

Service Sector in India since 1980s: Pattern and Growth Analysis

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Abstract: India is a developing country. The economy has three sectors viz. primary sector, secondary sector and tertiary sector or service sector. One of the most significant sectors of the Indian economy is the Indian Services sector. This sector is contributing nearly 59% of the GDP in 2012-13. In the last few years i.e. between 2002-03 and 2012-13 this sector has played an increasingly dominant role in the economy. GDP generates from three sectors: Primary Sector (PS), Secondary Sector (SS) and Tertiary Sector (TS). The contribution of these sectors in GDP has been changing during 1980/81-2012/13. TS has played a dominant role in the Indian economy at the cost of the PS during the post reform period. The growth rate of services sector in India is faster than any other sectors. Now GDP growth is dominated by service-led growth during the reform period. One reason for the growth in the services sector in India is the liberalization in the regulatory framework, which leads to innovation and higher exports from the services sector.

Keywords: Indian economy, Primary Sector, GDP.

INTRODUCTION

India is a developing country. The economy has three sectors viz. primary sector, secondary sector and tertiary sector or service sector. One of the most significant sectors of the Indian economy is the Indian Service sector [1-2]. This sector is contributing nearly 59% of the Gross Domestic Product (GDP) in 2012-13.

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Here we discussed the pattern of GDP, growth of GDP and intra-service sector growth during 1980/81-2012/13. Data are taken from Economic Survey, Govt. of India, different issues and other sources [2-10].

Pattern of GDP

GDP in India generates from three sectors: Primary Sector (PS), Secondary Sector (SS) and Tertiary Sector (TS). Primary sector includes agriculture, forestry & fishing, mining & quarrying,

while manufacturing, construction; electricity, gas and water supply are taken into consideration in secondary sector. Tertiary sector or service sector includes trade, hotels & restaurants. Railways & other transport, storage and communication (Post, Telecom), banking, insurance, dwellings, real estate, business services, public administration; defense, personal services, community services, other services. Our estimates (Table1) reveal that the contribution of these sectors in GDP has been changing during 1980/81-2012/13. The share of PS has continuously decreased from 36.06% in 1980-81 to 29.62% in 1990-91 to 22.42% in 2000-01 and to 13.69% in 2012-13. On the other hand, the shares of SS and TS have increased during this period under study. The shares are respectively: 25.92% and 38.03% in 1980-81, 27.71% and 42.68% in 1990-91, 27.32% and 50.37% in 2000-01, and 26.75% and 59.57% in 2012-13. Thus we observe that the TS has played a dominant role in the Indian economy at the cost of the PS during the post reform period. This can be shown by using following bar diagram.

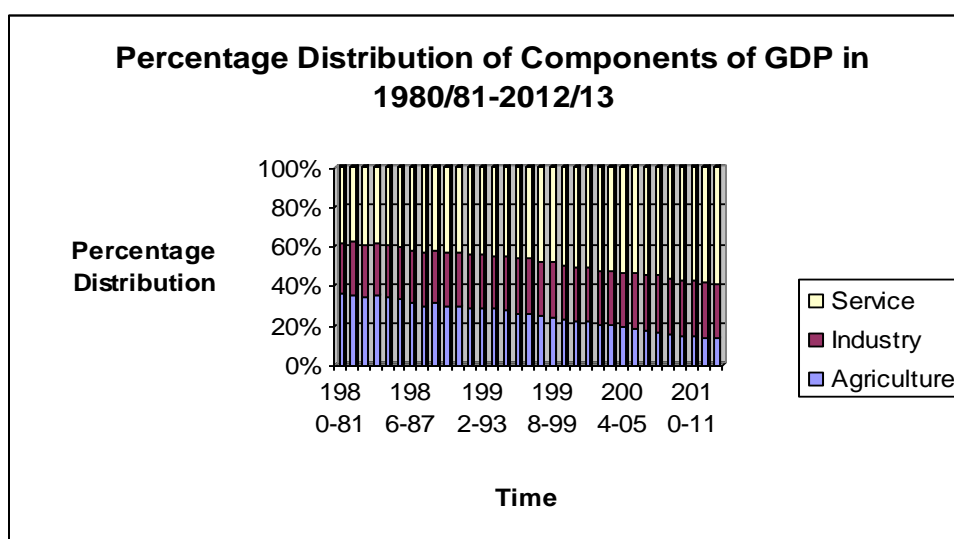


Fig-1: Percentage distribution of components of GDP in 1980/81- 2012/13.

Table 1: Percentage Distribution of GDP in India by sectors during 1980/81-2012/13(at 2004-05 prices)

Year	Agriculture	Industry	Service	Total
1980-81	36.06	25.92	38.03	100
1981-82	35.68	26.48	37.84	100
1990-91	29.62	27.71	42.68	100
1991-92	28.60	27.39	44.01	100
1992-93	28.97	26.85	44.18	100
1993-94	28.32	26.80	44.88	100
1996-97	26.27	28.10	45.63	100
1997-98	24.49	27.96	47.55	100
1998-99	24.41	27.31	48.28	100
1999-00	23.27	26.87	49.85	100
2000-01	22.31	27.32	50.37	100
2001-02	22.42	26.57	51.02	100
2009-10	14.64	28.27	57.09	100
2010-11	14.45	28.23	57.32	100
2011-12	14.10	27.51	58.39	100
2012-13	13.69	26.75	59.57	100

Source: Economic Survey, Govt. of India
Notes: PS= Primary Sector, SS= Secondary sector, TS= Tertiary or Service Sector

Growth of GDP

In the recent years the service sector of Indian economy has brought much success. In section I we have already discussed that the maximum share of GDP is occupied by the service sector. Let us now examine the growth of GDP and its sectors. We divide the total time period into three sub-periods: period I: 1980/-81 to 1990/91, period II: 1990/91 to 2000/01 and period III

2000/01 to 2012/13. We have estimated the growth rates of GDP and its sectors during these sub-periods. The growth rates are statistically significant in all the cases. During 1980/81-2012/13 the Indian economy has grown at a rate of 6.25% and all the three sectors (primary, secondary and service) have grown at the rates 3.01%, 6.48% and 7.77% respectively (Table 2). In the period I (1980-81 to 1990-91) GDP grew at the

rate of 5.36% whereas in this period primary, secondary and service sector grew at the rates of 3.13%, 5.93% and 6.83% respectively. Comparing to this period GDP grew at the rate of 7.88% during the period 2000/01-2012/13 along with 9.32% growth rate of service sector. But in this decade performance of primary sector is too poor. Primary sector only grew at the rate of 3.23%. That is to say, that the growth rate of the economy has increased from 5.36% in period I to 6.13% in period II and to 7.88% in period III. This was happened mainly an increasing growth rate of service sector: 6.83%, 7.82% and 9.32%. But there was a deceleration growth

rate in primary sector. Economic reform has not been implemented in this sector. Govt. should take special measures for this sector during 11th plan and 12th plan. The growth rate of service sector in India is faster than any other sectors. There was marked acceleration in service sector growth in the eighties and nineties, especially in the nineties. Then GDP growth is dominated by service-led growth during the reform period. One reason for the growth in the service sector in India is the liberalization in the regulatory framework, which leads to innovation and higher exports from the services sector.

Table 2: Annual Compound Growth Rate (%) of GDP and its Components in India during 1980/81-2012/13(at 2004-05 prices)

Time	Agriculture	Industry	Service	Total
Period I	3.13	5.93	6.83	5.36
Period II	3.18	6.14	7.82	6.13
Period III	3.23	8.07	9.32	7.88
Total	3.01	6.48	7.77	6.25

NOTES: PS= Primary Sector, SS= Secondary sector, TS= Tertiary or Service Sector, Total Period=1980-81 to 2005-06, Period I=1980/81 to 1990/91, Period II=1990/91 to 2000/01, Period III=2000/01 to 2012/13.

Source: Economic Survey, Govt. of India

Intra- Service Sector Pattern

We have already discussed the pattern and growth of GDP and its components during 1980/81-2012/13. Let us now discuss the intra-service sector pattern and growth during this period. Already we have said that "Tertiary sector" or Services sector of the economy covers a wide range of activities like trading, banking & finance, real estate, transportation, security,

management & technical consultancy among several others. Here we group the service sector activities into three broad sub-groups- a) Trade, hotels, transport and communications (THT) , b) Financing, insurance, real estate and business services(FIRB) and c) Public administration, defense and other services(PADS). The following two tables 3&4 represent the intra-service sector pattern and growth in India respectively.

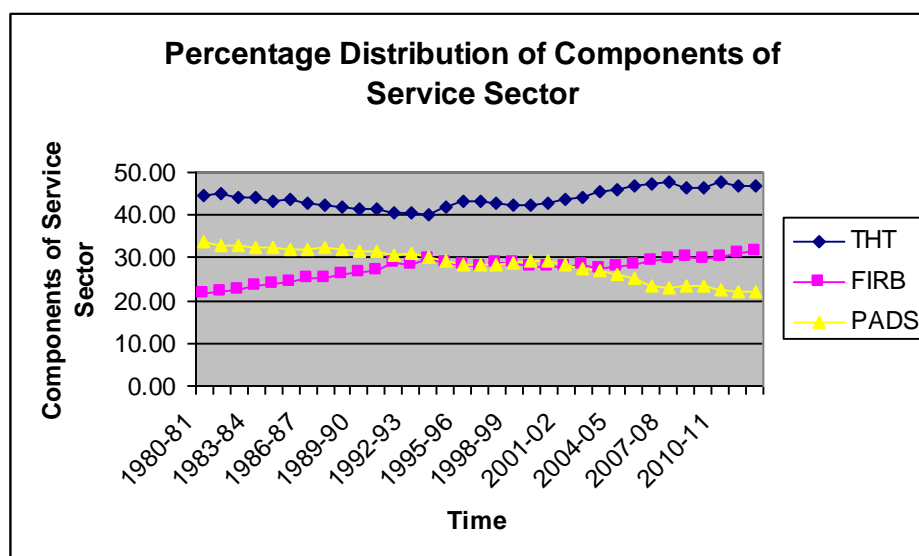


Fig-2: Percentage distribution of components of service sector

Table 3: Percentage Distribution of Intra-Service Sector during 1980/81-2012/13

Year	THT	FIRB	PADS	Service
1980-81	44.54	21.64	33.82	100.00
1981-82	44.92	22.24	32.84	100.00
1982-83	44.25	22.74	33.02	100.00
1989-90	41.47	26.80	31.74	100.00
1990-91	41.46	27.06	31.49	100.00
1991-92	40.50	28.64	30.85	100.00
1992-93	40.48	28.57	30.94	100.00
1999-00	42.51	28.13	29.36	100.00
2000-01	42.95	27.90	29.15	100.00
2001-02	43.64	27.97	28.39	100.00
2002-03	44.25	28.17	27.58	100.00
2003-04	45.51	27.59	26.90	100.00
2004-05	46.17	27.73	26.10	100.00
2009-10	46.46	29.94	23.60	100.00
2010-11	47.56	30.03	22.42	100.00
2011-12	47.04	30.99	21.96	100.00
2012-13	46.72	31.43	21.85	100.00

Source: Economic Survey, Govt. of India. Notes :THT= Trade, hotels, transport & communication, FIRB= Financing, insurance, real estate and business services, PADS= Public administration & defense other services

Our estimates (Table 3) reveal that the share of THT in service sector has decreased from 44.54% in 1980-81 to 41.46% in 1990-91. And then the share has sharply increased to 42.95% in 2000-01 and to 46.72% in 2012-13. The share of PADS has also continuously decreased from 33.82% in 1980-81 to 31.49% in 1990-91, to 29.15% in 2000-01 and to 21.85% in 2012-13. On the other hand, the share of FIRB has increased from 21.64% in 1980-81 to 27.06% in 1990-91 and to 27.90% in 2000-01 and then increased to 31.43% in 2012-13. Thus we observe that (i) THT has contributed more of TS in 2012-13 and this share is almost constant during 1980/81-2012/13. (ii) The share of FIRB has increased during this period at the cost of PADS. (iii) The share of PADS has decreased from during the period under study.

Intra-Service Sector Growth

Now we consider the intra-service sector growth. Our estimates (Table 4) reveal that during the overall period the TS have grown at the rate of 7.77%. The growth rates of its components are during this period: THT (8.11%), FIRB (8.71%) and PADS

(6.24%). Among the components, FIRB grown faster than THT and PADS during the overall period, period I and period III. But in period II FIRB has lost its prime position. Here THT has occupied this position. It has grown faster than FIRB and PADS. The growth rate of THT has continuously increased from 5.94% during 1980/81-1990/91 to 8.48% during 1990/91-2000/01 and to 10.08% during 2000/01-2012/13. On the other hand, the growth rate of FIRB has decreased from 9.22% in 1980/81-1990/91 to 7.83% in 1990/91-2000/01 and then increased to 10.49% in 2000/01-2012/13. But the growth rate of PADS has increased and then decreased: 6.24% to 6.89% and to 6.62%. Thus we observe that the growth rate of service sector has continuously increased from 6.83% to 7.82% to 9.32% during this period under study. This is due to the fact that the component of service sector i.e. trade, hotels, transport & communication (THT) have expanded throughout the India during the reform period and as a result its growth rate has been rising during this period. So the service sector has been developed enormously during the reform period.

Table 4: Annual Compound Growth Rate (% of Service Sector and its Components in India during 1993/ 94-2012/13 (at 2004-05 prices)

Time	THT	FIRB	PADS	Service
Period I	5.94	9.22	6.24	6.83
Period II	8.48	7.83	6.89	7.82
Period III	10.08	10.49	6.62	9.32
Total	8.11	8.71	6.34	7.77

Source: Economic Survey, Govt. of India

Notes: Total Period=1980/81 to 2005/06, Period I=1980/81 to 1990/91, Period II=1990/91 to 2000/01, Period III=2000/01 to 2012/13.

Concluding Remarks

GDP generates from three sectors: Primary Sector (PS), Secondary Sector (SS) and Tertiary Sector (TS). The contribution of these sectors in GDP has been changing during 1980/81-2005/06. TS has played a dominant role in the Indian economy at the cost of the PS during the post reform period. The growth rate of services sector in India is faster than any other sectors. Now GDP growth is dominated by service-led growth during the reform period. One reason for the growth in the services sector in India is the liberalization in the regulatory framework, which leads to innovation and higher exports from the services sector. In service sector trade, hotels transport and communication has contributed more. The growth rate of service sector has increased from 6.83% to 7.82% to 9.32% during this period under study. This is due to the fact that the component of service sector i.e. trade, hotels, transport & communication (THT) have expanded throughout the India during the reform period and as a result its growth rate has been rising. So the service sector has been developed enormously during the reform period. Employment in service sector has increased dramatically.

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