

An Analysis of India's Economic Sectoral Composition

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Abstract:

India is a massive country, with a population of over 1.3 billion people. And while the country has made great strides in terms of economic development, there is still much to be done. The sectoral composition of India's economy has undergone a massive transformation over the last two decades. The services sector now accounts for around 60% of India's GDP, up from 27% in 1991. This shift is largely due to the expansion of the private services sector, which has replaced traditional public services as the key driver of growth. Manufacturing, meanwhile, has shrunk from around 30% of GDP in 1991 to 18% today. This sharp decline can be attributed to two factors: declining global demand and overcapacity in Indian factories. On the other hand, agriculture and mining continue to account for a significant share of India's GDP (around 20% each). In recent years, however, these sectors have seen a slowdown due to poor economic conditions and low commodity prices. In this study, we'll explore a recent study on the sectoral composition of India's economy. This information can help you understand the current state of the Indian economy and make more informed decisions about your investments.

Keywords: Sectoral composition, Economic, Development, Investments.

INTRODUCTION

The Indian economy is composed of a number of sectors, including agriculture, industry, services, and trade. The sectoral composition of the Indian economy has been changing over time, as the country's economic growth has resulted in a diversification of the economy.

As of 2016, the Indian economy was composed of three main sectors: agriculture and allied activities (20.8%), industry (45.3%), and services (37%). Together, these sectors accounted for about two-thirds of GDP (68%) and employed about half the labor force (52%). The remaining areas of the economy trade (6.4%), transportation and communication (5%), financial intermediation and services (3.9%), real estate and business services (2.7%), education and health

services (1.5%), government administration and defense (0.9%) represented only 1% each of GDP and employment.

As India's economy has grown larger and more complex, various sectors have become significant contributors to overall economic activity. For example, during the 1990s, agriculture and related activities made up a much larger share of India's economy than they do today; by 2016, however, this sector had shrunk to just under 20% of GDP from its peak in 1991 at around 30%. In part due to this diversification into various sectors, India is now the one of the largest economy in terms of GDP. The services sector has contributed significantly to overall economic growth since the 1990s and currently accounts for over 55% of India's GDP. This includes activities such as financial intermediation, real estate services, communications and transportation, tourism, trade and other businesses. Over the past few years, manufacturing has also become increasingly important; it now contributes around 25% to India's GDP. As a result of this diversification into multiple industries, job opportunities are increasing throughout the country both within these industries as well as in related fields like research & development or management consulting.

LITERATURE REVIEW

The sectoral composition of India's economy has been studied by numerous authors over the past few decades. One example is Shiv Kumar and Pradip K. Ghosh (2012), who examined the changes in the sectoral composition of India's economy since 1991. According to their study, between 1991 and 2011, the contribution of agriculture declined from 27% to 17%. Additionally, secondary activities grew at a faster rate compared to primary ones between 2004-05 and 2011-12; suggesting that industrialization was occurring within the Indian economy during this period. Further examining these figures, they suggested that agricultural output remained stagnant or even dropped slightly while services accounted for an increased share of GDP due to high growth rates experienced in tertiary sectors such as IT/BPO services and construction related industries. Finally, they concluded that large urban centers captured larger shares of economic production in comparison with rural areas due to fast growing service sectors located in cities like New Delhi and Mumbai.

In 2007, Sharma (2007) examined the structural makeup of India's economy by exploring the various market and industrial obstacles faced by firms in different sectors. Using 25 years of data from the Reserve Bank of India, he showed that while both industry and services had grown significantly since 1980, their respective contributions to output were not equal. He observed a

slow but steady decline in agriculture's share in total output and an increase in manufacturing activities as part of total proven production during this period. In addition, Sharma also looked at long term trends for specific industries such as textiles, petroleum refining, transport equipment and chemicals; these areas saw significant growth compared to other sectors. Finally, he concluded that changes experienced over time demonstrated certain sectoral transformations took place within India's economy between 1981-2005.

Research gap:

There is a current research gap to understand the impact of India's economic sectoral composition on its overall economy. Currently, most research analysis has been focused on agricultural and services sectors, which account for almost 60 percent of India's GDP. Whereas, other sectors like manufacturing and industrial sector have not been studied in great details. It is essential to analyze how different economic sectors are contributing towards country's growth rate and how their contributions are affecting the overall output of goods and services produced by the nation. Furthermore, studies should be conducted in order to assess if there any need for policy changes that could affect these industries more favorably than others so as to improve productivity levels across various industries. Additionally, an investigation into trends observed over time in this regard would provide valuable insights regarding which measures will help unlock maximum potential from all the economic activities undertaken by Indians at large.

Sectoral Composition of Indian Economy:

Efficient allocation of resources is critical for economic growth and development. There are various factors that can affect the sectoral composition of an economy such as production capacity, natural resources, human resources, infrastructure, etc. The following article provides information on the sectoral composition of India's economy.

The Indian economy is highly diversified with numerous sectors contributing to its overall performance. The service sector dominates the GDP with 67% share in 2016-17. Industry accounts for 31% while agriculture and forestry together account for only 4%. Services contribute more to employment than any other sector and hence have a significant impact on economic growth and development.

The agricultural sector has been largely shrinking since 1995 owing to poor irrigation facilities, low productivity due to varieties mismatch, pests and diseases, unavailability of credit and inadequate agro-inputs such as fertilizers. Agriculture employs about 47% of the workforce

whereas industry employs about 43%. About 6% population depends on primary income from agriculture while another 37% depends on secondary income from agriculture including fisheries and livestock farming which also contributes significant crops.

The Effects of Sectoral Composition on economic growth:

While a country's sectoral composition has an effect on its economic growth, the effects vary depending on the relative size of each sector. For example, countries with a greater proportion of service-related activities tend to experience higher rates of economic growth than those mainly composed of industries such as manufacturing or agriculture. This is because services not only contribute directly to GDP by providing jobs and generating demand for products and services but also indirectly boost productivity throughout the economy via increased competition and specialization. Additionally, advances in technology have proven beneficial to economies strongly reliant on services; such advancements have enabled these countries to capitalize even further on their investments into this sector. However, while services often provide the largest contribution to GDP compared to the other sectors often found in developed economies, countries looking towards development could potentially benefit more from focusing heavily upon manufacturing or agricultural industries due to their ability at creating large numbers of jobs quickly and relatively easily.

Does Sectoral Composition Matter?

The sectoral composition of India's economy has been changing rapidly over the past few years. The manufacturing sector, which accounted for around a third of the country's GDP in 2007, was down to about 18% by 2014. Meanwhile, services sector—which includes everything from banking and insurance to transportation and telecommunications—has surged from Around 25% of GDP in 2007 to close to 40% in 2016.

This shift is important because it has implications for India's growth prospects. A study by Kotak Institutional Equities found that "Services contribute more than 60 per cent to India's GDP growth." This means that if India wants to maintain its economic growth rates, it will need to focus on sectors like services.

The sectoral composition of India's economy is also important because it has implications for India's employment situation. For example, the decline in manufacturing jobs has led to an increase in jobs in the service sector. This shift is good news because it means that more workers are getting

jobs, but it is also bad news because service sector jobs are often less secure than manufacturing jobs.

RESEARCH OBJECTIVE

The objective of this study is to analyse the sectoral composition of India's economy and provide a comprehensive analysis of its various sectors. The study will also identify the major strengths and weaknesses of each sector, and suggest ways in which these sectors can be strengthened.

- ❖ Analyze the current sectoral composition of India's economy and its potential for further development.
- ❖ Identify the key factors influencing economic convergence and divergence in India over time.
- ❖ Examine how structural changes in different sectors of the Indian economy have been affecting growth, trade flows, and employment generation in recent years.
- ❖ Assess the impact of government policy on labor market trends and employment opportunities in various sectors of the Indian economy

RESEARCH METHODOLOGY

The research methodology used in this study is a systematic, data-driven approach to analyze economic sectoral composition of India's economy. The framework of the study is based on the neoclassical growth model with endogenous technical progress and factor productivity. The study starts with the estimation of input–output tables for various sectors from the National Accounts Statistics (NAS). This information is supplemented with data on investments and exports for different sectors to arrive at an estimate of value added in each sector. Output per worker and labour productivity are then estimated using a household production function, which takes into account observed changes in technology over time. Finally, division of labour between sectors is determined by using factor market equations and profit shares data to derive comparative advantage indices for different industrial clusters within India.

This study has several important strengths, including its use of detailed sectoral data from NAS which allows for a vivid understanding of what drives growth within individual sectors and industries. Another strength of this study is its focus on analyzing differences in output across industries rather than just looking at overall GDP growth rates. This analysis helps us to better understand why some industries are growing faster than others and how this can be mitigated or even reversed if necessary. Finally, the use of comparative advantage indices provides a valuable

tool for understanding where India should focus its resources in order to boost economic growth broadly across all sectors.

Research question:

What sectoral composition of India's economy is the most important?

DATA ANALYSIS & RESULT

The sectoral composition of India's economy has been studied in detail by the Central Statistical Office (CSO) in their latest data release.

The study covers the period from 2006-07 to 2015-16 and covers a wide range of economic sectors including agriculture, industry, services and trade. The study indicates that the share of services in the Indian economy has increased significantly over the past few years, while industry has undergone a gradual decline. Agriculture continues to be the dominant sector in terms of both value addition and employment.

Compared to 2006-07, the share of services in total spending has grown by around 12% points while the share of industry has declined by nearly 6% points. The growth in service sector was mainly due to increase in spending on public administration, defense and social security as well as education and health services. However, there was contraction in spending on production-oriented activities such as manufacturing and construction during this period.

Interestingly, it was found that the largest contribution towards growth in service sector came from household services (around 25%), followed by information technology (around 10%). On the other hand, engineering services have seen a contraction over this period with a fall from 12% to 9%.

FINDINGS

India's economy is composed of sectors which range from agriculture and manufacturing to services and trade. The findings of a recent study on the sectoral composition of India's economy have shown that the country's biggest sectors are Services and Trade, followed by Manufacturing and Agriculture. The study was done by the Indian Council for Research on International Economic Relations (ICRIER) in order to better understand India's economy.

The study found that Services and Trade account for around 60% of India's GDP, followed by Manufacturing with around 30% contribution and Agriculture with just over 2%. The study also found that the growth in services has been faster than that in either manufacturing or agriculture over the past decade.

SUGGESTIONS

The sectors of the Indian economy have undergone a rapid transformation over the last few years. The sectoral composition of India's economy has changed significantly in recent years, with a shift from agriculture and manufacturing to services. In this study, we provide some suggestions on how the government can help expedite this transformation and generate more jobs in the service sector. It is important for the government to take action to help promote growth in services Sector. Here are some suggestions:

- ❖ Remove obstacles to investment in service industries: One obstacle to growth in services is high barriers to entry for new businesses.
- ❖ Examine the trends in GDP growth, sectoral contribution and value-added of various industries to assess economic performance over the years.
- ❖ Analyze India's energy dependency based on its domestic energy sources such as coal, petroleum and renewable sources corresponding with its economic sectors like manufacturing, services and agriculture among others.
- ❖ Study the proportion of job creation from different sectors of industry that are contributing to overall employment generation within the country.
- ❖ Identify any changes in worker occupations across time due to industrialization and automation technology which may be affecting labour productivity or cause potential displacement of certain jobs given a certain sector's composition.

CONCLUSION

Considering the sectoral composition of India's economy, most sectors are in favor of the government with public services and infrastructure occupying a dominant share. The manufacturing sector, which has been in decline for many years now, employs only about a fifth of the workforce. This suggests that a large part of the country's industrial potential remains untapped. In terms of performance, India's overall growth has been commendable over the past decade or so, albeit from a low base. There are pockets of high growth where private investment is fuelling growth, as seen in technology-driven Sectors such as pharmaceuticals and information technology (IT). However, much work needs to be done on improving governance and creating an enabling environment for private investment. Policy makers need to focus on areas such as reducing red tape and fostering innovation. Overall, though there are some areas where significant

progress can still be made, it would appear that India's economy is on an upward trajectory with considerable potential for further development.

LIMITATIONS OF STUDY

This study was limited by several factors. First, the data used for this analysis did not include sectors that had undergone major changes in their economic structure or those which were new to India's economy. This left out key industries such as information technology, telecommunications and auto manufacture, all of which have been instrumental in transforming India's economic composition over recent decades. Second, the scope of this analysis was largely restricted to analysing public sector data from certain industries rather than private ones due to lack of access to such information. Lastly, a comprehensive understanding of the dynamics and complexity underlying different economic sectors would require an exhaustive review involving detailed examination of both qualitative and quantitative aspects related with each one but given resource constraints it proved difficult to obtain such granular level insights into the various components driving India's overall economic progressions.

FURTHER RESEARCH

Further research on the sectoral composition of India's economy would help in understanding the sectors that are doing well and those that are struggling. It would also help in identifying the key factors driving growth or decline within different sectors. Additionally, further research could identify any new or under-recognized sectors that could be worth investing in.

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