

## IMPACT OF SERVICE SECTOR IN INDIA

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### Abstract

The most significant sector in a developing country's economy may be agricultural, but as per capita income increases, the industrial and service sectors overtake agriculture in importance. Industrialization and post-industrialization are these two successive movements. These phases are likely to be experienced by all developing nations, and they can be attributed to structural changes in consumer demand as well as the relative labour productivity of the three main economic sectors. All the service sectors which participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional services segments. The new economic policy includes reduction in government expenditure, opening of the economy to trade and foreign investment, adjustment of exchange rate fixed exchange rate structure to one that is flexible, the deregulation of the majority of markets, and the elimination.

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## **Introduction**

The structure of technology is changing as it advances. Similar to this, a growing economy also alters the ratios and relationships between its basic sectors—agriculture, industry, and services—as well as between additional sectors that are domestically and export-focused, rural and urban, public and private. When comparing a country's total output and employment across its three major economic sectors—agriculture, industry, and services—it is possible to determine the structure of that economy. The most significant sector in a developing country's economy may be agricultural, but as per capita income increases, the industrial and service sectors overtake agriculture in importance. Industrialization and post-industrialization are these two successive movements. These phases are likely to be experienced by all developing nations, and they can be attributed to structural changes in consumer demand as well as the relative labour productivity of the three main economic sectors.

## **Industrialization**

The increase in people's income and the demand for food, the main product of agriculture, reaches its natural limit, and they start to seek substantially more industrial items. As a result, industrial output overtakes agricultural output as the largest contributor to GDP, and industrial employment overtakes agricultural employment.

## **Post-Industrialization**

As incomes continue to rise, people's need becomes less "Material" and they begin to demand more services especially in health, education, entertainment, and many other areas. This makes services more expensive relative to agricultural and industrial goods, further increasing the share of services in GDP

## **Service Sector in India**

In terms of prospective employment and its contribution to national GDP, the services sector is a sizable portion of the Indian economy. This sector covers a wide range of activities from the most sophisticated I the field of information and communication technology to simple services sought after by workers in the unorganized sector, for example, vegetable sellers, hawkers, rickshaw pullers, etc. The following broad grouping of activities can be considered from the part of the services sector.

## **Activities Comprising the Service Sector**

- Trade.
- Hotels and restaurants.
- Transportation services that also include tourist aid services, travel agency services, and tour operator services.
- Communication and storage.
- Insurance and Banking.
- Real estate and home ownership Business.
- Services such as accountancy, software development, data processing, business and management consulting, architectural,

engineering, and other technical consulting, as well as advertising and other business services are included in groups.

- Public administration and defence.
- Personal services and activities of extra territorial organizations and bodies

### **Objectives**

1. To study the growth and development of service sector in India.
2. To study the impact of service sector in Indian Economy.

### **Research Methodology**

The study is based on the secondary data from 1990 to 2021 which were collected from different published sources like RBI Bulletins, Online Data, Research Journals, Articles, News Papers, etc.

### **Contribution of the Service Sector to India's Growth and Development**

The services sector scenario in India is complex and is characterized by an uneven development in different types of services. From the global perspective, the growing importance of services sector within the Indian economy cannot be denied India's GDP growth in 2008-09 was one of the highest in the world which reflected the resilience of the country's growth impulses to a severe external shock and demonstrated the impact India's policy response had on containing the adverse effects of the global economic crisis on its domestic growth.

The services sector has been the most dynamic sector in the Indian economy, especially over the last ten years. The growth in output in this

particular sector in the recent times has mostly come from the rapid development of skill intensive services in the information technology and professional services segments. However, not all services have shown equal dynamism in their growth. The star performer has been IT and IT enabled service while other services which do serve as a crucial input to working of the national economy have not developed as expected.

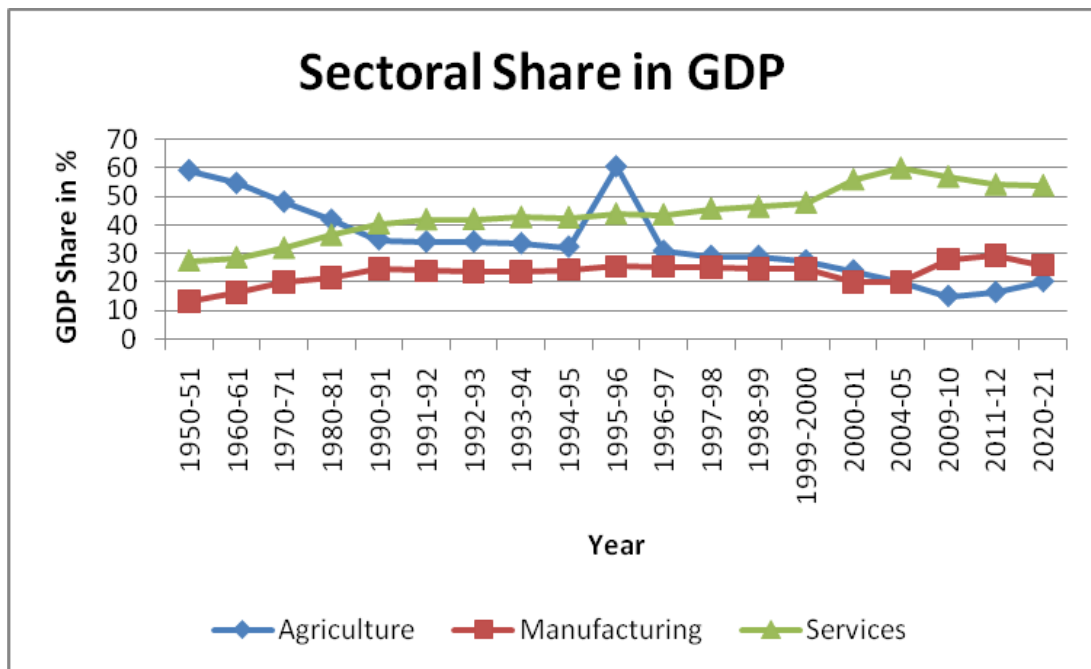
**TABLE - 1**  
**SECTORAL SHARES IN GDP**

Year	(Share in %)		
	Agriculture	Manufacturing	Services
1950-51	59.19	13.29	27.52
1960-61	54.74	16.61	28.65
1970-71	48.12	19.91	31.97
1980-81	41.82	21.59	36.59
1990-91	34.92	24.49	40.59
1991-92	34.08	23.93	41.99
1992-93	34.17	23.74	42.09
1993-94	33.54	23.69	42.77
1994-95	32.35	24.35	42.71
1995-96	60.58	25.47	43.95
1996-97	30.86	25.45	43.69
1997-98	29.03	25.20	45.77
1998-99	29.03	24.51	46.46
1999-2000	27.49	24.63	47.88
2000-01	24.00	20.00	56.00
2004-05	20.00	20.00	60.00
2009-10	15.00	28.00	57.00

2011-12	16.38	29.34	54.27
2020-21	20.19	25.92	53.89

Source: RBI Bulletin Various Years,

From the above table 1 shows that since 1950, the share of agriculture in GDP has fallen drastically by more than two thirds, from 59% to 20% whereas the share of manufacturing industry has increased from 13% to 26% and the share of services has nearly doubled from 28% to 54%. growth in the service sector has continued to be broad based. Among the three sub - sectors of services hotels, transport and communication services have continued to boost the sector. Impressive progress in information technology ( IT) and IT- enabled services, both rail and road traffic and quick addition to existing stock of telephone connections, particularly mobiles, have played a key role in such growth.



**TABLE - 2****GROWTH OF DIFFERENT SECTORS OF THE ECONOMY**

<b>Sectors</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>20020-21</b>
Agriculture, Forestry and Fishing	5.2	3.7	4.7	1.6	-0.2	16.38
Manufacturing	9.6	14.9	10.3	3.2	8.9	16.92
Electricity, Gas & Water Supply	6.6	10.0	8.5	3.9	8.2	2.46
Construction	12.4	10.6	10.0	5.9	6.5	7.60
Hotels & Restaurants	12.4	11.2	9.5	5.3	8.3	8.30
Transport & Communication	11.5	12.6	13.0	11.6		17.73
Social & Personal Services	7.6	2.6	6.7	13.9	8.2	13.47
Mining & Quarrying	1.3	8.7	3.9	1.6	8.7	2.37
Insurance & Real Estates	12.8	14.5	13.2	10.1	9.9	23.07
GDP at Factor Cost	9.5	9.7	9.2	6.7	7.2	12.06

Source: RBI Bulletin Various Years.

The above table 2 shows that the agriculture is an exception where the growth rate is estimated to be 16.38 per cent in 2020-21. Sectors including mining and quarrying, electricity, gas and water supply have significantly improved their growth rates at over 2 per cent. The construction sector and hotels, transport and communication have also improved their growth rates at over 17 per cent. The construction sector and hotels, transport and communication have also improved their growth rates over the preceding years, thought to a lesser extent. However, the growth rate of social and personal services has declined significantly.

Insurance and real estates have retained their growth momentum at around 23 per cent in 2020-21. India's economy has also successfully moved into a higher trajectory of growth and displayed strong dynamism in selected sectors. This encouraging performance brightens the prospects for stepping up India's growth rate and improving the competitive edge in the years to come though further appropriate economic reforms. According to this analysis, real estate, banking, and insurance services, as well as communication services, have been the primary drivers of GDP growth.

### **Impact of Service Sector in Indian Economy**

India has taken substantial steps towards economic liberalization during the last few years, having worked out strategies for bringing about rapid economic development. With the increasing standards in education, which in India is provided free of cost and compulsory till the age of 14 years by the Indian government, there will be increasing demand for educational services? The demand for primary schools, secondary and higher secondary schools, junior degree colleges are also higher, with the increase in population and awareness of the benefits of seeking education. As the number of students goes on increasing there is also increasing demand for tuition's, private coaching classes, etc. With the establishment of technical institutes there is also an increase in demand for the services of professionally qualified people. The demand for transportation services



has significantly expanded as a result of the growing amount of trade and business conducted on roads, which has the added benefit to various automobile manufactures as well banking services are very necessary to meet the financial requirements of the public. The electric services provide benefits to the society, industry and so on. Adequate hospital services are essential for the well being of the society. Personal care services are also essential to develop a perfect personality and positive image projection of the people. Hospitality services satisfy their customers through their services in terms of comfort and satisfaction. The tourism industry is also gearing itself to make tourists enjoy the holiday in destinations of their choice, and take them away from the monotonous life of cities. The entertainment industry equally plays an important role towards this end. All these services rendered to the public only signify that they have unlimited potentialities and we have to explore these opportunities and tap them for our benefit.

### **Conclusion**

All the service sectors which participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the causes of India's services sector's explosive rise in the 1990s was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector. The agriculture sector contributed 20.19 per cent

manufacturing industry contributed 25.92 per cent while the services sector had a contribution of 53.89 per cent according to 2021 estimates . The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional services segments. The new economic policy includes reduction in government expenditure, opening of the economy to trade and foreign investment, adjustment of exchange rate fixed exchange exchange rate structure to one that is flexible, the deregulation of the majority of markets, and the elimination of constraints on entrance, exit, capacity, and price.. A shift in the consumption pattern of this nature indicates that the demand side impetus to services growth will continue to get stronger in the year to come. However, along with the growth of the service sector, the agricultural and industrial growth is also of paramount importance to meet the needs to the burgeoning world population

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