Role of Different Sectors in Indian Economy (1991 to 2016)

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ABSTRACT: *India is a developing country and Indian economy is one of the world's largest economies. After independence in 1947 the major challenges to the economy were social development, employment generation and poverty alleviation etc. Indian economy focused on agriculture sector and industry sector to create basic infrastructure. India held traditional values such as self reliance and socialistic policies of economic development, which resulted in the segregation, inefficiency of the economy with a host of other problems. During 80s Indian economy was facing a deep crisis when balance of payment going increasingly negative year by year. Then economic liberalization was initiated (also called economic reforms) by Indian government in 1991. In this study we will comparatively evaluate the trends and role of all the three sectors of economy namely agriculture sector, industry sector and service sector in Indian economy after the economic reform of 1991. For the study sector wise data for the period from1991-2016 will be analyzed.*

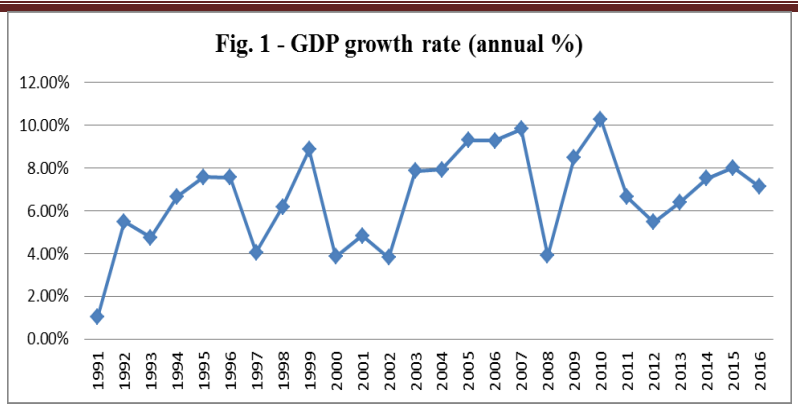
Key Words: *Economic sector, GDP, Growth rate, Employment.*

INTRODUCTION

Since Independence in 1947 to 1990 domestic policy tended towards protectionism, with a strong emphasis on import substitution industrialization, a large government-run public sector, business regulation, central planning and economic interventionism. The collapse of the Soviet Union, which was India's major trading partner, and the Gulf War, which caused a spike in oil prices, resulted in a major balance-of-payments crisis for India. In 1991 foreign exchange reserves had fallen to almost $1 billion; Inflation had roared to an annual rate of 17 percent; fiscal deficit had become unsustainable; foreign investors and NRIs had lost confidence in Indian Economy. Capital was flying out of the country and the India was near to defaulting on international loans. India asked for a $1.8 billion bailout loan from the International Monetary Fund (IMF), which in return demanded de-regulation. Then major economic reforms also known as LPG (Liberalization, Privatization and Globalization) were adopted by Indian Government to enable it to get further foreign exchange loans from World Bank. The reforms did away with the license raj, reduced tariffs and interest rates and ended many public monopolies. With the policy reforms of 1991, Indian economy was opened for the foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India by removing constraints to the entry of MNCs in India, and Indian companies was allowed to enter into foreign collaborations and to set up joint ventures abroad, carrying out liberalization programs etc. By the turn of the 21st century, India had progressed towards a free-market economy, with a substantial reduction in state control of the economy and increased financial liberalization.

❖ Overall Growth of Indian Economy

The long-term growth prospective of the Indian economy is positive due to its healthy savings and investment rates, young population and increasing integration into the global economy. In 2003, Goldman Sachs predicted that India's GDP in current prices would overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035, making it the third-largest economy of the world, behind the US and China. GDP growth rate of Indian economy for the year 1991 (i.e. just before the economic reforms of 1991) was 1.06% and for the year 1992 (just after the economic reform) growth rate reached to 5.48%.

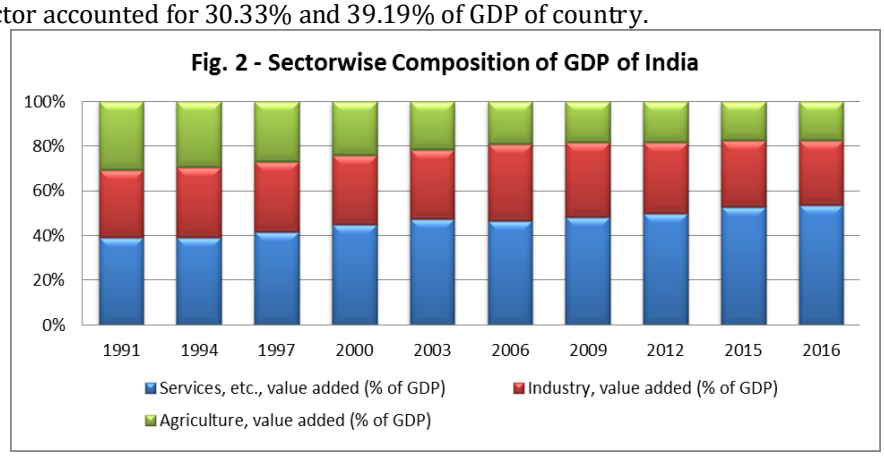


(Source: World Bank group open data)

Figure 1 show that economy of India is continuously growing at a very good growth rate. In the period of 1992 to 2016, GDP growth rate of India saw many fluctuations but growth rate never go negative. For that period average GDP growth rate was 6.86% annually, with a minimum growth rate of 3.80% in the year 2002 and a maximum growth rate of 10.26% in the year 2010. Indian economy saw a major decline in GDP growth rate by 5% in 2000, which was the direct impact of huge decline in the growth of service sector in that period. After that Indian economy experienced continuous high average growth rate for the 5-year period 2003-2007 with average GDP growth rate of 8.83% annually that is highest for any five year period since 1991. Then in 2008 due to the global financial crisis growth rate declined and reached to 3.89% annually. Further the GDP take a dip by 3.6% in 2011 because of slowdown in Indian economy. This slowdown was mainly due to global factors and also of domestic factors like high inflation, slower investment and industry activities and tightened monetary policy. Since 2014, India's economy has been the world's fastest growing economy. Although the GDP is growing at more than 7% annually, India's share in the global economy is still low that was about 2.83% only in 2015.

❖ **Economic Sectors and GDP**

Economy of a country is generally divided into three sectors viz. primary sector, Secondary sector and tertiary sector. After the independence the contribution of primary sector i.e. agriculture sector was more than fifty percent of total GDP of country but with the passage of time as the secondary and tertiary sectors (i.e. industry and service sectors) started growing the contribution of agricultural sector started declining. For the year 1991 contribution of agriculture sector to the GDP of country was 30.48% while the industry and service sector accounted for 30.33% and 39.19% of GDP of country.



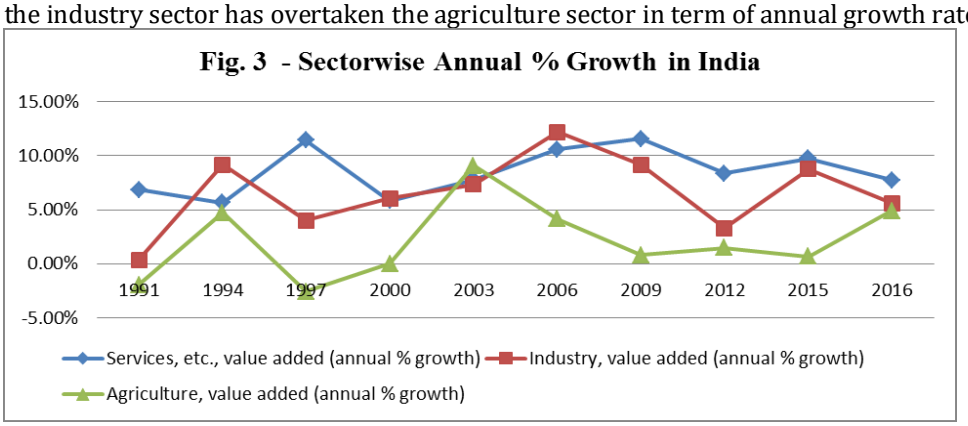
(Source: World Bank group open data)

After 1991 with the promotion and growth of industrialization and service market in country, the dependence of Indian economy on agricultural sector started to shrink; contribution of this sector is declining year by year while the contribution of service sector is increasing year by year. It looks like service sector is gaining share from agricultural sector or agricultural sector is losing its share to service sector. The contribution from industry sector is somehow stabilized around 30 percentages and remains fluctuating around 30 percent. Respective contribution of the stated three sectors i.e. agricultural, industry and service sector in the GDP of India is 17.35%, 28.85% and 53.80% for the year 2016. Since 1991 contribution of agriculture and Industry sector to the GDP has been decreased by 13.13% and 1.48% respectively with the

average annual rate of 0.525% and 0.059% respectively. On the other side, during that period contribution of service sector has been increased by 14.61% with average rate of 0.585 annually. For the period of 1992 to 2016 average contribution of agriculture, industry and service sector to the GDP of country was 22.19%, 31.68% and 46.13% respectively.

❖ **Sector wise growth in Indian economy**

For the year 1991 sector wise annual growth rate of agriculture, industry and service sector was -1.95%, 0.34% and 6.86% respectively. This showed that industry sector was growing with least growth rate. For the year 2016 the annual growth rate of agriculture, industry and service sector was 4.88%, 5.59% and 7.74% respectively. This indicates that service sector is still having the highest growth rate among the three sectors. But the industry sector has overtaken the agriculture sector in term of annual growth rate.

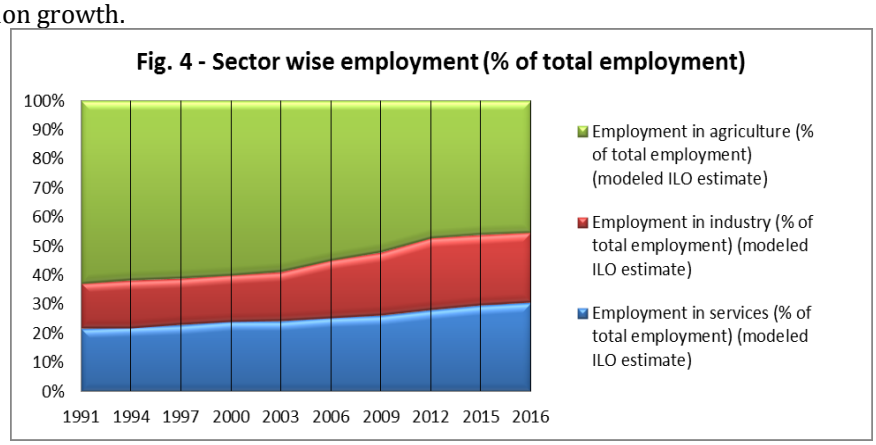


(Source: World Bank group open data)

From the year 1992 to 2016, agriculture sector has grown at the average annual growth rate of 3.24% with the minimum growth rate of -6.60% in 2002 and maximum growth rate of 9.92 in 1996. Industry sector has grown at the average annual growth rate of 6.88% with the minimum growth rate of 2.61% in 2001 and maximum growth rate of 12.17 in 2006. And service sector has grown at the average annual growth rate of 9.19% with the minimum growth rate of 5.66% in 1994 and maximum growth rate of 14.25 in 1999. Although every sector has grown but the average annual growth rate of service sector is comparatively high as compared to other economic sectors and overall economy i.e. GDP so the comparative contribution of this sector in GDP is increasing year by year. With an average annual growth rate of above 9% India has one of the fastest growing service sectors in the world.

❖ **Employment in Indian Economy**

Employment to population of working age (15+) ratio of India was not good in 1991. It was about 58.30% to the total population, 81.40% for the male population and 33.60% for the female population. Despite the fact that GDP of India is growing at annual growth rate of 6.85% annually since 1992, employment to working age population ratio did not show any improvement throughout that period. Employment to working age population ratio of India in 2016 is about 51.90% to the total population, 76.40% for the male population and 25.80% for the female population. Main reason for that declining employment rate in India is its high rate of population growth.



(Source: World Bank group open data)

Employment in agriculture, industry and service sector as percentage to total employment in 1991 was 62.70%, 15.40 and 21.80% respectively. This indicates that in India, agriculture sector is the main occupation of working population. Contribution of agriculture sector was more than 62% in total employment, while the contribution of this sector was about 30% in the GDP of country. In the period 1992-2016 contribution of agriculture sector to total employment has been decreased by 17.6% with average annual declining rate of 0.704% and since 1999 contribution of agriculture sector in total employment is continuously declined in each year except 2013. Contribution of industry sector to total employment during the period of 1992-2016 has been increased by 8.90% with average annual growth rate of 0.356% and after 2001 contribution of this sector in total employment increased in each year except 2013. Share of service sector during the period 1992 to 2016 to total employment has been increased by 8.80% with average annual declining rate of 0.352%. Since 1991 contribution of service sector to the total employment has increased in each year except year 2001. For the period of 1992 to 2016 average contribution of agriculture, industry and service sector to the total employment was 55.46%, 19.46% and 25.28% respectively. This came out with the fact that the proportion of employment loosed by the agriculture sector during the period 1992-2016 have gained by the industry and service sector equally.

Study also revealed that employment of females is more in agriculture sector as compared to other sectors. Proportion of female employment in agriculture, industry and service sector for the year 1991 was 75.70%, 12% and 12.30% respectively of the total female employment. And for the year 2016 this ratio was 60.60%, 18.20% and 21.20% respectively. Employment of males was also found more in agriculture sector but the proportion was much lower than in case female employment. In the year 1991 proportion of male employment in agriculture, industry and service sector was 57.80%, 16.70% and 25.50% respectively. For the year 2016 this ratio was 40.10%, 26.30% and 33.60% respectively.

CONCLUSION

After the study in conclusion we can say that Indian economy performed well after 1991, growth of India attained the two digit growth rate in the year 2010. During the phase of our study Indian economy go through some turbulent phases but it managed the average annual growth rate of 6.85% for the period 1992-2016. In spite India's share in world GDP is low, GDP of country is growing comparatively much higher rate than the other developing countries. Structure of Indian economy is continuously changing. Dominance power of agriculture sector is being transferred to service sector while the share of industry in GDP remained stagnant. Main issue of concern for the Indian economy is the low employment to working age population ratio of India especially for females that is only 25% to female working age population.

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