India’s service sector boom and its implications

What is the issue?

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The striking divergence in the services sector’s contribution to GDP and employment growth is bound to have adverse welfare implications.

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When does the service sector boom started to happen?

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- India’s economic growth since the 1990s has largely been on account of an expansion of the services sector, in which exports are seen as having played an important role.
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- The rise in the share of services in GDP was particularly sharp after 1996-97.
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- In the event, services as a group came to dominate the Indian economy, accounting for more than half its GDP.
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- The Economic Survey 2013-14 noted that India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9%, just below China’s 10.9%, during the last 11-year period from 2001 to 2012.
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- This trend has continued which is shown by gross value added(GVA) from services growing at 8.7% per annum and accounted for 58% of the increase in total GVA between 2011-12 and 2016-17.
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- This growth in services has also been accompanied by a significant increase in the exports of services.
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- India’s success in the services exports area has meant that its share of services in total exports (38%) is much higher than in countries such as China, Mexico and Brazil and close to ratios in the UK and the US.

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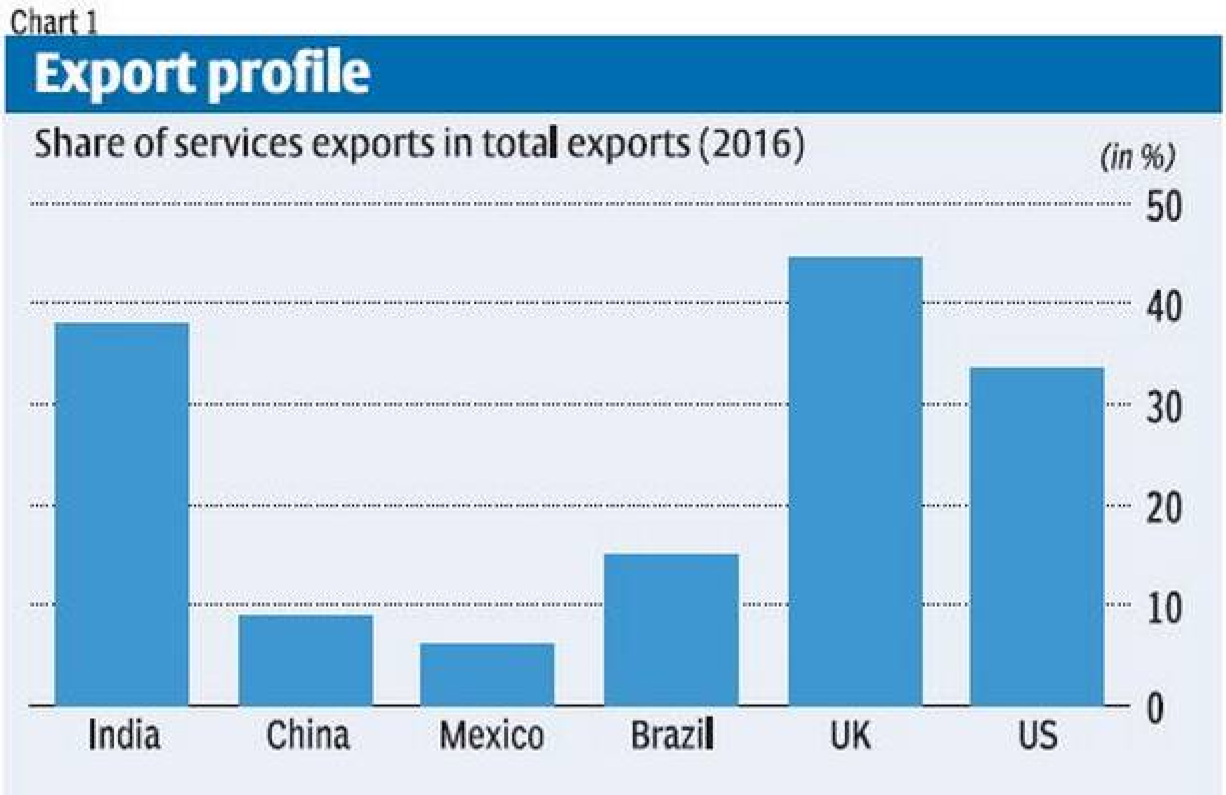

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- This has raised India’s share in world services exports from 0.6% in 1990 to around 3.5% in 2017.
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What is the contribution of unorganised sector here?

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- The normal presumption that follows is that diversification into high productivity services accounts for India’s premature increase in the relative share of services in total GDP.
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- However, India’s National Accounts Statistics indicate that the set of “new” and high productive services together accounted for only 28.5% of total gross value added (GVA) in 2016-17.
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- These services include transport, storage and communication, financial services, and real estate and professional services.
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- On the other hand, traditional services like trade, repair services and hotels and restaurants, dominated by the retail trade, account for 11.1% of GVA and ‘other services’ for another 6.9%.
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- This composition suggests that, while ‘new’ modern services do play an important role in the Indian economy, so do the traditional unorganised services.
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- However, these unorganised services are known to be characterised by extremely low earnings, and which grow because of the inadequate employment opportunities in the primary and secondary sectors.
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Has the growth ensured adequate employment opportunities?

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- Despite the presence of unorganised services, the share of the services sector in total employment was relatively low.
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- Between 1999-00 and 2004-05, employment in the tertiary sector increased by only 22%, whereas GDP at constant prices contributed by the services sector expanded by 44%.
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- Tertiary sector employment in 2009-10 amounted to only 25% of the work force, despite the fact that around 55% of GDP came from this sector.
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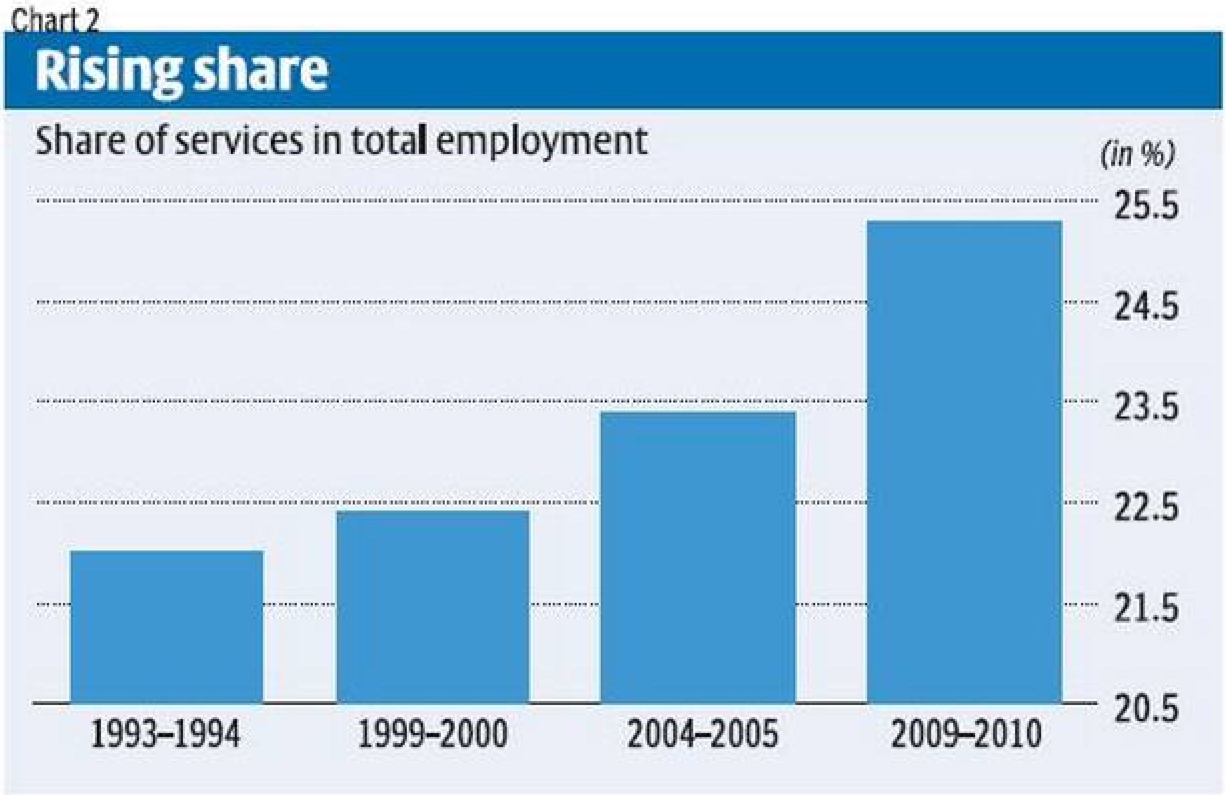

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- Also, NSSO reveals that the share of services in employment increased by far less than the huge increase in its share in GDP.
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- India is also unusual in terms of the <u>wide divergence</u> of the shares of the services sector in total gross value added and employment.
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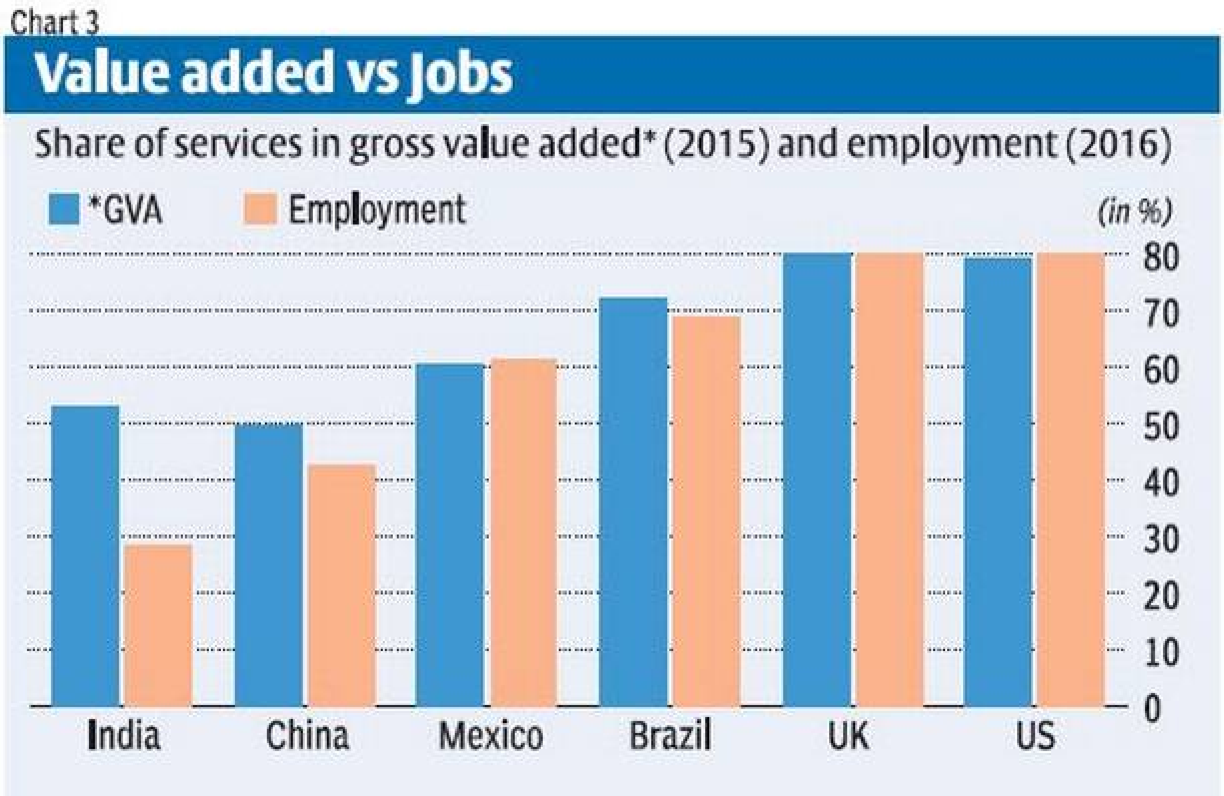

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- The GVA and employment shares in India were 53 and 29%, as compared with 50 and 42% in China, 60 and 61% in Mexico, and 72 and 69% in Brazil.
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- The Economic Survey 2016-17 says that among the top 15 services producer countries, India has the lowest share (28.6%) of total employment in 2016.
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What are the reasons?

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- The weak responsiveness of employment to an increase in services production is possibly because high productivity services contributed so little to employment.
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- For example, within the modern services, financial intermediation and real estate, renting and business activities together recorded an increase in employment share of only one percentage point between 1999-00 and 2009-10.
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- These are the 'boom' sectors that have generated the new rich of post-reform India.

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- Even the much-celebrated growth of IT and IT-enabled services has not been accompanied by a proportionate growth in employment.

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- According to a study by the Central Statistical Organisation the share of ICT services in total GDP had increased from 3% in 2000-01 to 6% in 2007-08.

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- The share of ICT services in service sector GDP went up from 6% in 2000-01 to 10% in 2007-08.

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- On the other hand, the NSS data shows that employment in computer related activities which increased from 314 million in 1999-00 to 963 million in 2004-05, accounted for only 0.2% of the work force.

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- This figure rose to just 0.4% in 2009-10.

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- This explains in large measure the lack of correspondence of the shares of services in GDP and employment.

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What does these results show?

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- The lack of employment opportunities, despite services sector growth, was compensated by a substantial increase in employment in the construction sector.

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- Total employment in the construction sector rose from 17 million in 2000 to 50 million in 2011–12, doubling over the years from 2004–05, mainly because of increased employment in rural construction.

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- In the event, the share of the construction sector in total employment rose from 4.4% in 1999–2000 to 10.5% in 2011–12.

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- Thus, if a high growth sector like services does not contribute to absorbing the large numbers of under- and unemployed workers in India, the welfare implications of the growth trajectory are bound to be adverse.

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- This shows that India’s alternative growth model, which involves premature diversification in favour of high productivity services, left out adequate development of a manufacturing base.

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Source: Business Line

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