Chapter-7

Conclusions

The emergence of India as one of the fastest growing economies in the world during the 1990s can be attributed to the rapid growth of its services sector, which has emerged as the largest contributor to the GDP with more than 66 per cent share in 2008-09. This sector has been experiencing a high growth rate.

Growth in the services sector has been less cyclical and more stable than growth in industry and agriculture. The following services sectors are the fastest growing sub-sectors of the Indian economy:

- Business services
- Communication services
- Banking sector
- Community services

Almost all service sub-sectors in India have grown faster than GDP over time, but the pick-up in growth in the 1990s was the strongest in business services communication, and banking services, followed by hotels and restaurants and community services. These activities account for the entire acceleration in services growth in the 1990s. The growth in public administration and defense, real estate, storage, transport, and personal services in the 1990s was broadly similar to that in the previous decades.

The fast growing services sector accounted for about a quarter of services output in the 1980s, but because of their relatively fast growth, these activities represented one-third of services output by 2000.

There are two unique characteristics of India’s services sector growth:

- First, the entire decline in the share of agriculture sector in GDP, i.e., from 55.28 per cent 1950-51 to 16.95 per cent in 2008-09, has been picked up by the services sector while manufacturing sector’s share has remained more or less the same.
Second, in spite of the rising share of services in GDP and trade, there has not been a corresponding rise in the share of services in total employment. This jobless growth of India’s services sector has raised doubts about its sustainability in the long run.

The contribution of the services sector was particularly striking in the 1990s, which not only saw rapid growth but also a higher contribution – over 60 per cent from services. This growth trajectory, which has been termed “services-led” industrialization, or even, a “services revolution” seems to stand out from the previous experience of economic development, which followed the traditional path from agriculture to manufacturing, with services becoming important at a later stage.

With the advent of the IT revolution, it has been possible to deliver services over the long distances at a reasonable cost, thus trade in services has increased worldwide. In India, exports of services grew by an average of 15 per cent a year in the 1990s, compared with 9 per cent in the 1980s. India’s export of IT and BPO services fall in three broad categories; IT services, BPO and software products and engineering services. Trade in Technology and Information Technology enabled services (IT and BPO services) has been the main driven force of growth in India’s trade in services in recent years. The overall Indian IT and ITeS revenue has grown to US $ 637 billion in 2009-10, and its exports have grown from US $ 17.7 billion in 2004-05 to US $ 49.7 billion in 2009-10. IT and BPO sectors have led to employment generation. Direct employment in the IT services and BPO segment was 2.3 million in 2009-10. The increase in services exports has been most dramatic in software and other business services.

Two aspects of the performance of India’s service sector are noteworthy:

- First, FDI inflows into India have moved increasingly away from manufacturing, and towards services sector.

These flows have been heavily concentrated in telecommunications and financial services.

- Second, while services crossed 50 per cent as a share of GDP in the 1990s, they contributed only about 10 per cent of total tax revenue.
This situation is changing, with moves to change constitutional tax assignments and bringing services broadly into the services tax base.

Services sector in India witnessed a phenomenal growth in the decade of 1990s. During 1980s, its output grew at the rate of 6.6 per cent per annum, while during 1990s the growth rate increased to 7.5 per cent per annum.

During 1994-2004, the services sector has grown on an average by 7.9 per cent per annum, ahead of agriculture with growth of 3 per cent per annum and manufacturing sector with growth of 5.2 per cent per annum.

Amongst services, business service has been one of the fastest growing services in the 1980s closely followed by banking and insurance. The share of services in total trade increased from 19.3 per cent in 1995 to 24.9 per cent in 1998. The inflow of FDI into services sector has been biased towards few of the services sectors. Sectors that have received largest approvals are telecommunications and financial services. Within telecommunications, the largest recipient is cellular mobiles.

One of the striking features of India’s FDI flows is the growing proportion of outward FDI from the services sector. The share of services in total FDI outflow increased to around 45 per cent during 1999-2003, in which non-financial services constituted around 36 per cent, trade around 5 per cent and the rest was from financial and other services.

As regards the component of GDP at current prices of the share of agriculture and allied activities steadily declined during the period 1950-51 to 2008-09. Mining and Quarrying, Manufacturing has been fluctuating for this period, while services sector has been continuously improving during the same period.

As regards trade, hotels, transport, and communication is the only sub-sector of the services sector whose share has been continuously increasing from Rs. 939 crore, i.e. 27.19 per cent, in 1950-51 to Rs. 1246718 crore, i.e. 39.38 per cent, in 2008-09. On the other hand, the share of financing, insurance, real estate & business services sub-sector and that of community, social and personal services sub-sector have been declining
significantly from 33.64 per cent in 1950-51 to 21.84 per cent in 2008-09 and from 31.27 per cent in 1950-51 to 22.47 per cent in 2008-09, respectively.

As regards trade, hotels, transport, and communication is the only sub-sector of the services sector whose share has been continuously increasing from 32.98 per cent in 1950-51 to 42.97 per cent in 2008-09.

The annual compound growth rate of services sector at current prices, has increased from 7.23 per cent during 1950-51 to 1960-61 to 12.48 per cent during 1950-51 to 2008-08. Therefore, annual compound growth rate of electricity and gas, water supply 15.08 per cent, that of construction 13.75 per cent, and trade, hotels transport and communication 13.20 per cent during 1950-51 to 2008-09 period.

The annual compound growth rate of services sector at constant prices has been 5.97 per cent during 1950-51 to 2008-09 periods. Therefore, annual compound growth rate has recorded of electricity and gas, water supply 8.18 per cent and trade, hotels transport and communication 6.45 per cent in this period.

While the share of services sector in total employment was around 28.5 per cent in 1999-2000, the share of employment differed for different services. In 1999-2000, the share of different services in total employment in the services sector was as follows:

- share of trade, hotels and restaurant was 34 per cent,
- followed by the community, social and personal services (around 31 per cent)
- and then by construction (16 per cent)
- and transport, storage and communication services (13 per cent).

Even though India has experienced profound changes in output shares, the same is not true for employment shares. Although services rose from 42 per cent to 48 per cent of GDP during the 1990s, the employment share of services actually declined by about one percentage point during the decade. While output generation has shifted to services, employment creation in services has lagged far behind. Since the labour share in services employment has been flat, labour productivity in Indian services has been increasing over time.
Because of the new technological developments and other factors, services have replace industry as the engine of growth, even in developing countries. In that sense, India may be regarded as pioneering a new development path which gives primacy to services rather than to manufacturing as the leading sector.

The services sector is currently the fastest growing sector of the economy, and employment growth in this sector has remained more than 5 percent per annum since the 1990s as compared with aggregate employment growth at less than 2 percent. The employment strategy must ensure rapid growth of the employment while also ensuring an improvement in the quality of employment. Planning initiatives in health, nutrition, care of children, care of the aged, education, skill development and expansion of social security services will create a large potential for employment for delivery of these services.

India’s services sector has witnessed tremendous growth in the last twenty years. But this growth has not been accompanied by a corresponding growth in employment in the services sector. The share of manufacturing sector in GDP has also declined in the 1990s. Growth in services sector has been lopsided and jobless. Some sectors have witnessed a double digit growth rate in the last decade, e.g., communication and business services, while some have experienced a fall in their growth rates, e.g., railways. The sectors that have witnessed negative growth rates and those that have experienced slow growth rates are also the sectors that have large potential for generating employment, e.g., construction, transport and professional services. Rising labour productivity in the faster growing sectors have further reduced the scope for increasing employment in these sectors.

As regards employment in the organized sector the contribution of the services sector has been the most significant. The total employment in the organized sector was about 121 lakh in 1961. The share of the services sector was 59 percent. This share in total employment increased to 69 per cent by the year 2003. The percentage share of agriculture, mining and manufacturing sector in total employment has been almost continuously declining since 1961.
The most significant contribution in the private sector employment is that of the manufacturing sector whose share has been about 60 per cent in total employment in 1961. But it declined to 50.5 per cent by the year 2008. The share of services sector in total employment in the private sector increased from 16 percent in 1961 to more than 38 per cent in 2008. There has been a significant decline of employment in the mining sector under the private sector. The share of mining sector declined from 9.3 per cent in 1962 to 1.1 per cent in 2008. Similarly, the share of agriculture sector employment in total employment declined from about 13 per cent in 1961 to 10 per cent in 2008.

As regards employment of services in the organized sector, the most significant contribution is that of community, social and personal services. The share of these services has been between almost 56 per cent in 1961 to 60 per cent in 2008. The share of finance, insurance & real estate services has increased significantly from 4 per cent in 1977 to more than 13 per cent in 2008. Transport, storage and communications have a significant but declining share of employment in the services sector. The share of this sector declined from 25 per cent in 1961 to almost 15 per cent by 2008. Similarly, the share of construction sector has declined from almost 11 per cent in 1962 to 5 per cent in 2008. The share of electricity, gas and water supply employment increased from 3.7 per cent in 1961 to 4.6 percent in 2008.

As regards public sector, the employment pattern shows that the share of community, social and personal services in total employment increased from 58 per cent in 1961 to 60.3 per cent in 2008. The most significant increase in the share of employment is that of the finance, insurance and real estate services whose share increased from 4.55 per cent in 1975 to more than 9 per cent in 2008. There has been a significant decline in the percentage share in total employment of construction, wholesale and retail trade, transport, storage and communication over this period. The share of electricity, gas and water supply employment in total employment increased from 3.5 per cent in 1961 to almost 5.5 per cent by 2008.

As regards private sector services employment, the sectoral percentage growth in total employment is the highest in the finance, insurance and real estate services whose share increased from 9.6 per cent in 1975 to more than 29 percent in 2008. Similarly, the
share of community, social and personal services has increased significantly from 35 per cent in 1961 to almost 58 per cent in 2008.

As regards the projected employment elasticity, the highest elasticity for the period from 2006-07 to 2016-17 is that of finance, real estate, insurance and business services followed by construction, trade, hotels & restaurants, transport, storage and communication & manufacturing. This trend shows that the Indian economy is on the path of development and has started behaving like that of a developed economy.

To resolve the problem of lack of employment growth in services, there is a need to achieve uniformity in the growth of different services. There has been no coherent overall policy for services in line with the industrial policy and agricultural policy.

The services that have maximum forward as well as backward linkages are trade, transport and construction. These sectors have high domestic constraints and, therefore, require immediate policy reforms. Adequate infrastructure facilities will not only enhance the country’s attractiveness to foreign investment but will also improve competitiveness of domestic investment. Since these sectors have large potential for generating employment, growth in these sectors will also help in resolving the dilemma of jobless growth in the services sector.

Health and education sectors have high potential for trade since they have low external barriers and high growth rates. Given the low cost quality treatment available in India, there is a large scope for health tourism in India. India also has a competitive advantage in the practice of alternative medicine. These areas should be developed and exploited for trade opportunities.

A major expansion is required in the port infrastructure sector in order to handle sea borne traffic arising from increased foreign and coastal trade. This could be achieved through private sector participation, by reducing the gestation period for setting up new facilities, bringing in latest technology and improving management techniques in order to upgrade cargo handling, both in terms of quality and quantity.
Travel has been the traditional services export from India. The key performance indicators of the tourism sector are inbound and outbound tourist traffic and foreign exchange earnings from the same.

As regards GDP, the share of registered manufacturing sector was the lowest about 47 per cent in 1950-51 which increased to about 69 per cent in 2004-05. The share of unregistered manufacturing sector was highest about 57 per cent in 1953-54 which declined to 31 per cent in 2004-05.

As regards employment, in 1961-65 manufacturing provided 6.28 per cent employment in public sector which was the highest 10.17 per cent in 1986-90 and 6.10 per cent in 2006-08. 89 per cent of total employment of services sector was provided by public sector 1961-65, and it declined to about 85 per cent in 2006-08.

As regards employment in manufacturing provided by private sector, it was 59.59 per cent in 1961-65, and the highest 61.12 per cent in 1981-85. It declined to 51.26 per cent in 2006-08. Employment in services sector provided by private sector was about 17 per cent in 1961-65, which increased about 37 per cent in 2006-08.

As regards employment in manufacturing provided by public and private sectors, it was 27.6 per cent in 1961-65, and declined to 21.6 per cent in 2006-08. Employment in services sector provided by public and private sectors was 60.2 per cent in 1961-65, and the highest about 69 per cent in 2001-05.

As regard annual compound growth rate of registered manufacturing, it was 13.54 per cent in 1990-91 to 2000-01 and increased to 13.63 per cent in 2000-01 to 2008-09. ACGR of unregistered manufacturing was about 13 per cent in 1990-91 to 2000-01 and declined to 12.5 per cent in 2000-01 to 2008-09.

The Indian market is being increasingly considered as the most attractive global retail destination, yet there are some core issues which need to be addressed to sustain the growth, according to a report on ‘Retail in India: Getting organized to drive growth’ by the Confederation of Indian Industries (CII) and AT Kearney. While organized retail still accounts for 6 per cent of the overall sales in the country, it is expected to grow at a compounded annual growth rate of 35 per cent by 2010. The report highlights the key
issues which stand in the way of overall retail development in India. According to AT Kearney, the government should give retail industry status and should also set up regulatory body to legislate on industry norms and other aspects. Simultaneously, it is equally important for the industry to organize itself and work together on aspects such as development of cold chain and cadre of mid-management staff. The report also asserts that to boost the growth, the government should relook at some of the inconsistencies in the entry tax structures which vary according to the state. Additionally, lack of proper town planning has resulted in bad retail infrastructure. High real estate prices also act as stumbling blocks. The report states that these factors have resulted in real estate costs forming about 10-20 per cent of net sales in certain cases, which most people feel is not sustainable. On the manpower front, some retailers have taken initiatives like having pact with training institutes. But, it is not enough to meet the demand generated by the sector and a more active role is required.

Given the importance of the services sector, there is a need to develop ‘service price indices’ for selected service sectors, particularly in the national accounts framework. The need for such indices has been recommended by the Working Group set up to revise the WPI and has been emphasized by the National Statistical Commission. The Office of the Economic Adviser, Ministry of Commerce and Industry has been implementing a plan aimed at developing service sector price indices as per international best practices. Under the plan schemes, studies are being commissioned for ten selected services like, road transport, railways, air transport, port, banking, insurance, posts, telecommunication business services and trade services to develop service price indices.