Chapter - VII

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India’s accelerated growth rate with higher productivity and improved living standards, it is a universally acknowledged fact that now India is on the part of growth. The pace of economic growth is usually regarded as the primary indicator of a country’s macroeconomic health, India’s growth performance and economic prospects have been transformed over the past fifteen years. These were number of literature have been focused general growth of the Indian Economy. Number of studies specifically focused on agricultural sectoral growth performance over the periods. Some of the research article highlighted the significant contribution of industrial growth for the economic development. Some other literature emphasised on service see for. But every few studies were conducted structural changes, sectoral performances and inter sectoral linkages in the Indian Economy for the past few decades. Amal Krishnan Dey (1975), Malcom S. Adishiah (1987), Rakesh Mohan (2002), and others have find out different dimension of results regarding the sectoral growth performance. Based on these the researcher found out research gap of sectoral changes, sectoral performance and intersectional linkages. And also the researcher wish to conduct a separate study of the same research problem hence the present study has been undertaken to fulfill the research gap. The following objective have been framed (i) to study the composition of GDP from 1951-52 to 2006-07 in
different sectors, (ii) to examine the significant sectoral real growth rate in GDP at factor cost. (iii) to study the significant relationship between sectors and its growth performance. (iv) to find out the growth trend of employment rate in various sectors, (v) to identify the constraints by the farmers.

5.1. MAJOR FINDINGS OF THE STUDY

The study concentrated on sectoral performances and inter-linkage among the constituent sectors of Indian Economy and has led to the following findings.

- The temporal behavior of the share of economic activities is clubbed under agriculture, industry and services sectors in the national income.
- Over the study period, the share of real income of agriculture sector has declined. The industrial sector becomes nearly constant.
- Technological advancements over the past few decades have led to increasing demand for services The services sector has witnessed a continuous expansion with a share of total national income.
- One of the major problems in the growth pattern in India is the sustainability of a relatively high GDP growth in recent years driven by growth of the services sector alone. It would be difficult to maintain over a long horizon.
- In the absence of adequate growth in other sectors of the economy, the services sector alone in the long run would be adversely affected by demand constraints and its performance would then depend upon the uncertainty in demand.
Also, as production of services requires input from other sectors, there could be supply constraints due to slowdown in the growth of productive capacity in the rest of the economy.

An empirical result of the study thus highlights the need for proper balancing the growth of sectors. Reform should be focused on stimulating demand in the agricultural sector in rural areas by way of deepening economic activities.

The general fit of the four estimated equations is very good. The equations clearly bring out the linkages that exist among the three sectors implying that poor performance of any sector, particularly agriculture, would affect the performance of the other sectors of the economy and thereby, the economy on the whole. Agriculture enters into the industrial sector equation as an independent variable, and agricultural and industrial sectors enter as independent variables in the service sector equation. If the above four equations are viewed as a system of simultaneous equations comprising four endogenous variables, we can see that the solution of this system is obtained recursively.

This study is basically motivated by concern for a lower and fluctuating growth of India’s agricultural sector with its implications not only for food security, but also overall GDP growth. To pursue this, we set out to identify inter-sectoral linkages in the Indian economy and its phenomenon. The three sectors considered for the study are agriculture, industry and services. To begin with, a model for output growth is estimated for each of the three sectors linked
with total GDP growth. Results do indicate a strong influence of the agricultural sector on the industrial sector, and a strong influence of the agricultural and industrial sectors on the services sector. Increased levels of investment in agriculture lead to an increase in the overall agricultural capital stock.

Empirical results of the study thus highlight the need for a proper balancing of the ‘inward looking’ (emphasis on agriculture) and ‘outward looking’ (enhancing the scope of exports) strategy. The study suggests that this two-pronged strategy could generate adequate demand leading to a sustainable high growth trajectory in the Indian economy. The important conclusion, which emerges from this study and which need to be re-emphasised is that though in the study period, the share of agriculture in GDPO has declined, its contribution in terms of generating demand for the other sectors of the economy, especially the industrial sector, has become more pronounced as reflected through the I-O Table 2005-06. Even now, the agricultural sector accounting for approximately one-fourth of GDPO, supports approximately two-third of the population in the country. Thus, the policy measures, which could form part of the agenda of the second generation reforms, should be focused on stimulating demand in the agricultural sector in rural areas by way of deepening economic activities.
A. FINDINGS ON SECTORAL PERFORMANCE OF INDIAN ECONOMY

(i) AGRICULTURAL SECTOR’S PERFORMANCE

- Agriculture is the mainstay of the Indian economy. The agriculture sector has always been an important contributor to India’s GDP. This not only contributed directly to faster growth of GDP but also stimulated industrial sector and services sector growth through well-known linkages between the sectors.

- Agricultural growth decelerated during the study period. The main reason behind this is that the reform in India was primarily targeted around industrial and trade issues, thus neglecting the agricultural sector.

- Agriculture Growth Rate in India GDP in spite of its decline in the share of the country’s GDP plays a very important role in the all round economic and social development of the country.

(ii) FINDINGS ON THE INDUSTRIAL SECTOR PERFORMANCE

- Indian Industries have entered into an atmosphere of higher competition in the era of globalization.

- Industry contributed to about 21 percent of all India GDP during 1980s, the contribution of which has remained stable around 20 percent of the domestic product since the 90s.

- Within the industrial sector, manufacturing sector registered about 75 percent and remains the highest contributing sector.
(iii) **FINDINGS ON THE SERVICES SECTOR’S PERFORMANCE**

- Over the last decade and more, the growth of the Indian economy has been propelled by its services sector. It constitutes a large share in the total GDP.
- The services sector, which now collectively accounts for more than half of GDP, showed not only remarkable but also significant acceleration in recent years.
- The contribution of the services sector to GDP growth during 1980s was 48 percent. The contribution increased to 53 percent during the 90s and further to 60 percent during 2006-07.
- Among the sub-sectors of the services sector financial services, international tourism and the telecommunication sector have been the biggest driver of services sector.
- The change in skills composition and the rising wage inequality in services sector employment raise income inequality in urban India

**B. FINDINGS ON EMPLOYMENT DISTRIBUTION IN SECTORS**

- As per the NSS data, a sectoral desegregation of the workforce shows decline in the share of agricultural sector in rural urban regions
- The share of the industrial sector in employment is nearly stable.
- The services sector improved its share from 55 percent to 60 percent in urban male and from 37 percent to 52 percent in urban female and 12 percent to 18 percent in rural male and 48 percent to 68 percent in rural female.
The fall in employment share of the agriculture sector is absorbed both by the industrial and agricultural sectors.

C. FINDINGS ON CONSTRAINTS IN THE SECTORS

- One of the major constraints in the agricultural sector is infrastructure bottlenecks, irrigation facilities which impede speedy adoption of improved technology.
- Lack of knowledge on the part of the farmers about the importance of soil health and information about the status of the soil on his particular farm is an important constraint.
- The agriculture sector, which continues to be highly monsoon-dependent, has been one of the main problems in this sector.
- Agricultural commodities constituted a significant share of input costs in some industries and increases in agricultural prices were variously analyzed as affecting industrial production.
- There is a low demand for processed food because of high cost of vital inputs such as raw materials, transportation etc. Indian brands of processed food are yet to be established in the international market. There exists stiff competition with imported goods in the wake of liberalization of world trade.
- Slow growth of agricultural incomes has their effect of limiting the demand for industrial goods.
- Poor management of the infrastructure sectors leads to severe infrastructure constraints.

- Industrial policy framework includes both domestic industrial policies and trade policies and they affect creating a high cost industrial structure in the economy.

- A skill deficit in virtually all areas of industrial sector has emerged as one of the major impediments to growth in industry sector.

- Lack of flexibility in some labour laws makes it difficult for employers to flexibly respond to change in demand when necessary, discouraging the growth of strong labour absorbing sectors.

- Scarcity of raw materials, feedstock, power and fuels is another impediment limiting the growth of some industries.

- Industrial sector has been constrained by infrastructure. Infrastructure challenges exist, including the difficulty of transporting goods from factory to market and costly supplies of water and power.

- A continuous expansion in services sector, both for domestic consumption and international trade, is the challenge facing the Government with inequality gaps.

### 6.2. SUGGESTIONS

1. The agricultural sector must focus on the 85 percent of the farmers who are small and marginal, increasingly female, and they find it difficult to access inputs, credit, and extension or to market their output. Some of
these farmers may exit from farming. To solve the problem if the majority will continue to remain in the sector if their needs are attended to.

2. There is a need to encourage a ‘group approach’ to the farmers. A group approach will improve the bargaining power of small cultivators in contract farming. And also current subsidies are available only to groups rather than individuals.

3. Integrating methods of traditional and modern biology should give attention to both yield and quality aspects.

4. Reorientation of public investment in agriculture, increase in cropping intensity, public investment in irrigation, watershed and wasteland development, quantity and the quality of rural infrastructure and diversification of agricultural products are necessary.

5. It is necessary to take a comprehensive view of the functioning of the agricultural research system. Attention has been given to the long-term environmental impact or methods and practices for the efficient use of these inputs for sustainable agriculture.

6. Create of specialized infrastructure services for promoting agri-exports would strengthen the agriculture-services relationship.

7. The policy measures, which could form part of the agenda of the second generation reforms, should be focused on stimulating demand in the agricultural sector in rural areas by way of deepening economic activities.
8. There is a need to make current policies related to fertilizer power and water. The reduction in various subsidies in these areas will provide a very significant fiscal dividend for the country enabling higher public investment where it is required, and particularly in agriculture.

9. The agriculture sector continues to suffer from a large number of domestic market controls, although some progress has been made recently through changes in the Essential Commodities Act designed to promote free movement of agricultural products across the country.

10. Mere policy reforms in agriculture sector would be inadequate without corresponding investment in rural infrastructure. There is closer connection required between the farmer and the market.

11. The key reason for our industrial slowdown is to be found in inadequate industrial restructuring. A much more rapid shift of resources has to take place towards labour using industries. Much more flexibility is required for industrial restructuring.

12. Coordinated public investment is needed in educational facilities, research institutions, and physical infrastructure. Correspondingly, the private sector needs to be encouraged to invest in industrial and technology parks, industrial technology development institutions. The new industrial environment internationally is now placing much greater importance to technology based industrial activity. Indian industry has to be much more aware of these new international trends and has to be
nimble enough to cope with these rapid changes. It has to invest much more actively in skill building, in product quality upgradation.

13. Higher industrial output requires business to expand markets, win more customers, and lower costs. All these will require changes in business strategies.

14. Accelerated industrial growth is possible with restructuring and overhauling. There is an overriding need to reduce capital output ratio in the manufacturing sector. The polices need to encourage modernization, technology upgradation and economies of scale of production.

15. The industry is to realize the significance of quality and achieve tremendous progress in producing quality products at competitive prices.

16. One important barrier to the industries in India is the legal provision relating to insolvency, rehabilitation, liquidation, and winding up proceedings, which need to be simplified and be made time bound.

17. Measures leading to a decrease in interest rates, freer access to global capital and reduced tax rates will have a direct impact on services sector.

18. Producers need not only look to the global markets for sustenance. Indian domestic market is extremely large, and very price sensitive, there is a need to encourage companies that focus on producing for this market.

19. Accelerate modernization based on futuristic technologies so as to position the industry to more rapid development.
20. Industries have continued to depend on foreign technology and foreign machinery rather than developing them at home. There is a need to make home machinery and technology.

21. Focus is needed for export of untapped services and markets and services with high linkage effects with industry, for the growth of the economy and employment.

22. Industrial sector needs to grow faster for ensuring macroeconomic balance and overcome supply constraints, and thereby ensure price stability and trade balance.

23. The tremendous success of service sector in India is due to availability of vast skilled labour in India. There is a need to improve the availability of educational facilities at all levels to equip the labour. Then only they can meet the current competitive position.

24. Improved regulation in the health and education is necessary to protect the interest of consumers and Indian service providers should be able to secure access to foreign markets.

6.3. EFFECTS OF 1991 REFORM IN SECTORAL PERFORMANCES

The structure of the Indian economy has undergone considerable change with the impact of new economic reforms 1991. The new reforms which increases the importance of external trade and external capital flows. The service sector has become a major part of the economy with GDP share over 50 percent, service sector dominated economy.
The policy of excessive protection for industry hurt Indian agriculture in several ways. It raised the prices of industrial products relative to agricultural products which hurt the agriculture sector of Indian economy. It also greatly increased the profitability of industrial production compared to agricultural production which leads to a shift in investable resources away from agriculture. The new reform does not bring any success in the Indian agriculture trend. There is a sharpest decline in the agriculture sector during 1990s. The share of agriculture sector to GDP is 32 percent during 1981-86 (Table 4.1.4) and there is a sharp decline after 1991. During 1991-96 the contribution of agriculture to GDP declined to 29.63 percent (Table 4.1.4).

The agricultural sector’s growth decreased due to the reason that there was no major breakthrough in developing new high yielding varieties and there was a decline in the environmental quality of land which reduced marginal productivity of the modern inputs. And also the mindset of the farmers – delays in accepting India’s openness. The new policy which gave subsidies for fertilizer but much of this subsidy goes to support the domestic fertilizer industry rather than farmers.

The economic reform process contributed to a gradual improvement in performance of the Industrial sector. The reform has focused on the industrial sector, with dismantling of industrial licensing, removal of import licensing, tariff reduction and relaxation of rules for foreign investment. The main benefits occurred to industries through the access of new
products, technologies and skills as well as lower cost of intermediate inputs. New reforms were helpful to most industries by access to foreign technology and cheaper capital goods and raw materials.

The contribution of industrial sector’s share to GDP is 21.21 percent (Table 4.1.8) during 1981-86 and it increased to 21.37 percent (Table 4.1.8) in 1991-96.

The industrial sector has grown but the rate is below expectations after liberalization. The main reason behind the slow growth rate is impact of heavy global competitions.

As a result of trade liberalization there is tremendous growth in the ‘non-tradable’ service sector. The new policy brings higher growth the sector because of the changes relating to liberalization of FDI and privatization of government owned services.

The service sector emerged as the major sector of the economy both in terms growth rates as well as its share in GDP in 1990s. This sector accounted for 45.19 percent (Table 4.1.15) during 1981-86 and it increased to 50.59 percent (Table 4.1.15) during 1991-96 to the overall growth in GDP. There is a rapid growth of services sector due to high tech information technology, communication and business services.

After reforms the nations’ growth on the whole has not been employment intensive. Growth rate in agricultural sector are very low when compare in industry and service sector, there is large gap has notices. Throughout Indian the urban-rural inequalities in terms of income and purchasing power have grown since the reform begun.
6.4. CONCLUSION

The services sector in India has grown faster than agriculture and industry. As a result, the share of services in GDP has increased over time. In the 1990s, services growth was particularly strong, and this has led to the services share in output being relatively large in India. The acceleration in growth of the services sector in India in the 1990s was due to fast growth in communications, banking services, business services (IT), and community services. Growth of agriculture is vital not so much for generating more employment, but basically for raising the income levels of the people engaged in it. But industry, particularly manufacturing, needs to grow faster for ensuring macroeconomic balance between growing demand and supply of goods, price stability and trade balance. And above all, it needs to grow faster to generate employment, as it appears to be the only one among the three sectors, which has reasonably high and growing employment intensity.

Despite the service sector becoming India's engine of growth (accounting for more than 60% of GDP), there's no gainsaying the fact the India is still an agrarian economy, with close to 70% of the population depending on this sector. The agricultural sector, which continues to be highly monsoon-dependent, has been one of the most erratic sectors. Services can become the major driving force of economic growth, in case of India’s sustainability of a service-led growth. It has been argued that income from the service sector is growing much in excess of the demand generated for services
by the commodity sector and since income might grow faster than employment in the organized services, service-led growth can have serious implications for inflation, income distribution and balance of payments. In short, it is argued that this growth is not sustainable in the long run.

6.5. AREA FOR FURTHER RESEARCH

1. Further research that explores causality and linkage between services sector growth and poverty reduction is possible at both the micro and the sectoral levels.

2. The Indian agriculture sector affects mainly due to the climate change. Therefore the implications of climate change on agriculture and need to be studied and a dedicated research programme should be initiated to combat global warming.

3. The present study concentrates with the performance of agriculture sector, industrial sector and services sector. It may be further analyze individual sector, performance of service sector in India’s economy with problems and prospects.

4. To tap the full potential of the services sector, policy reforms are needed. Further study may extend about domestic policy issues, domestic regulations and market access in services sector in India.