

# SERVICES LED GROWTH IN INDIA: AN ANALYSIS

Gorkhnath Tanaji Uttekar

Assistant Professor, Department of Business Economics,  
SVKM's Mithibai College, Vile Parle (W), Mumbai- 400056

**ABSTRACT:** - Services are a pre-requirement for the running of any economy. They play a central role in the economies of both developed and developing countries. They account for over half of the gross domestic product of all developed economies and constitute the single largest sector in most developing economies. A striking aspect of India's recent growth has been the dynamism of its services sector, which accounted for 60 per cent of country's gross domestic product (GDP) in 2015. This paper highlights the services led growth in India with respect to patterns of structural change.

**KEYWORDS:** gross domestic product, services sector, structural change.

## I. INTRODUCTION:

In most of the low income economies, agriculture is the predominant sector. As these economies progress, the share of the industrial sector in economic activities increases. The development of industries, in turn, promotes a wide range of activities in the services sector like banking, insurance, transportation, trade, communication etc. On the basis of this observed development pattern of countries, some economists like Fisher (1939), Clark (1940) 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 services sector is playing a dominant role in overall development. Services have contributed to more than 60 per cent to India's GDP during the period of the last decade and half.

The service sector comprises Trade, Hotels & Restaurants, Construction, Electricity, Transport, Storage, Communication, Banking, Insurance, Education & Research, Medical & Health, Ownership of dwellings, Real Estate & Business Services and Other Services

(Business Services, Computer & Related Services, Legal Services, Real Estate Activities, Renting of Machinery & Equipment's and Social & Personal Services). All these various services are grouped by the Central Statistical Organization (CSO) under four major industrial categories for which it regularly publishes the GDP series, and these are (i) trade, hotels and restaurants; (ii) transport, storage and communication; (iii) financing, insurance, real estate and business services; and (iv) community, social and personal services.

## II. OBJECTIVES:

1. To analyze the service sector growth in India.
2. To analyze the sectoral shares in output in Indian economy.
3. To analyze the sectoral shares in employment in India.
4. To analyze the sectoral shares in economic growth in India.

## III. 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 2014-15.

## IV. SERVICES SECTOR IN INDIA: PATTERNS OF STRUCTURAL CHANGE.

The theory of structural change suggests that as countries move from low-income to lower-middle-income status, the share of both industry and services rises, the rise in the former being greater than that in the latter. In the second stage, as the economy moves to upper-middle-and high-income levels, the share of industry declines and that of services increases. The following table shows the sectoral shares in GDP global averages.

Table 1.1: Sectoral shares in GDP in 2008: Global averages.

	Agriculture	Industry	Services	Stage of development
Low-Income countries	27	28	45	Stage 1
Lower-middle-income-countries	13	40	47	Stage 1
Upper-middle-income-countries	6	34	60	Stage 2
High-income-countries	1	25	74	Stage 2

Source: Nayyar Gaurav (2012): "The Services sector in India's Development" pp. 5.

**IV. 1. SECTORAL SHARES IN OUTPUT:**

In 1950, the Indian economy was predominantly an agrarian economy. Agriculture accounted for approximately 56 per cent of GDP, industry contributed around 14 per cent and services about 30 per cent.

Table 1.2 outlines the changes in the sectoral composition of output in India since independence. It shows between 1950-51 and 2014-15, the share of agricultural sector in GDP from 55.9 per cent to 13.9 per cent, whereas that of industrial sector rose from 14.3 per cent to 26.2 per cent and that of the services sector rose from 29.8 per cent to 59.9 per cent.

The decline in the share of the agricultural sector in GDP throughout the period conforms to the stylized facts that emerge from the experience of the now industrialized countries. From 1950-51 to 1980-81, the increase in the share of the industrial sector in GDP which was greater than that of the services sector in GDP, also conforms the structural change.

From 1980-81 to 2014-15, the increase in the share of the industrial sector in GDP was modest, whereas the increase in the share of the services sector in GDP was so substantial that it picked up more than 85 per cent of the decline in the share of the agricultural sector in GDP. Thus there are two striking features of Indian economy. First, the expansion of the services sector in India has been very rapid during the past three decades. Second, the services sector now appears to dominate economic activity in India.

**Table 1.2: Sectoral shares in India’s GDP: 1950-51 to 2013-14.**

Sector	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2004-05	2009-10	2014-15	Change between 1950-51 and 2014-15
Agriculture	55.9	46.7	46.0	38.9	31.3	24.6	21.1	14.6	16.1	-39.8
Industry	14.3	19.0	20.3	24.5	27.6	26.6	27.2	28.1	31.4	17.1
Services	29.8	34.3	33.7	36.6	41.1	48.8	51.7	57.3	52.5	22.7

Source: Central Statistical Organization, National Accounts Statistics.

**IV.2. SECTORAL SHARES IN EMPLOYMENT:**

In 1950, agriculture accounted for 75 per cent of total employment in India, industry accounted for 10 per cent and services for about 15 per cent. During the period from 1951 to 2011-12, the share of agriculture in total employment declined by about 26 percentage points, while that of the industrial and services sectors increased by 14 and 12 percentage points respectively. Even during the period from 1983 to 2011-12, while the share of agriculture in total employment declined by about 16 percentage points, that of the industrial and services sectors increased by about 8 percentage points each. This is in sharp contrast to the case of total output, where the increase in the share of services sector was significantly more than the corresponding increase in the share of the industrial sector. It implies that during the last three decades, the sharp increase in the share of the services sector in output in India has not been accompanied by corresponding increase in the share of services in employment. Table 1.3 outlines the changes in the sectoral composition of total employment in India since independence.

**Table 1.3: Sectoral shares in India’s total employment: 1951 to 2011-12.**

Sector	1951	1961	1972-73	1977-78	1983-84	1987-88	1993-94	1999-00	2004-05	2009-10	2011-12	Change between 1950-51 and 2011-12
Agriculture	74.7	76.2	73.9	71.1	68.6	65.0	64.7	59.9	56.4	53.1	48.9	-25.8
Industry	10.1	10.7	11.3	12.6	13.8	15.9	14.8	16.2	18.8	21.5	24.2	14.1
Services	15.2	13.1	14.8	16.3	17.6	19.	20.5	23.9	24.8	25.4	26.9	11.7

Source: Central Statistical Organization, National Accounts Statistics.

**IV.3. SECTORAL SHARES IN ECONOMIC GROWTH:**

In 1960-61, agriculture contributed almost half to GDP growth; industry contributed about 30 percent and services almost one-fifth. By 1990-91, the contribution of agriculture to GDP growth has declined to less than one-fourth while that of services had crossed 40 percent. During the five years period 1991-92 to 1996-97, services contributed half of total growth in GDP. In the subsequent five years to 2001-02, the contribution of services to GDP growth was as high as 68.3 per cent and was 60 per cent in the six years following 2001-02. During 2008-09 to 2013-14, the contribution of services to GDP growth was as high as 70 per cent.

The following table presents information on the contribution of different sectors to growth.

The last column of the table gives us information about the changes that has been brought in the contribution of different sectors to India's GDP. The agriculture as well as Industry sector shows a negative sign of growth and services sector shows a positive sign of growth.

**Table 1.4 Contribution of different sectors to GDP.**

<b>Sector</b>	<b>1950-51</b>	<b>1960-61</b>	<b>1990-91</b>	<b>1991-97</b>	<b>1996-2002</b>	<b>2001-08</b>	<b>2008-14</b>	<b>2011-15</b>	<b>Change between 1950-51 and 2011-15</b>
Agriculture	34.9	48.2	23.8	21.1	11.5	7.1	9.1	4.7	-30.2
Industry	35.5	29.2	35.2	29.0	20.2	32.5	21.1	22.7	-12.8
Services	29.6	22.6	41.0	49.8	68.3	60.4	69.8	72.6	43.0

Source: V.K. Puri and S. K. Misra (2016): "Indian Economy", p.425.

**CONCLUSION:**

The services sector has registered a rapid growth during the period of last two decades. It has contributed significantly to the growth of GDP. Thus it is rightly said that the growth of the Indian economy in the post 1991 period has been a services-led growth. However it has been also observed that almost half of India's population is still associated with the agriculture sector. On the other hand the services sector is providing employment only to one-fifth of the total population. Thus efforts should be made in order to create employment opportunities especially in the services sector.

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