ACADEMIC TASK 1

On

Is India's economy primarily based on agriculture or the service sector?

ECOM525

Of

MASTER OF BUSINESS ADMINISTRATION

By

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Declaration:

I declare that this Assignment is my individual work. I have not copied it from any other student's work or from any other source except where due acknowledgement is made explicitly in the text, nor has any part been written for me by any other person.

(**Student's Signature**)

Evaluator's comments (For Instructor's use only)

General Observations	**Suggestions for Improvement**	**Best part of assignment**

INTRODUCTION

India is the largest and fastest-growing major economy in the world, with a sizable population, favourable socioeconomic conditions, and a great potential for making up lost time due to a low baseline GDP per head.

With a GDP of USD 2.59 trillion, India overtook France to become the sixth-largest economy in 2017, according to data from the World Bank.

According to a survey by global consulting company PwC, India will likely surpass the United Kingdom in the ranks of the world's largest economies in the coming years.

The service industry not only makes up the majority of India's GDP, but it has also attracted significant foreign investment, made a significant contribution to trade, and provided vast opportunity for business. The service industry in India includes a wide range of activities, including trade, lodging and dining, transportation, storing and correspondence, financing, land, protection, business administrations, local government, social and individual administrations, and services associated to development.

'Monetary, land and professional administrations, Public Administration, defence and other services, exchange, accommodations, transit, correspondence, and service related to broadcasting are all included in the service sector area. The tertiary sector of the economy is another name for this area. Currently, this sector serves as the backbone of the Indian economy, accounting for over 54.3% of the country's GDP in 2018–19.

The Indian economy is fundamentally based on the agricultural sector. Over 70% of rural families are dependent on farming. Given that it generates employment for more than 60% of the population and accounts for around 17% of the country's total GDP, horticulture is a key sector of the Indian economy. Indian agriculture has experienced incredible growth during the past few years.

India's agricultural history dates all the way back to the Indus Valley Civilization. In terms of ranch yields, India is ranked second globally. According to statistics from 2018, agriculture employed over half of the labour force in India and made about 17–18% of its GDP.

LITERATURE REVIEW

1. There is no policy promoting holistic development, and many, ineffective administrative entities adversely affect local development. While India is in the top 10 members of the World Exchange Association in terms of import and assistance prices, the cost of administration is rising across a number of industries. Due to the fact that the majority of the poor in India do not access basic services like healthcare and education, as well as the fragility of the infrastructure, the cost of providing administrative support is significant. India needs to be a hub for knowledge, yet there are no standards for quality or instruction, and formal education does not guarantee employment. For complete growth that would also increase India's international stature in governance, strategy initiatives are advised. Despite being the largest, fastest-growing, and most profitable sector in India, the service industry has not grown at a rate commensurate with its contribution to total national production or produced the necessary number or type of jobs. Numerous guidelines are obsolete, and there are limitations and obstruction on unfamiliar direct speculation. [*Mukherjee, 2013*]

2. To ascertain if a forward and backward causal chain exists, as well as the weight of causation among these sectors, this paper analysed the connections between the service sector and the modern and agriculture sectors. The investigation was prompted by unequivocal evidence that sectoral promises to development have debased the underlying assumptions in emerging commercial sectors. Utilizing annualised time arrangement data on development rate assistance, industry, and horticulture sectors between 1982 and 2018, the study used a novel econometric procedure for causal impact assurance in the vector autoregressive (VAR) Granger causality test. The precise findings revealed a cross-sectoral relationship between the support sector and other economic sectors. Development in the administrative sector does not spur growth in other sectors, while growth in the agricultural and mechanical sectors propels the service sector's operation. This implies that service-driven development is illusory and, as a result, leads to de-industrialization and suppresses the development of agriculture. The inquiry recommends that action be taken to intensify and create a cooperative energy between the agricultural and mechanical sectors anywhere near the experimental discoveries. This usually

accelerates development in the services industry. [*Nwanil, 2020*]

3. India stands out among agricultural nations for its rapidly expanding aid area, but cynics have questioned the quality and maintainability of this assistance area expansion and its predictions for a change in the financial situation. We demonstrate, consistent with the viewpoints of the cynics, that although the area's development has been unusually quick, it started 15 years ago from oddly low levels. The question of whether it will continue to grow quickly is raised by the fact that the portion of administrations has just merged to the global standard. The continued development of modern services (business administrations, correspondence, and banking), but also on the application of modern data technology to more traditional services, will determine whether the administration sector yields and business continues to fill in excess of global standards (retail and discount exchange, transport and capacity, policy implementation furthermore, safeguard). The implications of the following viewpoint are obviously more certain for output than for employment. [*Eichengreen, 2011*]

4. This study uses the Engle-Granger, Drive Reaction, and Fluctuation Disintegration structures to examine the static and dynamic causation between the absolute Gross domestic product of India and the sectoral profits of farming, industry, and administration from 1950–1951 to 2008–2009. Static causality analysis reveals that the service industry. Granger contributes to the horticultural sector, the gross domestic product, and the industrial sector. Dynamic causality results reveal that the commitment to Gross domestic product figure mistake by the business area is the most significant, followed by administration area and agricultural area, and that the commitment to Gross domestic product gauge error by the business area is the most elevated. Due to the service sector, the business and agricultural sectors' clarifying force of one standard deviation development to the supposition blunder change is quite significant (30.6% and 40%, respectively). [*Tiwari, 2011*]

DATABASE

EVALUATE THE MONETARY AND FISCAL POLICES TO CONTROL INFLACTION

We have used secondary sources for our research:

1. **RBI:**
   The RBI database is a legitimate government repository where the methods and reliability of the data collection are of the highest caliber. The best source for statistics and yearly reports on all national financial matters is the RBI database.
2. **Scopus for research papers:**
   The largest abstract and citation database for peer-reviewed literature is called Scopus. It includes a wide range of documents, including:
   - Scientific journals
   - books
   - conference proceedings
   - articles, and more.

   It provides a thorough summary of the research that has been done across the world in the areas of science, technology, medicine, social sciences, the arts, and humanities.

The Role of FDI on Agriculture Sector in India

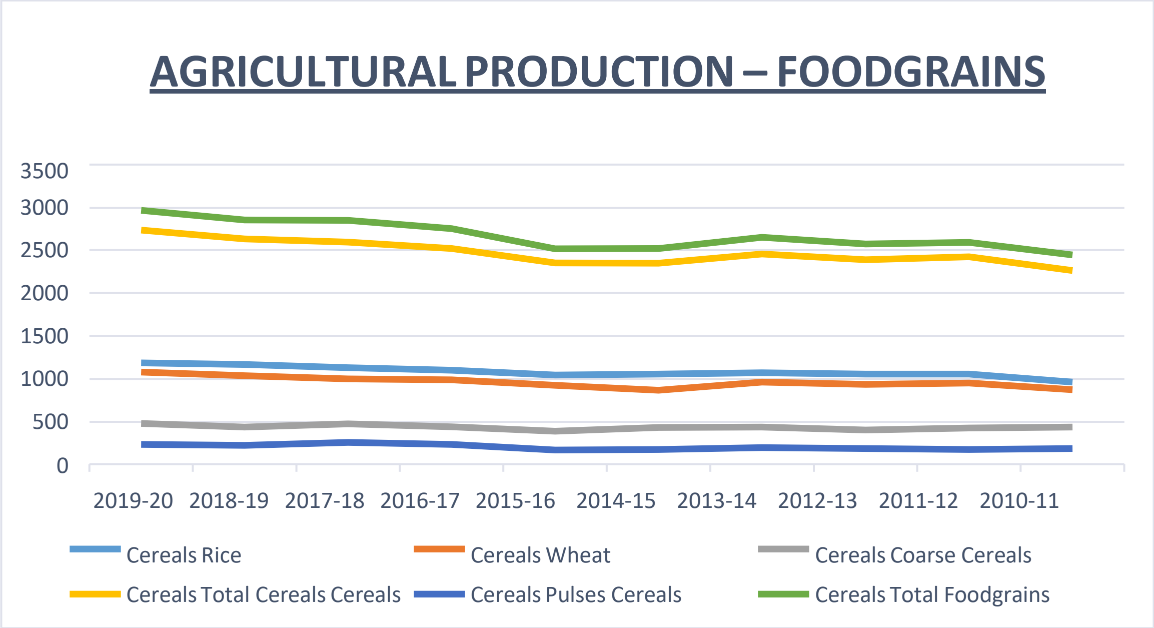
Foreign direct investment (FDI) is a long-term global capital movement with the aim of investing in manufacturing or businesses in any other country by purchasing a company or streamlining operations in a local sector. It contributes significantly to promoting economic progress, raising a nation's technological level, and generating new job opportunities in developing nations. FDI takes many different forms, including mergers and acquisitions, the construction of new facilities, the reinvestment of profits from international businesses, and intra-company loans.

One of the most important components of financial development and the main mechanism of capital flows in the contemporary globalised economic system is foreign direct investment (FDI). For both the host USA and foreign investors, a foreign investment is extremely important. The development of commercial operations, expansion of export, employment, transfer of technological know-how and managerial skills, as well as the beginning or accelerating of the country's economic growth and improvement are all benefits of foreign direct investment for the host nation. According to certain estimates, the majority of developing nations are short in firm specific assets such capital, technology, technical, management, and human resource capabilities.

Today's more hostile and globalised globe makes it impossible for any country to be independent and self-sufficient. The majority of economists, improvement advocates, and professionals agree that mobilising domestic resources and external capital are essential for increasing growth and industrialisation.

Agricultural Production- Food grain

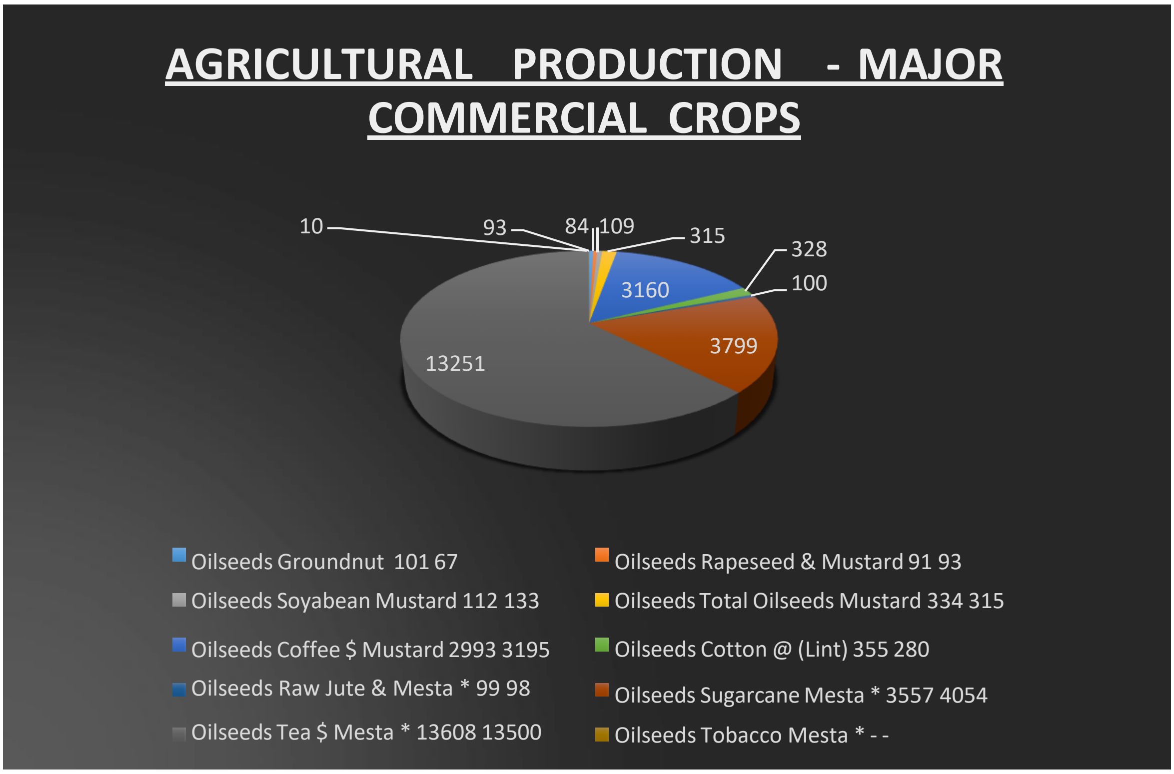
Figure 1: Agricultural Production of Food grains



Source: https://www.rbi.org.in/

Agricultural Centre- Major Commercial Crops

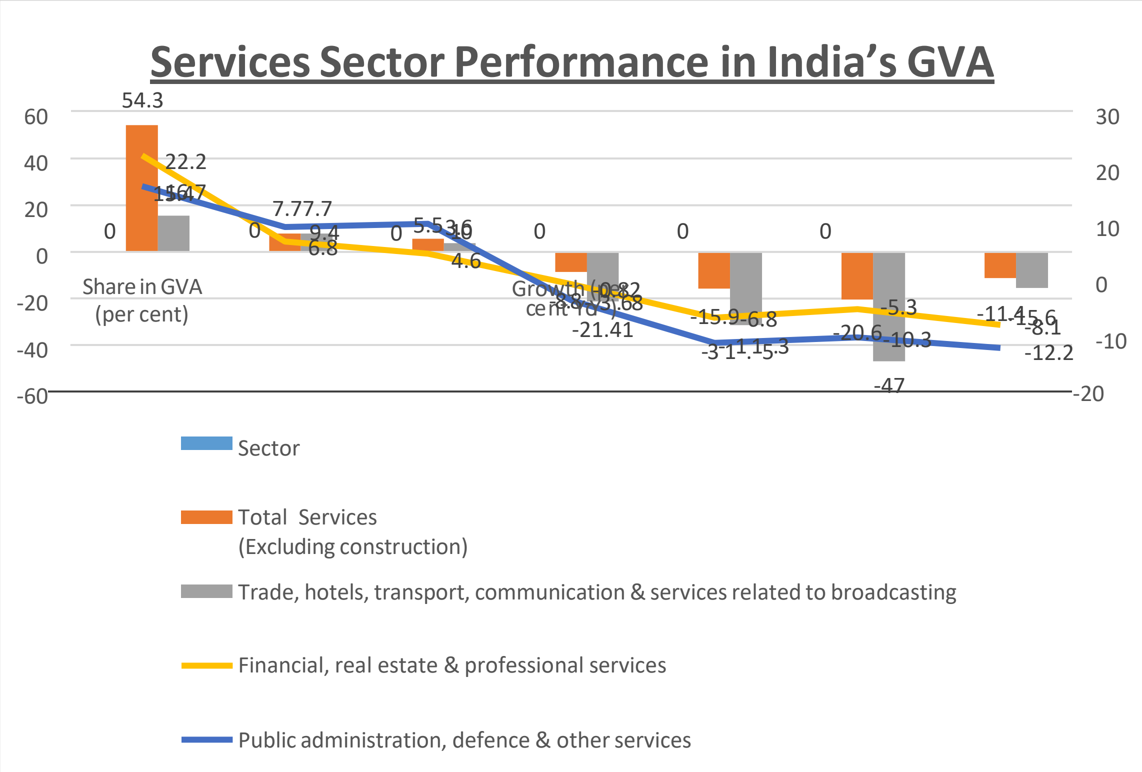
Figure 2: Major Commercial crops production



Source: https://www.rbi.org.in/

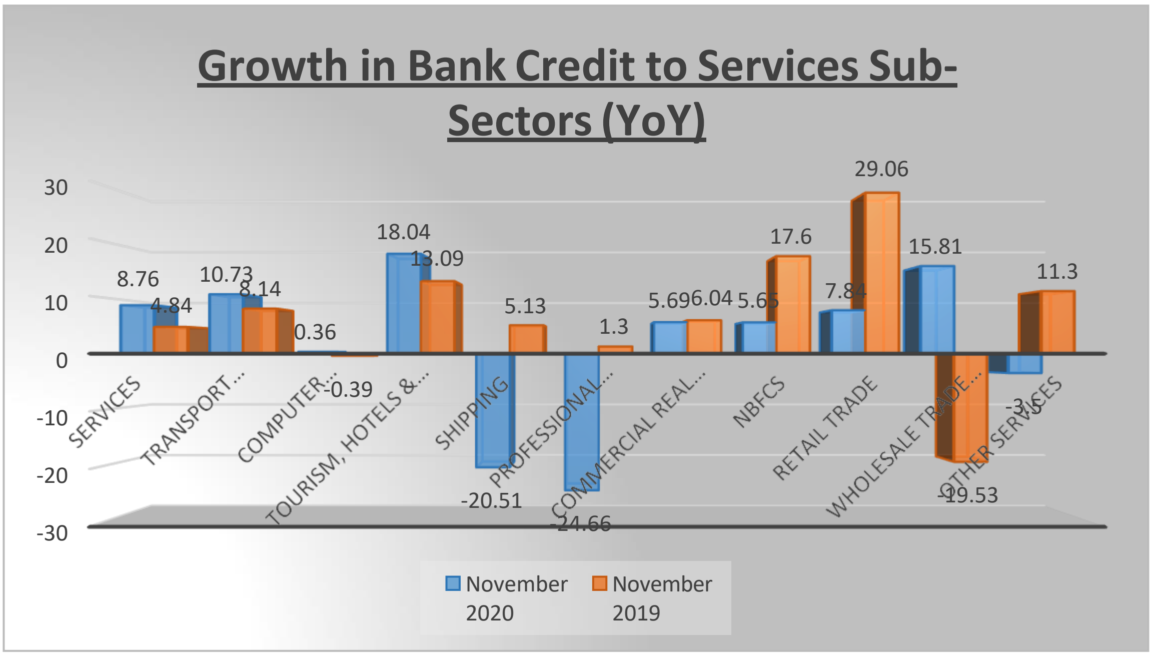
Service Sector Performance in India’s GVA

Figure 3: Service Sector Performance



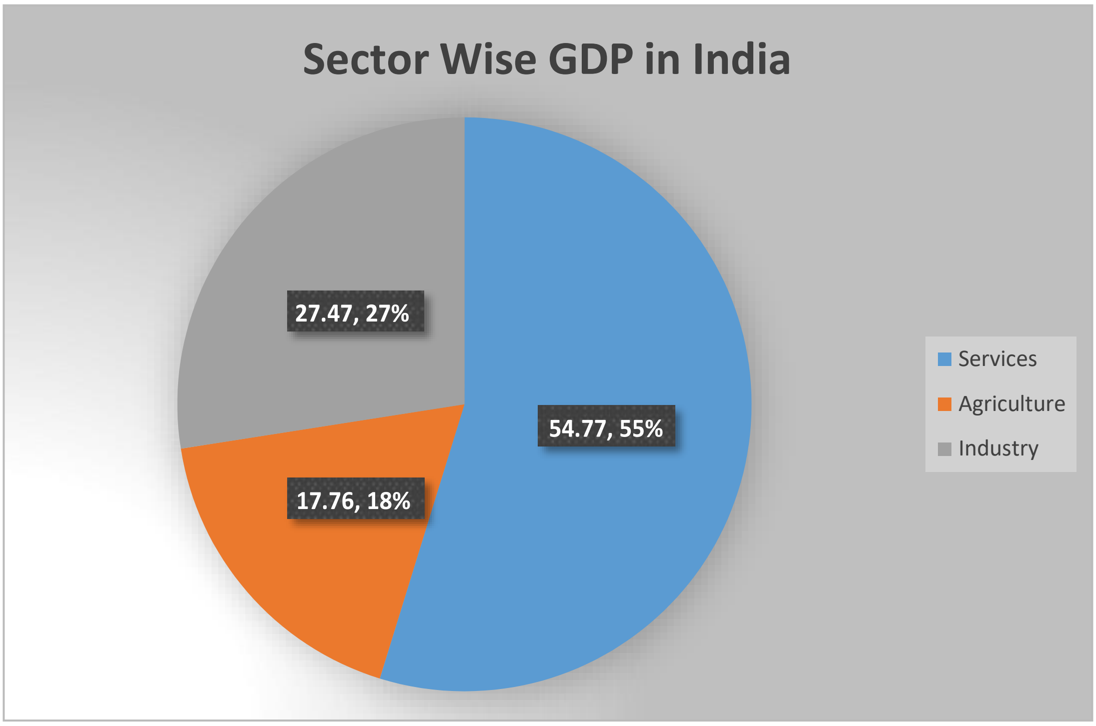
Source: https://www.rbi.org.in/

Figure 4: YoY Growth in Bank



Source: https://www.rbi.org.in/

Figure 5: Sector Wise GDP in FY 2020



Source: https://www.rbi.org.in/

- After examining all the data sets, we discovered that India's largest sector is the service industry, based on the mean sample.
- Gross Value Added (GVA) for the services industry is projected to be INR 100.46 lakh crore in 2019–20 at current prices.
- India's services industry generates 54.77% of the country's total GVA, which is INR183.43 lakh crore.
- And with a GVA of Rs. 50.40 lakh crore, the industry sector makes up 27.48% of the total, compared to 17.76% for agriculture and related industries.We have also found that in 2011-12 prices of the agriculture & allied, Industry, andServices sector's composition was of 14.65%, 30.19%, and 55.17%, respectively.
- If we speak about the shares of the primary, secondary, and tertiary (services) sectors, respectively, they are predicted to be 19.90%, 25.33%, and 54.77%. The primary sector includes agriculture, fishing, forestry, mining & quarrying, and electricity, gas, and other utility services.

- Additionally, according to an earlier approach, in 1950–1951, the shares of the Agriculture & allied, Industry, and Services sectors were 51.81%, 14.16%, and 33.25%, respectively, at current values.
- In 2013–2014, the share of the agriculture and related industries fell to 18.20%, while the share of the services industry increased to 57.03%. The industry sector as a whole has increased to 24.77%.

METHODOLOGY

Data Collection Method-

- We gathered secondary data for this research report from the websites of the RBI and the India Budget.
- The secondary data was gathered from the RBI website, and it is accurate because it came from the government's official website.
- The information is quantitative in nature, and we have used data from the last five to two years for the agriculture and service sectors.

The **independent variable** identified are

- Growth percentage (YOY)
- Net Irrigated Area
- Area Net Irrigated
- FDI Gross

The **dependent variable** identified are

- Stocks in (GVA)
- Complete Cereals
- Food grains overall

ANALYSIS TOOLS

- Data analytics is a process of analysing, purging, manipulating, and modelling data with the aim of uncovering relevant information, advancing hypotheses, and assisting in decision-making.

- Various technologies for data analysis, including MS-EXCEL, are employed.

- We chose line chart and pie chart visuals for better analysis, which will make it easier to understand the data of the fiscal sector and its monthly changes.

ANALYSIS AND INTERPRETATION OF DATA

Any sector's contribution to a country's GDP provides information on how that sector participates in economic activity and, in addition, how important that sector is to the economy. If one is aware of the GDP contributions made by each sector, it is debatable whether the economy is driven by agriculture, industry, or in this case, services. Therefore, we will attempt to analyse which types of economic activities, when compared to the agricultural and service sectors, significantly contribute more to India's economy in the report that follows.

Table 1: GDP Contribution by Agriculture and Service sector

GDP Contribution		
Year	Agriculture	Services
1990-91	24.65	44.18
1991-92	25.16	44.96
1992-93	24.56	45.22
1993-94	24.46	45.57
1994-95	24.08	45.03
1995-96	22.39	46.05
1996-97	23.25	45.96
1997-98	21.98	47.45
1998-99	22.04	48.26
1999-00	20.96	50.27
2000-01	19.43	50.98
2001-02	19.34	51.99
2002-03	17.26	53.13
2003-04	17.49	53.25
2004-05	16.04	53.05
2005-06	15.83	53.06
2006-07	15.3	52.87
2007-08	15.63	52.71
2008-09	15.21	53.93
2009-10	15.2	54.5
2010-11	15.78	54.64
2011-12	15.5	54.91
2012-13	15.1	56.27
2013-14	16.79	57.03
2014-15	16.17	58.21
2015-16	16.36	58.92
2016-17	15.4	61.5
2017-18	15.42	60.59
2018-19	15.96	58.77
2019-20	17.76	54.77

Source: https://www.rbi.org.in/

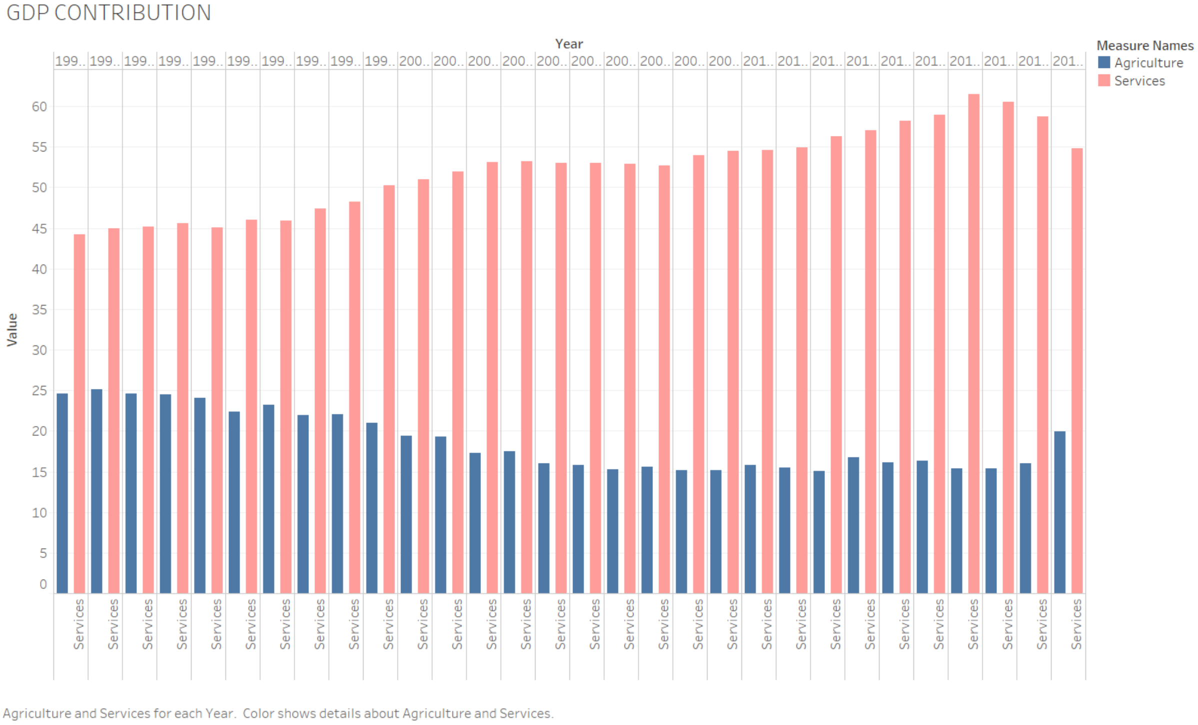
The **correlation variable** identified are

- ✓ 0.07

The **regression variable** identified are

- ✓ -16.27

Figure 6: Statistical Comparison of contribution

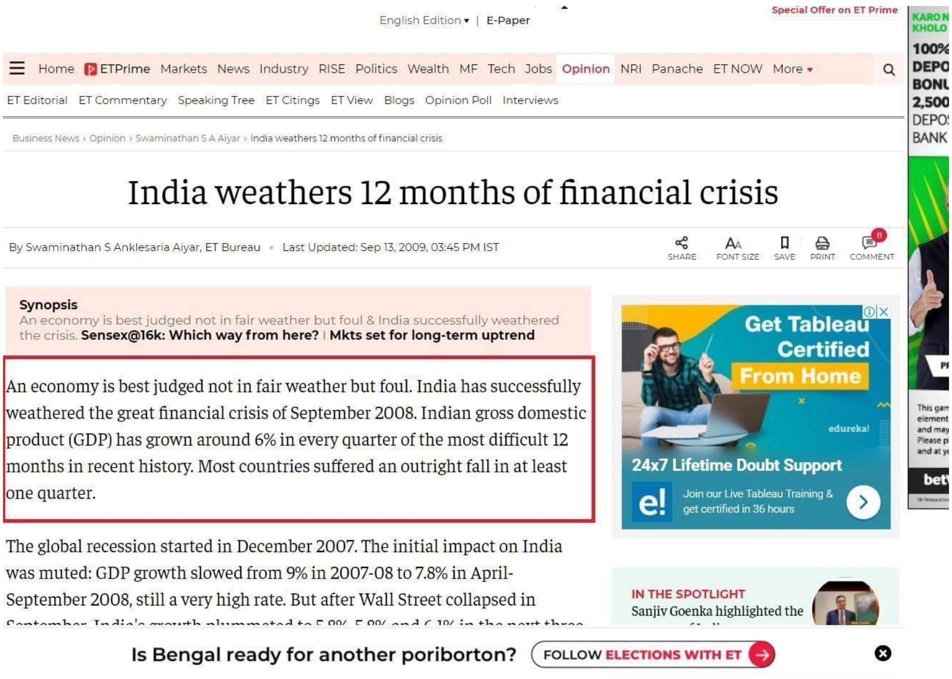


Source: https://www.rbi.org.in/

- The national accounts statistics of the economy are being impacted by the combined influence of the two sectors. Given its enormous contribution to the national GDP, employment, and phenomenon growth that were attained in the economy primarily as a result of the service sector's contribution, the services sector has experienced a quiet revolution in India over the past three decades that is referred to as the "Services Revolution."
- When it comes to the Services Sector's contribution to GDP growth, it has recently experienced considerable growth that has increased as a result of the expansion of liberalisation and globalisation in the Indian economy. The current period's services GDP contribution is fairly indicative of services-led economic expansion in India.
- According to these figures, the service sector's share of GDP was 44.8% in the years 1992–1991 and increased to over 61% in the years 2016–17.

- The foregoing literature assessment led researchers to the conclusion that the service revolution in India was significantly impacted by globalisation. The year 1991 was a revolutionary one since it marked India's opening to the world market. As a result, the service industry grew, coupled with the high income elasticity and demand for services, the IT and communication revolution, and India's high-quality higher education system.
- The world experienced the Great Depression in the years 2008–2009, but despite this, the service sector's contribution increased from 53.93% to 54.5% during that time, reflecting the growth of the educated population, the development of infrastructure largely due to IT, and the outsourcing of services, primarily in the area of customer relations, by US and European nations to India.

Figure 7: Great depression 2008 News article



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India weathers 12 months of financial crisis

By Swaminathan S Anklesaria Aiyar, ET Bureau • Last Updated: Sep 13, 2009, 03:45 PM IST

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Synopsis
An economy is best judged not in fair weather but foul & India successfully weathered the crisis. **Sensex@16k: Which way from here?** | **Mkts set for long-term uptrend**

An economy is best judged not in fair weather but foul. India has successfully weathered the great financial crisis of September 2008. Indian gross domestic product (GDP) has grown around 6% in every quarter of the most difficult 12 months in recent history. Most countries suffered an outright fall in at least one quarter.

The global recession started in December 2007. The initial impact on India was muted: GDP growth slowed from 9% in 2007-08 to 7.8% in April-September 2008, still a very high rate. But after Wall Street collapsed in

IN THE SPOTLIGHT
Sanjiv Goenka highlighted the

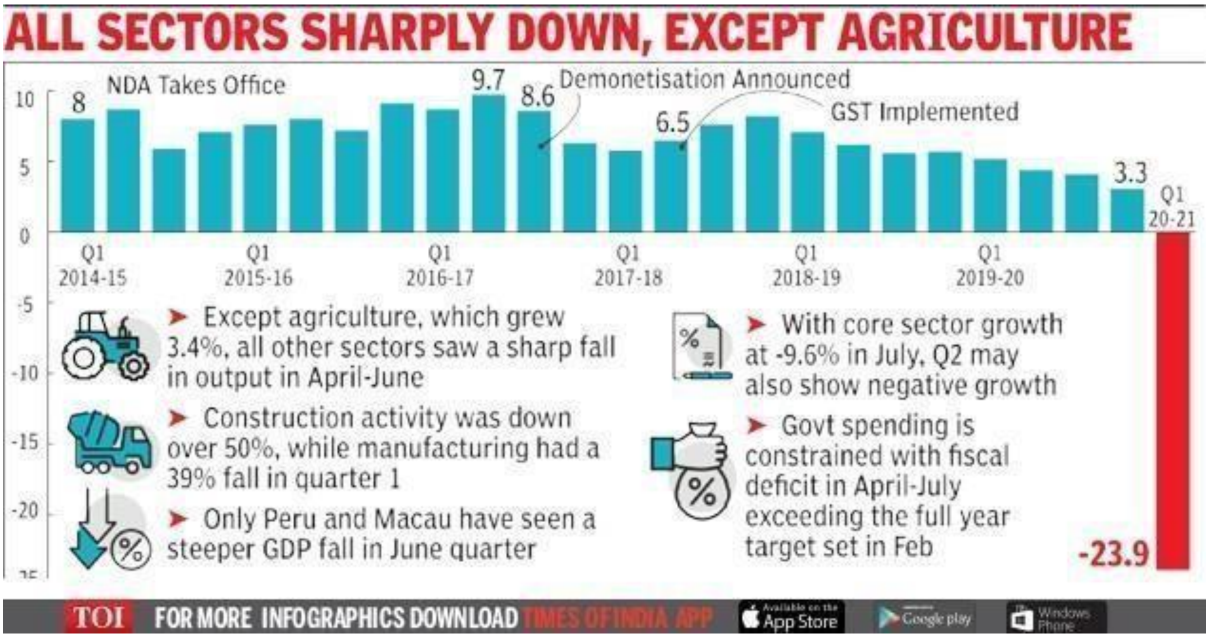
Is Bengal ready for another poriborton? FOLLOW ELECTIONS WITH ET

Source: https://economictimes.indiatimes.com/

- Contrarily, there hasn't been a discernible difference between the rate of agricultural expansion before and after the time of globalisation. Based on the information, wecan draw the conclusion that the GDP was dominated by agriculture only from 1967 to 1968. Following that, the service sector began to dominate the economy in terms of GDP contribution.

- In truth, since the year 2008, we have seen a decline in the agricultural sector's contribution to the economy. However, in the most recent fiscal year (FY) 2020, the industry had an incredible 4.1% growth.

Figure 8: GDP of Q3 FY 2020



Source: https://timesofindia.indiatimes.com/

CONCLUSION

We may infer from the research above that, in terms of GDP contribution between 1990 and 2020, the performance of the agricultural and service sectors differed significantly. The fact that the service sector is contributing a growing portion of the nation's overall GDP indicates that we are transitioning from a developing economy to one that is actively working to become developed. We may draw this conclusion from the fact that every modern economy has a significant portion of the GDP in the service sector, ensuring that even though the economy contracts, the trajectory of development remains unharmed.

The employment issue is the only one that still needs to be addressed. Even though the agricultural sector used to contribute less to the GDP than it does now, it still employs nearly 51% of the nation's total workforce, while the service sector only employs between 25 and 30% of the workforce overall, despite accounting for 25 to 50% of the GDP.

POLICY IMPLICATIONS

New Agricultural Policies and Implications

Three measures relating to agriculture were voted by the parliament house in the month of September 2020.

1. The 2020 Farmers "Produce Trade and Commerce" Bill.
2. The Farmer's "Empowerment and Protection Price Assurance and Farm Services Agreement" Act of 2020.
3. The 2020 Bill for Essential Commodities.

Figure 9: Farmer's Bill

Source: https://timesofindia.indiatimes.com/

All of these laws were created with the intention of improving farmers on the inside over the coming years. The farmers will be autonomous, and their contribution and income will rise, according to the government's plan for these acts.

The following are some of the big highlights of the acts:

- There will be a loss of state revenue from each mandis.
- Given that businesses are likely more interested in working with agricultural organisations and not only men on women farmers,
- The farmers could forego a Minimum Support Price as a result of this action (MSP)
- If there are 100% costs for perishable goods or 50% charges for non-perishable goods, the act may be enforced.

Service Sector Policies and Implications

- In accordance with the mid-term review of the Foreign Trade Policy (2015–20), the federal government increased the incentive provided under the plan for service exports from India by 2%.

- The Regional Rural Banks (RRBs) recapitalization process will continue with the support of the Cabinet Committee on Economic Affairs, which has recommended that RRBs be provided a minimum amount of regularity capital for any subsequent year beyond 2019–20.

- The National Broadband Mission was announced by the Indian government with the intention of providing broadband access to every village by the year 2022.

RECOMMENDATIONS

- Despite the fact that our nation still refers to itself as having a "agricultural based economy," the majority of our workforce is still employed in the agricultural sector, which continues to be the largest employer in the country. There is no doubt that the majority of our nation's revenue is generated by services.

- We must upgrade the infrastructure in order to increase crop yields and alter the laws that must be implemented in order to make it possible for farmers to adopt more advanced agricultural technologies and produce more with fewer labourers.

- Service industries produce revenue in billable hours, thus it is important to provide the less fortunate individuals who were unable to attend school or had very little education with the right training so they may become skilled contributors to the industry while also increasing their own income.

- When it comes to the issue of dealing with the service sector, policies should be developed to maintain the services' upgrading in both quality and efficiency, and as a result, the workforce should be granted sufficient skill upgradation in order to remain relevant in the dynamic technology-based economy.

- The government should also place a strong emphasis on properly balancing education and training for both service- and agricultural-based workers, teaching them new and improved farming techniques and other technologies, and educating the workforce in accordance with the pertinent skills that can be taught even without a proper education framework in the primary schools.

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