



**POTENTIAL AND PERFORMANCE OF TERTIARY SECTOR OF INDIAN ECONOMY**

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**ABSTRACT**

*Service sector is a way in order to develop the growth of Indian economy. In today's scenario the service sector is becoming important as it provides an employment to large number of people .The growth of service sector was mainly due to advancement in technology and further helpful in exports .Service sector cannot develop without the growth of secondary and primary sector. This study examines the growth and contribution of service sector towards Gross Domestic Product .Further the study investigates the potential and challenges faced by service sector in India. Secondary data has been used to collect the information.*

**KEYWORDS:** *Service sector, Growth, Potential etc.*

**INTRODUCTION OF SERVICE SECTOR**

Service sector of India includes all those activities which are not carried by primary and industrial sector. India economy is categorized into three sectors. The agriculture sector which deal with farming, forestry, fisheries and animal husbandry. The industrial sector consists of conversion of raw material into finished goods. Services include trade, hotels, restaurants, construction, financing, real estate, business services, community, social services and personal services. Indian economy can be called as lifeline for economic and social growth of country as it provides employment to large number of people living in India. The main reason for the fast growth of service sector was new economic policy of 1991 that is Liberalization, Privatization and Globalization. According to DIPP (Department of Industrial policy and promotion), during 2000 to 2014 Indian economy received a large amount of foreign direct investment.

## LITERATURE REVIEW

**Gordon and Gupta (2003)** studied on service sector revolution. The aim of the current study was to estimate the growth of service sector in India. The data for the current study was pertaining from 1951 to 1990. To achieve the objectives of current study secondary data were collected from Central Statistical Organization, World Bank. Tabular and percentage analysis were carried out to estimate the growth of service sector. It was found that communication, financial, business and IT services were the major contributors towards growth of service sector in India. Service sector grew at a rapid rate as compared to agriculture and industrial sector. It was analysed that share of Agricultural, Industrial and Services sector was 22 per cent, 27 per cent and 51 per cent in 2003 towards India's Gross Domestic Product. Author suggested that India had potential to grow in future if deregulation on services were continued in the near future.

**Mukherjee (2007)** focused on overview of service sector of India. The purpose of the research was to analyse the trends and issues of service sector of India. It also attempts to found the restrictions faced by services sector and suggestive measures. Data was pertained from 1999-2000 to 2004-2005 and secondary data were collected from various published sources like Central Statistical Organization, Economic Survey of India 2011-12. Data were depicted in the research by usage of tabular and percentage analysis. From study it is ascertained that service sector, were the fastest giving sector in India as its contribution towards India's trade were higher than the global average. As contribution of service sector was higher (53.7) as compared to primary (21.8) and secondary sector (24.5) during year 1950-2010. Various problems were revealed for proper growth service sector like various restrictions were imposed by Foreign Direct Investment to invest in service sector, number of rules and regulations, heterogeneity of service sector create a major hindrance in the way of growth of service sector. Author suggest that if various measures like non-discrimination, stable policy should be there only then it can attract foreign direct investment. If these reforms will be implemented it not only increase the periodicity and efficiency but also leads to overall growth and increase in trade of service.

**Joshi (2008)** focused on economy of service sector in India. The present study was conducted to study the constituents, problems, performance and prospects of India's Service Sector. It also studied the impact of service sector on growth and employment of India. Data was studied before and after liberalization period. Secondary data were collected from Central Statistical Organization. It found that contribution of service sector towards India's gross domestic product was more than 40 per cent. After followed the import substitution policy India goes up on the track of growth in area of service sector. Researcher also found that some challenges were faced by service sector in case of

social infrastructure, IT infrastructure, agricultural and industrial sector etc. In addition of this government had taken some steps to improve service sector. Indian economy has potential to grow in department of IT and BPO sector.

**Sastry *et al* (2008)** carried out study on contribution of unorganized sector towards Gross Domestic Product. The aim of the current research was to study the existing methods for estimating contribution of unorganized sector towards gross domestic products and suggest alternate method for its direct estimation. For this, secondary data 1999-2000 to 2004-05 were collected from different published sources like Central Statistical Organization, National Account Statistics etc. Input output analysis were carried out to estimate the contribution. Tabular and percentage analysis were carried out to estimate the contribution of each sector towards Gross Domestic Product. It was found that while estimating the contribution of informal sector in the past some problems were faced like non availability of data, current data, appropriate price indices etc. For this problem, researcher suggested alternate method called "method of apportioning". According to this method it was concluded that more than 50 per cent of the gross domestic product was contributed by unorganized sector in 2004-2005. As there were various programmes which were launched for improving quality of gross domestic product estimate e.g. ISP (Indian of Service Production), ASE (Annual Survey of Enterprise) etc.

**Padashetty and Kishore (2011)** focused on opportunities and prospects in Indian service sector. The aim of the research was to analyse the contribution of service sector towards Indian economy. It also focussed on studying the impact of Indian government policies on the economy and suggested ways to improve the economy. To achieve the objectives of the current study data for 1951-51 to 2001-2002 were collected from various published sources like Central Statistical Organization, RBI Bulletins etc. Tabular and percentage analysis were carried out to study growth rate of service economy. It was found that contribution made by service sector had increased from 29.3 percent to 51 percent during 1951 to 2002 and also helped in generation of employment opportunities. Government had helped in many ways to contribute towards service sector like introduction of new economic policy (1991). After the introduction of liberalization it was analysed that 70 per cent of the activities were directly dealt with service sector. Author suggested that in order to attain same level of growth rate in the future there should be balanced approach towards all the sectors of the economy namely primary, secondary and service sector. By this our economy can attain the position of 'service hub'.

**Tiwari (2011)** conducted a study on performance and reforms in Indian service sector. The objectives of the current study were to estimate the growth patterns of services sector in India during the five

year plans and to identify the growth drivers of service economy. The study also focused to analyse the performance and challenges related to services sector in India. For this, secondary data for the five year plans (1951-1997) were collected from different published sources like National Account Statistics and Bulletins of Reserve Bank of India etc. Tabular and percentage analysis were carried out to find the contribution of various sectors towards Gross Domestic Product. Researcher analysed that contribution of Agriculture, Industrial and Services Sectors in 1950-2006 towards Gross Domestic Product were 19 percent, 27 percent and 55 percent respectively. It was concluded that in spite of facing with structural changes, India was able to sustain the growth during the last 60 years.

**Lashmi and Kumar (2012)** studied the factors affecting India's services sector. The objectives of the current study were to study the estimate of the growth pattern of Indian service sector and its sub sectors. It was also tried to reveal factors which affects the service sector of Indian economy. To achieve the objectives of the study secondary data from 1990 to 2010-11 were collected from different published resources like Economic Survey, Statistical Abstract of India, and RBI Bulletins etc. To estimate the growth pattern CGR (Compound Growth Rate) were calculated by fitting exponential curve to estimate factors which affect the growth of service sector in India. It was found that the growth of Service Sectors Sector in India was due to fast growth in communication sector, financial services, IT sector and health sector. The remaining sectors grew at a constant rate. High income elasticity also contributed towards the service sector growth Indian service sector has strong future prospects.

**Singh (2012)** focused on challenges of service led economic development in India. The objectives of the current study were to analyse the contribution of different sectors towards Gross Domestic Product and its sustainability in the near future. For this, secondary data were collected from different published sources like Bulletins of Reserve Bank of India, Handbook of Statistics etc. It was found that primary sector contributed 19 per cent, secondary sector 20 per cent and the tertiary sector 61 per cent to Gross Domestic Product of India. Author also suggested that in order to maintain same level of growth, government should focus on enhancement of services of micro, small and medium enterprises and RNRF which can help India to achieve their objectives of increased output of energy. Management expert also suggested that various restrictions which were levied on tradable services like retail sector, financial services and real estate must be deregulated in order to attract more Foreign Direct Investment. Service sector was fastest growing sector and its ratio to service output was much faster in developing countries as compared to developed countries.

**Mujahid and Alam (2014)** pointed on service sector as an engine of economic growth him an empirical analysis of Pakistan. The aims of the current study were to examine the factors which

affect the growth of service sector along with relationship among variables. Secondary data during the time period 1976-2010 were collected from various published sources like World Bank etc. Application of Co-integration Technique and Vector Error correction modal were employed to ascertain the long run as well as short term variables. Author concluded that the factors which hinder the growth process were the external debt, population, Gross Domestic Product, Foreign Direct Investment, employment of labor force in services. It was also found by the researcher that there exists a positive and significant relationship exists among population and transformation process of services in case of Pakistan. Suggestions were given on the ground that in order to follow growth patterns, purchasing parity should be improved which has power to attract foreign direct investment.

**Subramanian and Arimohan (2014)** examined on role of service sector in India. The aim of current research was to find out the contribution of services sector towards growth domestic product and sector which are responsible for India's export growth. To achieve objectives secondary data were collected from Economic and political weekly, journals etc. It was found that contribution of services sector towards Gross Domestic Product were 29 per cent which increased to 57.8 per cent in 2010-2011. The major sector which were responsible for the growth of exports of services were IT (Information Technology) and BPO (Business process outsourcing) sectors, out of which they contributed 6.4 per cent to India's gross domestic product and towards export (10 per cent). The main sectors which lag behind were restaurants, railways, storage, dwelling, real estate, legal services, personal services etc. India has to improve on these sectors.

#### **OBJECTIVES OF THE STUDY**

1. The study the performance of India's Service Sector.
2. To study the challenges and potential of Service sector in India.

#### **RESERACH METHODOLOGY**

This research paper is based on the secondary sources of data. The secondary data were collected from various published sources like journals, websites, Central Statistical Office etc.

#### **SIGNIFICANCE OF SERVICE SECTOR**

It can be analysed while we see its contribution towards various segments of the economy.

#### **1. CONTRIBUTION TO GDP(GROSS DOMESTIC PRODUCT)**

Service Sector had a major share in India's GDP in the year 2011-2012 that is 54.91 percent as compared to primary and secondary sector which contributed 17.86 percent and 21.22 per cent respectively. The share of service sector shows a change of 4.79 per cent during liberalization period.

**TABLE 1: Average by decade of the share of different sectors in India GDP**

| Year     | Primary Sector | Secondary Sector | Tertiary Sector |
|----------|----------------|------------------|-----------------|
| 1951-52  | 50.67          | 15.00            | 33.59           |
| 1961-62  | 41.77          | 19.93            | 38.56           |
| 1971-72  | 40.28          | 21.23            | 38.37           |
| 1981-82  | 34.07          | 25.12            | 40.39           |
| 1991-92  | 29.39          | 25.40            | 44.18           |
| 2001-025 | 22.92          | 25.08            | 51.99           |
| 2011-12  | 17.86          | 27.22            | 54.91           |

Source: Central Statistics Office

### 2) DECADE WISE ANNUAL GROWTH RATE OF VARIOUS SECTORS OF INDIAN ECONOMY

Indian economy had grown at a very faster rate, reason being the growth of different of service sector. Table shows that on an average service sector grew at a slower rate during the year 1951-52 and up to 1971-72 But after the introduction of new economic policy 1991 service sector grow at a faster rate than primary and secondary sector. During the decade 2011-12 growth rate of primary sector were 13.60 per cent, growth of industrial sector was 16.05 per cent and higher the services sector that was 16.35 per cent.

**TABLE 2: Decade wise annual growth of different sectors**

| Year     | Primary Sector | Secondary Sector | Tertiary Sector |
|----------|----------------|------------------|-----------------|
| 1951-52  | -2.59          | -5.48            | 3.41            |
| 1961-62  | 3.57           | 8.99             | 5.83            |
| 1971-72  | 2.15           | 10.32            | 9.68            |
| 1981-82  | 12.71          | 21.12            | 18.46           |
| 1991-92  | 16.82          | 10.61            | 17.41           |
| 2001-025 | 8.25           | 4.89             | 10.89           |
| 2011-12  | 13.60          | 16.05            | 16.35           |

Source: Central Statistics Office.

### 3) CONTRIBUTION OF SERVICES SUB SECTOR TO OVERALL SERVICES:

Variations are seen while seeing growth and performance of different sub sector of services. Business services (including IT), communication and trade have growth faster than the overall service sector growth in India. Other services such as legal, transport, storage and personal administration and defence services have grown at the same rate as overall services sector (Gordon and Gupta 2003). The sub sector are divided into construction, real estate, finance, insurance

business services, trade, hotel, transport, communication, community, social and personal service. The major sector which contributed to overall service sector were in the year 1955-56 were trade hotel, transport and communication that is 428.31 per cent followed by community, social and personal services, that was 357.65 per cent and then finance insurance, real estate and business service that is 286.79 per cent and lastly construction services.

**TABLE 3: Contribution of different service sub sectors towards overall services**

| Year      | Services | Constructio<br>n | Trade, hotels,<br>transport and<br>communicati<br>on | Finance,<br>insurance,<br>real estate<br>and business<br>services | Community,<br>social and<br>personal services |
|-----------|----------|------------------|--|---|---|
| 1955-56   | 1263.15  | 190.40           | 428.31   | 286.79  | 357.65  |
| 1960-1961 | 1501.68  | 262.95           | 518.79   | 312.52  | 407.41  |
| 1965-1966 | 1953.04  | 365.09           | 680.79   | 367.66  | 539.50  |
| 1970-1971 | 2412.54  | 450.96           | 842.05   | 437.35  | 682.18  |
| 1975-1976 | 2879.84  | 479.48           | 1059.80  | 521.42  | 819.14  |
| 1980-1981 | 3613.71  | 607.57           | 1339.06  | 650.41  | 1016.66                                       |
| 1985-1986 | 4778.16  | 686.54           | 1781.95  | 997.83  | 1311.84                                       |
| 1990-1991 | 6686.49  | 951.84           | 2377.36  | 1551.65   | 1805.64                                       |
| 1995-1996 | 9069.51  | 1129.11          | 3425.36  | 2263.48   | 2251.57                                       |
| 2000-2001 | 13353.55 | 1553.78          | 5067.42  | 3292.71   | 3439.63                                       |
| 2005-2006 | 20063.02 | 2581.29          | 8154.07  | 4923.40   | 4404.26                                       |
| 2010-2011 | 32020.88 | 3747.08          | 13440.24   | 8491.8  | 6341.67                                       |

Source: Central Statistics Office

The sub sector are divided into construction, real estate, finance, insurance business services, trade, hotel, transport, communication, community, social and personal service. The major sector which contributed to overall service sector were in the year 1955-56 were trade hotel, transport and communication that is 428.31 per cent followed by community, social and personal services, that was 357.65 per cent and then finance insurance, real estate and business service that is 286.79 per cent and lastly construction services.

### **CHALLENGES FACED BY SERVICE SECTOR**

1. The main challenge faced by the service sector dealt with the sustainability of growth in the near future.
2. Various restrictions which were imposed by the government make our Indian economy not on the proper stage of growth.
3. Construction sector on which government had not contributed much towards overall gross domestic product.

### **POTENTIAL OF SERVICE SECTOR**

In the economy the sub sector which contributed towards gross domestic product were trade, transport, hotels and restaurants as it provides the tourists to stay in the hotels which attract large amount of foreign direct investment .The potential of service sector to grow had a wider scope also in the areas of real estate, as well as business services. India had provided a large amount of employment opportunities which can become India the “Service Hub”.

### **CONCLUSION**

The present paper makes an analysis of Indian service sector through examining its performance and potential. The study examines that service sector have grown at a higher rate as compared to industrial and primary sector. Most of the population were still engaged in the agricultural sector, but next sector which contributed to overall service sector were trade, hotels, transport and communication. From the view point of contribution, annual growth rate as well as share of individual sector to overall service sector, they showed an upward trend during the LPG or new economic policy 1991. In order to sustain the growth of this sector efforts have been made to develop construction sector e.g. infrastructural development should be made which can attract large amount of foreign direct investment.

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