
1998	431646	49312	239765	493311	402767
2003	544386	68260	308490	651207	582870
2008	790191	97124	472348	945279	918362
2013	1131227	132479	701453	1393222	1287872
2018	1645448	199539	1090647	2041833	1911788
CAGR	0.067	0.058	0.077	0.072	0.079
R square	0.992	0.978	0.994	0.996	0.998
Coefficients	0.065	0.060	0.073	0.070	0.077
P-value	0	0	0	0	0

Sources: Handbook of Statistics on Indian Economy, RBI

Table-2 shows that we have taken five major regions (East, West, North, South, and North East), including all Indian states, where the table shows that region-wise GDP growth all over India. We have given data at the interval of five years gap and is in Rupees Lakhs from the year 1993-2018. CAGR value is also computed for the data presented in table-2. The results show that the southern region's performance is comparatively good among all regions with CAGR of 7.9 percent, while the northeast has grown with CAGR of 5.8% and is low compared to other regions.

Figure-2: Region-wise GDP Growth



Sources: Handbook of Statistics on Indian Economy, RBI

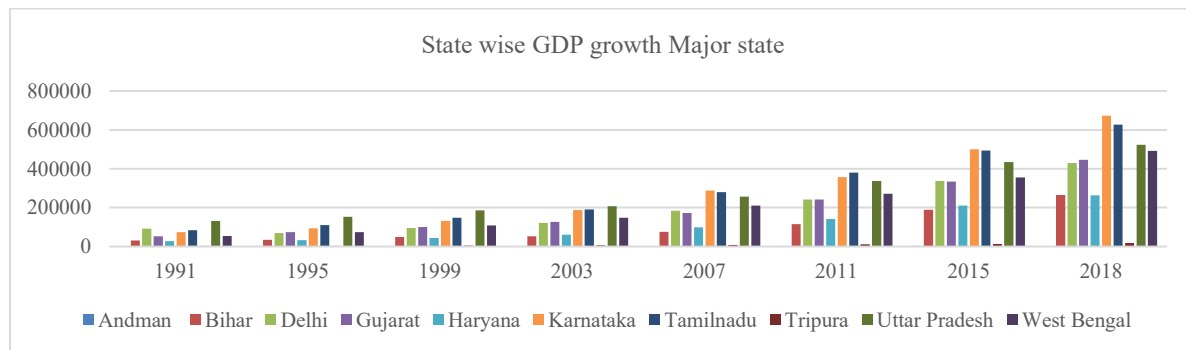
Table-3: State-wise GDP Growth Major State (at Constant Price in Lakh) (Lakh Person as on 31st March)

Year/ States	Andaman	Bihar	Delhi	Gujarat	Haryana	Karnataka	Tamil Nadu	Tripura	Uttar Pradesh	West Bengal
1991	486	31586	91076	52499	26714	73434	83506	2163	131475	53148
1995	793	34233	68170	74230	32465	93313	109583	3297	152690	74011
1999	1162	48867	95747	99856	44552	130894	147074	4476	185169	108046
2003	1395	52925	121521	126392	59951	187460	189919	5606	206815	147461
2007	1537	76076	184692	172396	98506	287838	278977	7299	257310	209899
2011	2403	114558	242523	241565	140468	357624	379806	10590	337101	272297
2015	3177	188531	337493	334712	210964	500357	494243	12544	434684	355498
2018	-	265709	429813	445644	262517	673096	627983	18116	524197	492028
CAGR	0.085	0.082	0.059	0.082	0.088	0.086	0.078	0.082	0.053	0.086
R Square	0.974	0.958	0.948	0.997	0.993	0.998	0.998	0.993	0.981	0.995
Coefficients	0.071	0.078	0.071	0.077	0.090	0.084	0.076	0.075	0.051	0.080
p-value	0	0	0	0	0	0	0	0	0	0

Sources: Handbook of Statistics on Indian Economy, RBI

Table-3, explains that we have taken major states who have been contributing the highest part to GDP growth in the Indian economy. We have given data at the interval of four years gap and is in Rupees Lakhs from the year 1991-2018. CAGR value is also computed for the data presented in table-3. We examine that the following states with the highest growth are Haryana (8.8%) and Karnataka (8.6%), West Bengal (8.6%). Then, computed R square value (goodness to fit) to the maximum value in these states Tamil Nadu (0.998), Karnataka (0.998), and Gujarat (0.997) in the Service. Coefficient value evaluates that the government applies to scheme and policy over the time-period, where Haryana (0.90), Karnataka (0.84), and West Bengal (0.80) states have contributed the highest growth performance over the period in the services sector.

Figure-3: State-wise GDP growth Major State



Sources: Handbook of Statistics on Indian Economy, RBI

VI. EMPLOYMENT IN THE SERVICES SECTOR

There has been a lot of discussion on the employment-generating capacity of the services sector. It has been discussed that employment growth in the services sector has not been proportional to the sector's income growth (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 shown a corresponding change in the occupational structure (Bhattacharya and Mitra 1990).

Over the years, the percentage of people employed in agriculture has declined, and employment in services has increased. However, the broad pattern of employment has remained the same, with services having the highest share. Table-4 explores that the percentage share of the services sector in total employment is increasing since 1991. Though the employment percentage in the service sector is highest compared to other sectors, its share is rising continuously. However, the manufacturing sector is the second largest employer after services for the Indian population.

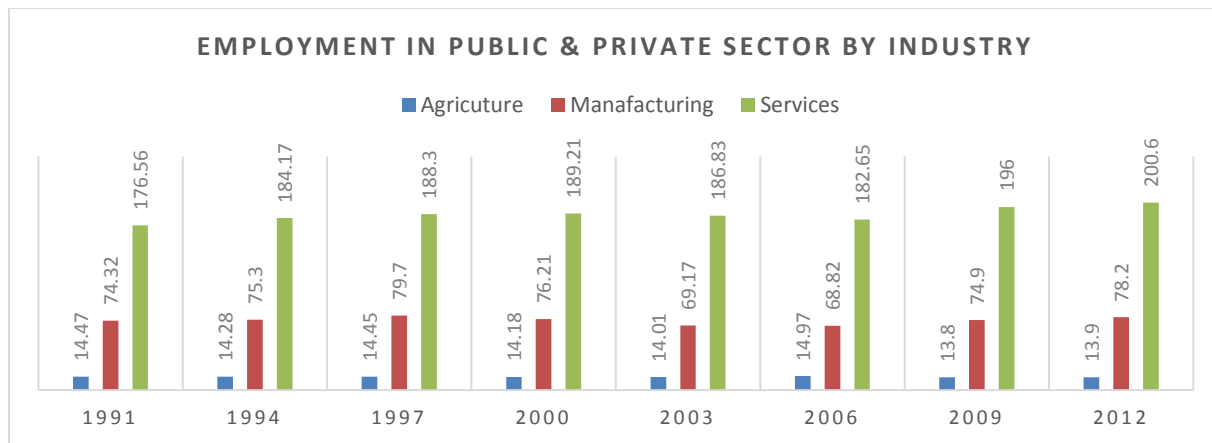
Table-4: Employment in Public & Private Sector by Industry (Lakh Person as of 31st March)

Year	Agriculture	% share	Manufacturing	% share	Services	% share
1991	14.47	5.45	74.32	28.01	176.56	66.54
1994	14.28	5.22	75.30	27.51	184.17	67.28
1997	14.45	5.12	79.70	28.22	188.3	66.67
2000	14.18	5.07	76.21	27.26	189.21	67.67
2003	14.01	5.19	69.17	25.62	186.83	69.19
2006	14.97	5.62	68.82	25.83	182.65	68.55
2009	13.80	4.85	74.90	26.31	196.00	68.84
2012	13.90	4.75	78.20	26.72	200.60	68.53

Sources: Economic Survey, Various Issues

Table-4 shows that Employment role in both the Public & Private sector (by Industry) in the Indian economy. We examines that three major sectors Agriculture sector, manufacturing sector, and Services sector, contributed to Employment generation in India. The services sector contributed the largest 66.54 percentage share (176.56 lakh person) in 1991 to 68.53 percentage share (200.60 lakh person) in 2012, and the manufacturing sector contributed 28.01 percentage share (74.32 lakh person) in 1991 to 26.72 percentage share (78.20 lakh person) in 2012. The agriculture sector contributed 5.45 percentage share (176.56 lakh person) in 1991 to 4.75 percentage share (176.56 lakh person) in 2012.

Figure-4: Employment in Public & Private Sector by Industry



Sources: Economic Survey, Various Issues

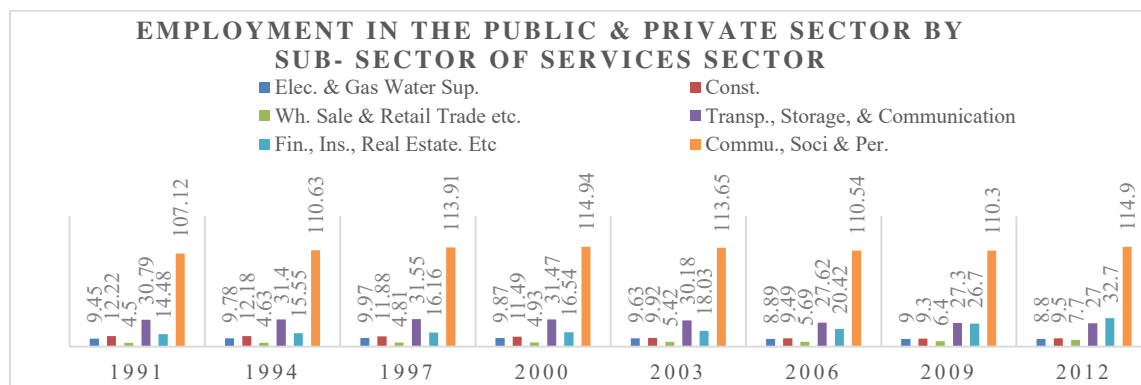
Table-5: Employment in the Public & Private Sector by Sub- Sector of Services Sector (Lakh Person as on 31st March)

Year	Elec. & Gas Water Sup.	% Share	Construction	% share	Whole. Sale & Retail Trade etc.	% share	Transp., Storage, & Community.	% share	Fin., Ins., Real Estate. etc.	% share	Community, social & personal service	% share	Total services
1991	9.45	5.29	12.22	6.84	4.5	2.52	30.79	17.24	14.48	8.11	107.12	59.99	178.56
1994	9.78	5.31	12.18	6.61	4.63	2.51	31.40	17.05	15.55	8.44	110.63	60.07	184.17
1997	9.97	5.30	11.88	6.31	4.81	2.55	31.55	16.76	16.16	8.58	113.91	60.50	188.28
2000	9.87	5.22	11.49	6.07	4.93	2.61	31.47	16.63	16.54	8.74	114.94	60.74	189.24
2003	9.63	5.15	9.92	5.31	5.42	2.90	30.18	16.15	18.03	9.65	113.65	60.83	186.83
2006	8.89	4.87	9.49	5.20	5.69	3.12	27.62	15.12	20.42	11.18	110.54	60.52	182.65
2009	9.00	4.76	9.30	4.92	6.40	3.39	27.30	14.44	26.7	14.13	110.3	58.36	189.00
2012	8.80	4.39	9.50	4.74	7.70	3.84	27.00	13.46	32.7	16.30	114.9	57.28	200.60

Sources: Economic Survey, Various Issues

Table-5 shows that employment share in both (public & private) sub-sectors by the services sector from 1991 to 2012. The share of employment in all sub-sectors (electricity, gas & water supply, construction, wholesale & retail trade, transport, storage & communication, finance, insurance, and real estate, community, social & personal service) contributes to the services sector. Where, community, social & personal service contributed the highest 59.99 percent share in 1991 to 57.28 percent share in 2012. Following other sub-sectors, finance, insurance, and real estate, contributed 8.11 percent share in 1991 to 16.30 percent share in 2012, Transport, storage & communication contributed 17.24 percent share in 1991 to 13.46 percent share in 2012. Construction, 6.84 percent share in 1991 to 4.74 percent share in 2012, electricity, gas & water supply, 5.39 percent share in 1991 to 4.39 percent share in 2012, wholesale & retail trade 2.52 percent share 1991 to 3.84 percent share in 2012 in the services sector.

Figure-5: Employment in the Public & Private Sector by Sub- Sector of Services Sector



Sources: Economic Survey, Various Issues

Overall, India's services sector employment is low compared to its GDP share, but it is growing. The services sector has the largest employment share within the total organized sector employment, but the informal sector employment share is small within services. Within the organized services sector, the private sector dominates employment in services, and thus the public sector has not been very successful in creating organized services sector employment.

VII. CONCLUSIONS AND POLICY IMPLICATIONS

The present paper analyses that the service sector is very important for India, as it is contributing half of the GDP growth in the Indian economy. It has been observed that the increase in employment increases with the development of service sector. The study confirms that the services sector has grown at a significant rate in comparison to other sectors. Its growth rate is found to be higher than the growth of overall GDP. The rising share of this sector in GDP covers the poor performance of the agriculture sector. India's Service Sector (Tertiary Sector) constitutes 62.50% of total GDP as compared to Primary (14.38%) and Secondary (23.13%) Sector in the Indian economy in 2018.

The employment percentage in the service sector and the industrial sector is rising while falling continuously in agriculture. A large proportion of the Indian population is still engaged in the agriculture sector. The next largest employer is the service sector, where trade, hotels & restaurants, and community, social & personal services are the significant generators of employment. Thus, the service sector, which is dominant in its growth & shares, serves as an engine of growth for the Indian economy. The paper highlights reform measures that will enable the services sector to grow faster and create quality employment and attract investment. A developing country like India with a large and young population needs to generate quality employment and move up the value chain.

REFERENCES

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.

Bhattacharya, B. B., and Arup Mitra. (1990). Excess Growth of Tertiary Sector in Indian Economy: Issues and Implications. *Economic and Political Weekly*. 25: 2445–2450.

Bosworth, Barry, and Annemie Maertens (2010). Economic Growth and Employment Generation: The Role of the Service Sector. In *The Service Revolution in South Asia*, edited by Ejaz Ghani. New Delhi: Oxford University Press.

Chenery, H. B. (1960). Patterns of Industrial Growth. *American Economic Review*, Vol. 57, pp. 415-26.

Gaur, G. L. (2006). Changing Employment Scenario in the Services Sector in India. *Manpower Journal*, 41(1): 234-245.

Jesim Pais (2014). Growth and Structure of the Services Sector in India. Institute for Studies in Industrial Development, Working Paper-160orki

Joshi, S. (2008). Growth and Structure of Tertiary Sector. New Delhi: Academic Foundation

Joshi, Seema. (2008). Service Sector in India's Economy: Performance, Problems, and Prospects. Paper Submitted at Study Meeting on Expansion and Development of the Services Industry in Asia, Seoul, Republic of Korea, June 17–20, 2008.

Kuznets S. (1973). Modern economic growth: Findings and reflections. *American Economic Review*, vol. 63, no. 3, pp. 247-258.

Papola, T. S., and Sahu, P. P. (2012). Growth and Structure of Employment in India. Institute for Studies in Industrial Development, New Delhi

Suparna, P. (2010). Issues in measuring GDP of health care services: the case of India. *Journal of Income and Wealth*, Vol.32, Issue.1, Print ISSN: 0974-0309. Online ISSN: 0974-0295

Reserve Bank of India (2018-19), 'Handbook of Statistics on Indian Economy.

Government of India, *Economic Survey*, Various Years. Ministry of Finance, New Delhi.

INFORMATION FOR AUTHORS

Pezzottaite Journals invite research to go for publication in other titles listed with us.

The contributions should be original and insightful, unpublished, indicating an understanding of the context, resources, structures, systems, processes, and performance of organizations. The contributions can be conceptual, theoretical and empirical in nature, review papers, case studies, conference reports, relevant reports & news, book reviews and briefs; and must reflect the standards of academic rigour.

Invitations are for:

- International Journal of Applied Services Marketing Perspectives.
- International Journal of Entrepreneurship & Business Environment Perspectives.
- International Journal of Organizational Behaviour & Management Perspectives.
- International Journal of Retailing & Rural Business Perspectives.
- International Journal of Applied Financial Management Perspectives.
- International Journal of Information Technology & Computer Sciences Perspectives.
- International Journal of Logistics & Supply Chain Management Perspectives.
- International Journal of Trade & Global Business Perspectives.

All the titles are available in Print & Online Formats.