

**Reality of productivity and inclusiveness of services sector growth in India****Archana Singh<sup>1</sup>,****Nivi Srivastava<sup>2</sup>**Senior Research Fellow,  
Dept. of Applied Economics,  
Lucknow University**ABSTRACT**

The objective of this paper is to overview the services sector growth in India. Service sector is the largest contributor of GDP in the Indian economy with the highest labour productivity, however its employment elasticity is the lower than manufacturing sector. A larger part of employment in services sector is in unorganized sector with low social security. This is the main cause of concern.

Service sector has started to grow in the early decades but its pace accelerated after the LPG reforms. India's services sector has grown rapidly in the last decade (2014-2015) with almost 72% of the growth in India's GDP is coming from this sector. Unlike other developing economies the Indian growth story has been led by services sector growth which is now in double digit. This sector is the largest receiver of FDI.

On trade front, however India is considered as a major exporter of services, its export competitiveness is concentrated in a few sectors and in a few markets.

The main thrust of India in multilateral and bilateral trade agreements is inclusion of services in these agreements. So that it can reap the comparative advantage of trade in services. Focus of this paper is to identify the measures which can stimulate the productivity and inclusiveness of the services sector in India.

**Keywords:** Bilateral Trade Agreements, FDI Policy, Services Sector, Developing Economies, Competitiveness.

**Introduction**

India is one of the fastest growing economies in the world. Global growth disappointed again in 2015, slowing to 2.4 percent and expected to recover at a slower pace than previously envisioned. Growth is projected to reach at 2.9 percent in 2016, as a modest recovery in advanced economies continuous according to world banks (January 2016 global economic prospects). In emerging countries, projections for China are 6.3 percent while for India; it is estimated at 7.5 percent.

Services sectors have been a major contributor to India's GDP and growth. It is second largest employer after agriculture and it accounts for largest share in India's FDI inflow and outflow.

The growth of services sector in India, its share in GDP and its global presence in Trade and investment has drawn global attention, contrary to other countries where economic growth has shifted from primary to secondary, in India there has been shift from primary to tertiary sector. In this respect some economist (Ansari 1995) consider India as an outlier among South Asian countries and other emerging markets, contending this view Gorder and Gupta 2003, Banga 2005

and Jain and Ninan 2010 have pointed out that India is not an outlier, as the share of the tertiary sector in GDP has increased with rise in per capita income.

Kochhar et.al 2006 argued that India was a negative outlier in 1981 compared to other emerging markets as the share of the services in value added was below that of other countries. After LPG reform of the 1990's, service sector grew and in 2000 India became a positive outlier in terms of the share of the services in value added but still is a negative outlier in terms of its share in employment.

During the first three decades after independence GDP grew at sub 4% growth rate referred as Hindu growth rate. India was basically an agrarian economy. The share of services sector was small and large number of services was under government's monopoly.

Reforms of 1990 led to privatization, reduction of redtapism and softening of FDI restrictions.

Existing studies showed that LPG reforms are one of the important factors contributing to the growth of service sectors in India (Chanda 2002, Gorder and Gupta 2003, Banga and Goldar 2004 and Jain and Ninan 2010).

With economic growth and rise in per capita, there is a shift in demand pattern from necessary to discretionary consumptions like education, personal and health care services. High income elasticity of demand for services has contributed to the high growth of this sector (Bhattacharya and Mitra 1990). Technological progress and availability of high skilled manpower led to the growth of services like IT sector. Developing countries outsource their services to developed countries like India leading to rise in demand for services like community, social and personal services has also led to high growth of services (Ansari 1995).

The objective of this paper is to overview the present condition of services sector in India. It focuses on the major barriers faced by the sector and policy recommendations which can make growth of services sector more inclusive, more sustainable and more employable.

### **Objectives**

The objective of study is to analyze the Reality of service sector growth in India. Specific objectives are

- i. To overview the services sector growth in India
- ii. To identify the measures that can stimulate the productivity and inclusiveness of the services sector in India.

### **Overview of Services in India**

At the time of independence share of service sector in GDP was less than 30% and interestingly the share of the industry which was around 16% during 1950-51 increased to about 25% in the 1980-81 and has not been changed much since then. Entire decline in the share of agriculture has been shifted to increase in the share of the services.

From 38% of GDP in 1980-81 to 42.7% in 1990-91 and further to go as high as 59.9% in 2013-14. What is the significance is the fact that during the period of economic reforms the share of services has increased very rapidly.

According to new calculation method of GDP which is based on the base year 2011-12, contribution of services sector stood 49.6% of GDP while share of industry and agriculture stood at 31.7 percent and 18.7% respectively.

**Table 1: Growth in Employment Shares of Economy Subsectors, 1984 – 2010**

|  | Initial Level of Productivity | Employee Shares |       | Annual Growth (Percent) |
|--|-------------------------------|-----------------|-------|-------------------------|
|  |                               | 1984            | 2010  | 1984 - 2010             |
| Aggregate Services                     | 61,978                        | 0.201           | 0.219 | 0.3                     |
| Trade, Hotels, and Restaurants         | 56,284                        | 0.074           | 0.093 | 0.9                     |
| Transport, Storage and Communications  | 68,823                        | 0.028           | 0.038 | 1.2                     |
| Financial Services and Insurance       | 198,584                       | 0.006           | 0.007 | 0.7                     |
| Real Estate and Business Services, etc | 1,012,017                     | 0.002           | 0.011 | 7.1                     |
| Public Administration and Defence      | 41,154                        | 0.030           | 0.018 | -1.9                    |
| Construction                           | 62,773                        | 0.031           | 0.080 | 3.7                     |

**Source: Economic Survey (2014-2015).**

Nevertheless, the share of tertiary sector in India is lower than that of developed countries UK (78.4%), US (78.2%), but higher than that of china (41.8%).

Moreover Gorder and Gupta (2003), argue that growth in the services sector was also less cyclical and more stable than the growth of industry and agriculture as coefficient of variation was small in the services sector along with this after 1990-91, the contribution to GDP growth by the services sector began to outpace its sectoral share.

#### **State wise comparison of tertiary sector**

The service sector is dominant in most states of India with a share of more than 40 % of GDP in 2013-14, except for Arunanchal Pradesh and Sikkim, Chandigarh is at the top with a share of 88.4% followed by Delhi with 87.7%.the major services in most of the states with high share are trade, hotels and restaurant followed by real states, ownership of dwellings and business services, banking and insurance has an important share only in few states like Delhi, Maharashtra and Chandigarh. In 2013-14, Bihar had the highest services growth of 17.3% and Uttarakhand the lowest of 5.5%.

#### **Employment in the service Sector**

There has been a lot of debate on employment intensity of service sector .It has been argued that employment growth in services sectors has not been commensurate to the income growth in sector (Bosworth and Maertens 2010) or the rise in its share in India's GDP (Kochhar et.al 2006).The change in the production structure from agriculture to services has not been reflected by proportionate change in the occupational structure (Bhattacharya and Mitra 1990). As a result services led growth has been a jobless growth (Bhattacharya and sakthiel 2004).

In terms of size of total employment, in 1993-94, about 63% of the population was engaged in primary sector and about 21% in services.

For the first time there have been structural change, the share and allied sector has dipped below the halfway mark it declined from 58.5% in 2004-05 to 48.9% in 2011-2012, while employment in the industry and services sector increased to 24.3% and 26.8% respectively in 2011-2012 from 18.1% and 23.4% respectively in 2004-05.

In 2009-10 services sector accounted for around 62% of the total organized sector employment however, within tertiary sector about 80% Of the employment is in the unorganised sector, sub sectors like finance, insurance, real estate and business services and community, social and personal services largely provide organised sector employment while services such as retail and wholesale trade along with construction sector accounts for unorganised sector employment.

In 1993-94 about 86% of total organized sector employment was generated in the government sector but in 2009-10, it has declined to 75%.Trade, hotels and restaurants the only sub sector where the share of private sector exceeds the public sector employment.

There are state wise variations in employment in services sector, developed states as Delhi and Kerala have the highest share in organised sector employment. These states also account for one of the highest shares of services in GDP.

Overall services sector employment is low when we compare.

### Labour productivity in service sector

Labour productivity is defined as the value added per work (Wachter 2001). In India, since data on total employment is not calculated on an early basis and a large part of employment in services is concentrated in the organized sector, it is difficult to undertake productivity analysis. A majority of the studies (Bosworth et.al 2007) have concluded that labour productivity is highest in service sector, particularly in the decades after 1980.

(Bosworth and Maertens 2010) have estimated the total factor productivity for India using output data from national accounts statistics (NAS) and employment data from other secondary sources .they found that total factor productivity was highest in services.

**Table-2 Total Factor Productivity for Major Sectors in India (1980 - 2006)**

| Sector        | 2000 – 2006 | 1990- 2000 | 1980 - 1990 |
|---------------|-------------|------------|-------------|
| Total Economy | 2.1         | 1.8        | 2.2         |
| Agriculture   | 0.9         | 0.7        | 1.9         |
| Industry      | 1.6         | 0.6        | 1.5         |
| Services      | 1.9         | 3.1        | 2.1         |

Sources: Extracted by authors Bosworth and Maertens (2010), table 2.3 PP.119

Eichengreen and gupta (2010) used the NAS and cross country data from European Union (EU) KLEMS and showed that the skill content in both manufacturing and service sector is increasing over time.

The author divided the services sector into three groups (Table 3) and pointed out that the productivity growth is the highest in group 3 .within this group, the fastest growing sub sectors are business services, communication and banking. Growth in exports has contributed to the growth of most services in group 3, group 1 has low income elasticity of demand and group 2 has cost disease problem, leading to low productivity.

**Table-3 Categorisation of different Services based on their Productivity Growth**

| Group 1 – Traditional Services  | Group 2 – Hybrid of traditional and modern services   | Group 3 – Modern Services  |
|---|---|--|
| Retails and wholesale trade, transport and storage, public administration and defence | Education health and social work, hotels and other community socials &and personal services | Financial intermediation, computer services, business services, communication and Legal and technical services |

Sources: Eichengreen and Gupta (2010)

Empirical studies show that foe the period 1980-2008, the total factor productivity growth in India has been highest in service sector (1.58 % per annum) followed by agriculture (1.06% per annum) and manufacturing (0.3 % per annum).the economy wide estimate recorded a labour productivity growth of about 4.5% per annum for the period of 1980-2008.growth of labour productivity for service, agriculture and manufacturing were respectively 3.5,1-94 and 5.45 % per annum. In the sub period analysis, the study found that labour productivity growth rates for service increased from 2.69% in 1980-99 to 6% per annum in 2006-2008. This increase in labour productivity growth rates in services sub sector such as postage and telecommunication, hotels and restaurants and trading services between 1980-99 and 2000-2008. Sub sectors in which there was slow down in labour productivity growth rates include health and social work, other services and education. The result of this study does not suffer from the non availability of disaggregated data.

The Broad findings of the study showed that total factor productivity in service sector has been the highest and the communications services is one of the major propeller of service sector productivity growth in India.

### Future Growth of Services

Fitch ratings has lowered India's GDP growth estimate for the current fiscal to 7.5% from 7.8%. RBI also revised its real GDP forecast for 2015-16 to 7.4% from earlier expectation of 7.6%. although it is highest among the BRICS countries, Mckinsey forecast that if the Indian economy grows at the rate of 7.3% between 2005 and 2025 and then by 2025, 583 million Indians will be in the middle class. this class along with about half of population between the age group of 15-59 year will change the consumption pattern with an increase in demand for discretionary services like education, health, personal care, hotels and restaurants. With the opening of majority of services for FDI, service sector will be continued to be major driving force of GDP growth.

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