

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.

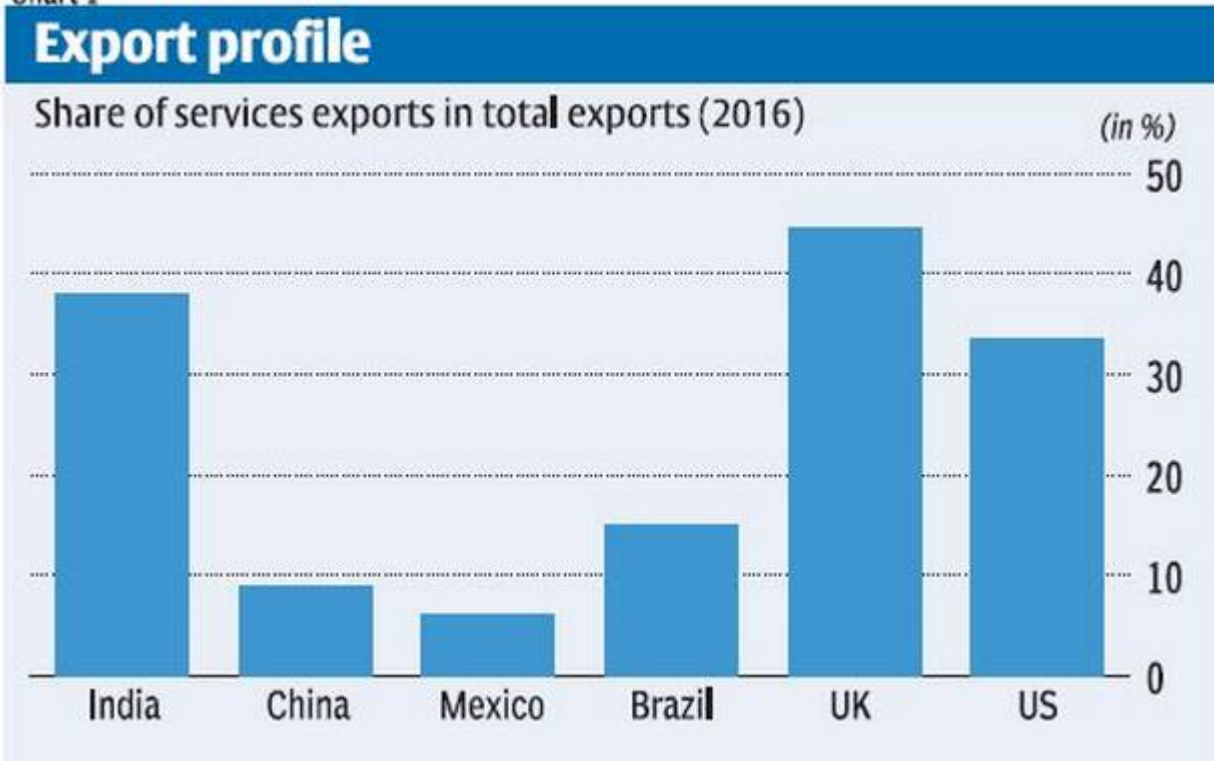
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- India's success in the services exports area has meant that its share of services in total exports (38%) is much higher than in countries such as China, Mexico and Brazil and close to ratios in the UK and the US.

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Chart 1



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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%.

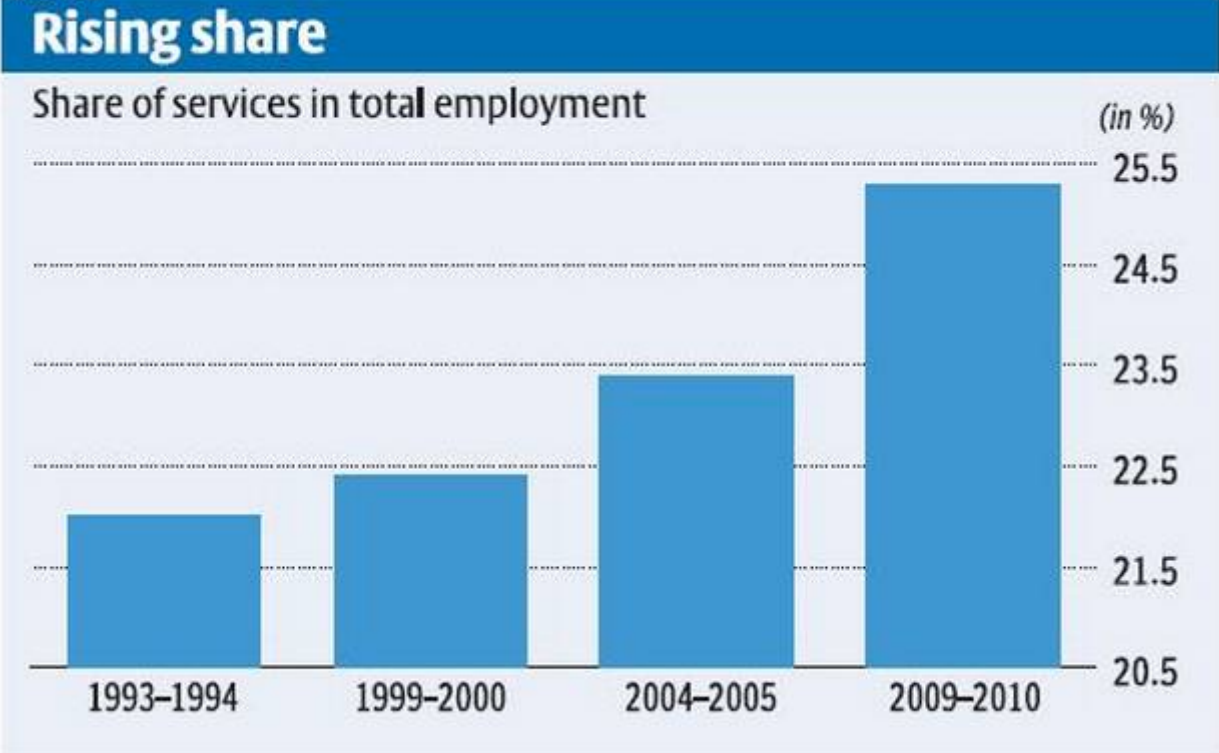
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- Tertiary sector employment in 2009-10 amounted to only 25% of the work force, despite the fact that around 55% of GDP came from this sector.

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Chart 2



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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 wide divergence of the shares of the services sector in total gross value added and employment.

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Chart 3



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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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