

Indian Economy: Some Contemporary Perspectives
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Lecture 17
Indian Economy – Service Sector Policy 1

So hi everyone. So we are now going to talk about the new topic, it is lecture 17 in the course, Indian Economy: some contemporary perspectives. Now when I was going through the book, I found that one service sector we hardly have a completely outlined chapter. In any book they normally mention about information communication technology and certain developments, so I thought it will be good if I cover this particular topic because we have a lot, if you go through the existing literature, then you find that you have a lot of papers written on industrial growth and development but services is somewhat missing.

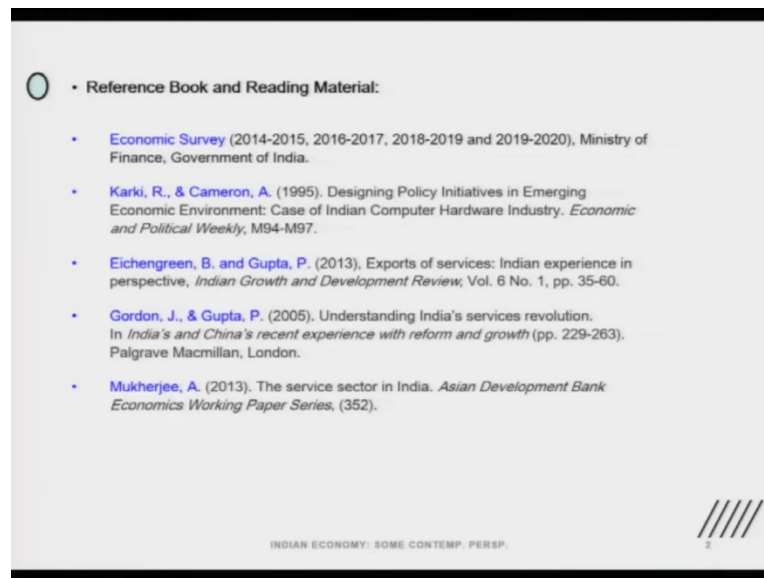
Though in economic survey now we have started writing a separate chapter on services sectors so if you go to the ministry of finance website and if you just search for older surveys then you will find that they have since 50's and if you just go through those economic surveys, then you find that as we have gone for diversification of activities, we have each and every component added with detail in economic survey so now we write a separate chapter on economics survey, on services sector in volume 2.

And this particular sector is important because it contributes about 55 percent in the GDP and it is one of the largest receivers of FDI foreign investment and it is also one of the sectors where we find a lot of gender equity so if you think in terms of workforce mainly from the perspective of male and female then we find that services sector has empowered the female working population so about more than 30% percent of the workforce in the services sector mostly in IT and BPO sector is female workforce. And that gives us the idea that apart from micro small medium enterprises that we have just had discussed in the last session, we find that this particular sector is also very useful.

Unfortunately, this sector has not contributed that much to the employment scenarios as we see if you compare with agriculture and manufacturing but in terms of overall exports, in terms of foreign investments, in terms of share in the GDP, this particular sector now comes out to be the leading sectors. There are a lot of success stories about this particular sector because this particular sector is now dominated by business processing and the financial services and even the IT services but apart from this, in this particular sector, we also include

tourism, insurance, now we have space services included. So, overall in the contemporary contexts if you ask, then the services sector is a well-diversified sector and it has a lot of components to cover and there are some initiatives undertaken by the government to revive this, not only in terms of just thinking about this particular sector from the perspective of income generation but also from the perspective of contributions.

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So, we will be highlighting each and everything but first let me give you the readings that I have found, it is very useful. So, for this particular lecture, I have referred economic service 2014-15, 2016-17. Then we have 2018-19 and the recent survey 2019-20. Then I found very good article written by Karki and Cameron, it has appeared in economic political weekly and this particular, I would request everyone to please go through this particular article Designing Policy Initiatives in Emerging Economic Environment: The case of Indian Computer Hardware Industry.

And this particular paper takes you to the historical development that we have undertaken. Why we have gone for such types of drastic measures? What were the requirements when we started entering into the hardware computer industry? How India had to progress from USSR model to the market oriented?

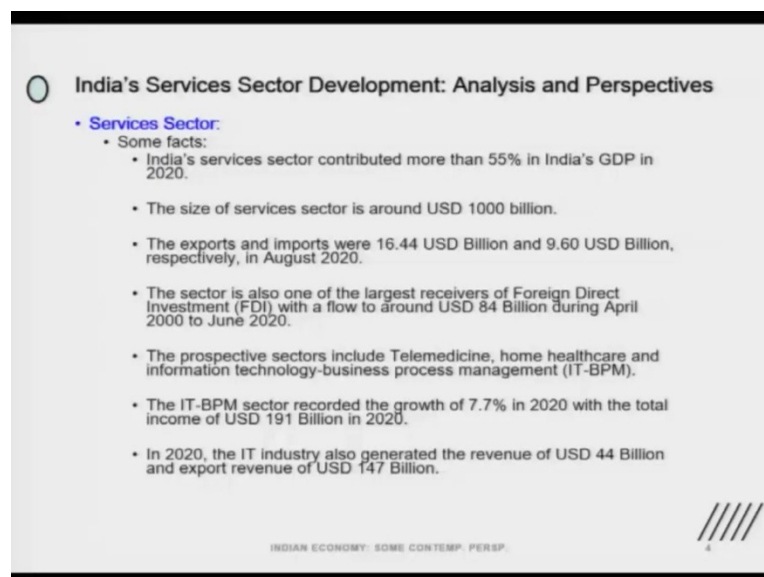
The role of private sector, you will find, then Berry Eichengreen and Poonam Gupta have a very good paper on Exports of Services: Indian experience in perspectives, so this appeared in Indian growth and development review, this is also a very good reference. Then I found

Gordon and Gupta, Understanding India's services revolution. In India's and China's recent experience with reform and growth so it has also periodic chapter.

Now I found, Arpita Mukherjee recently written an article which is very good, this is about the service sector in India, it has appeared as the walking paper, ADB walking paper. So, on services sector though you have a lot of options of read, you can go through a different web pages and also the online sources and even the newspapers, news daily's but I find these references very useful and one should refer these references before going through any to have a complete idea about India Services sector growth.

So, let us start with the idea, so the idea in this particular topic from my side it is just to give you an overall idea about the nature of growth of service sector in India. To analyse the recent trend, solutions measures and I would also like to focus on the concerns that we have. Though government of India has introduced certain measures like for example, make in India, atmanirbhar bharat but there is a lot of concern about the services sector revival because there is a skilling and reskilling concern that how we can rescale our workforce or large workforce to support the major changes that we are observing in case of services sector.

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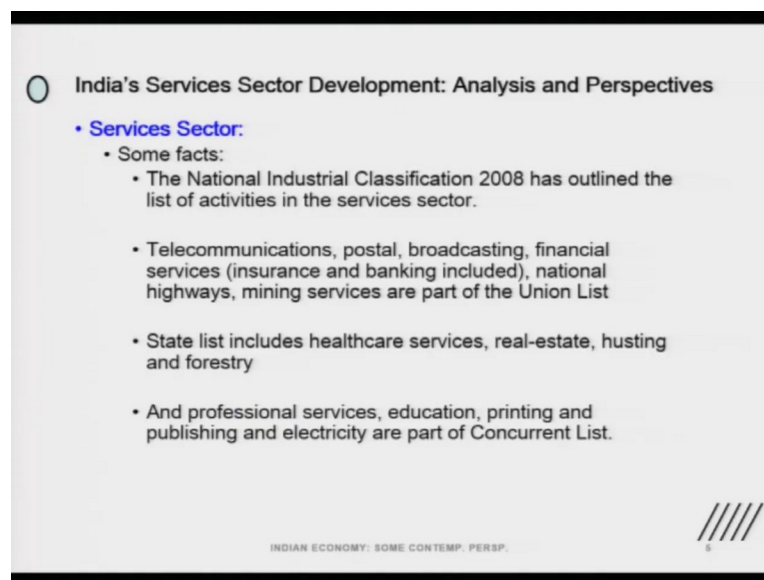
So, some of the highlights of the service sector that I found, I thought I should be mentioning it here. So, as I mentioned in the beginning, the India service sector contributes around 55 percent and in 2020 as per the 2020 data, it is having 55 percent share.

The size of service sector is around US 1000 billion dollar, exports and imports if you see then we are the net exports, so 16.44 USD billion dollar was the exports and 9.60 was the imports. The sector is also one of the largest receivers of foreign direct investments. So, it is also in terms of the amount it is around 84 billion dollar, And the most attractive sectors that we can see these days are the telemedicine, home health care and the information technology business processing that you have.

It is also one of the ITBPM that I just mentioned, information technology business process management. It is one of the leading sub-sectors in services sector, it is having growth rate of 7.7 percent with the income of around 191 billion. IT industry generated the revenue around 44 billion dollar and this has export revenue of around 147 billion so these are the recent figure that you can get anywhere if you search on online, then you can find that these numbers will come up automatically.

I have taken some numbers from the IIBF online source and also I have referred some portions from the recent economic survey so this is not a very big development that we can see.

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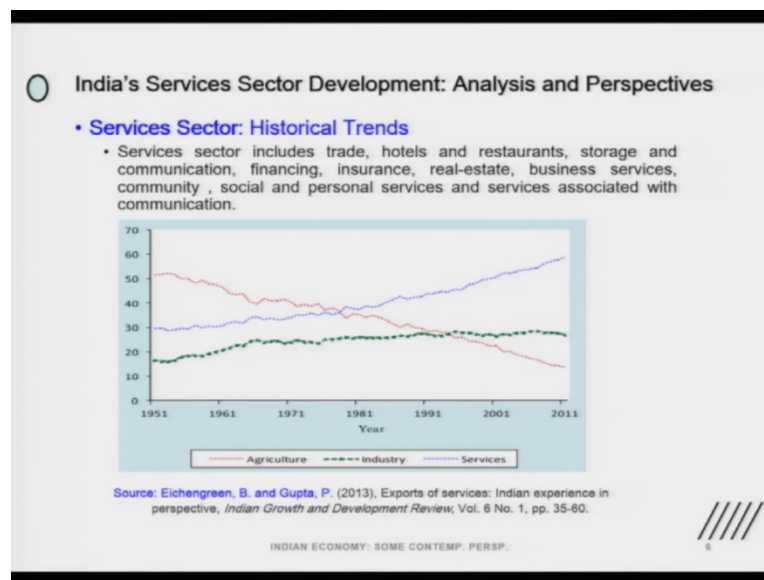


Let us talk about the historical perspective, so now we have the historical perspective that in the beginning when we were talking about the when we were more focusing on the industrialisation process then at that time service sector was a minimal role so that we will be discussing. But before that I will be going back to the historical perspective so before that let us have some kind of background of this.

So, for the first time services sector was having a clear cut outline and it was part of the NIC, National Industrial Classification 2008 that gave a separate definition of the service sector. It included all the activities that should be part of the service sector so we have mentioned that the seven schedule of the constitutional amendments mentions about the union list, state list and concurrent list. So, we find that telecommunications, postal broadcasting and then we have the financial services, national highways, mining services are part of the union list which means that the central government will have full control on these sub-sectors of the services.

State list includes health care services, real estates, funding and forestry and in terms of professional services education, printing and publishing, electricity part of the concurrent list, which means that a state list basically includes health care and real estate, rest all are in the central list and the state and the centre both of the jurisdiction, I would say jurisdiction in terms of the services like professional services, education, printing and publishing electricity. These are the concurrently which means state and centre both have jurisdiction in this particular list.

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Now if you trace the history, so now we already have a complete idea how we have gone for industrialisation process, so from second five year plans onwards we started emphasising on the different planning processes leading to heavy industrialisation. But during 1950's if you just think in terms of the share of the agriculture, agriculture was the highest in 1950's followed

by, it was services again industry was lower so in the services you have storage and we had transport and all these sub-sectors of the services leading.

But when it came to 1970's then this particular sector had a volatile situation because at that time we had gone for a heavy revolution. In the 1980's era when we had gone for MRTP relaxations and then we had also gone for promotion of investment D licensing, we had also gone for enactment of foreign exchange regulation act that also lead to the surge in activities in the services sector, so from that onwards we can see it is continuously going up, though there was stagnant period from though the growth was not that high so you can see here that this period, we do not have that much growth.

But after 1980's we can see that it is going upward because of the certain policies that we undertook for the revival of the services sector. So, the liberalisation measures that we discussed in during 1980's, it gave boost to the services sector also. So, whatever majors that we had undertaken in terms of revival of industrial sector, in turn it also benefitted the services sector mostly in terms of import of technology and this import of technology further enhanced the local capabilities and that further helped in attracting a large number of FDI into this.

So, the later industrial policies were more of a market oriented and then we were in the 1990's and in 1990's we took a radical measures to revive the industrialisation process and then we also had to go through opening of the economy. At that point of time, services sector has the major leap and then it continued the growth so we had a sustained growth in the services sector after that because then we had the role of private sector playing and post 2000 it was the golden era so that is the whole, I would say chronology of the services sector that we find in India.

So, then post 1990's we saw the incorporation of certain activities in the service sector and then post 2000 we had the whole lot of post dot com bubble burst development that further enhanced the business services processing industries and then also we are the telecommunication, then we had financing, insurance, real estate, business services flourishing. So, post 2000 we did not see a services sector going down anywhere and that led to the one of the major success of the India's economy.

Many argue that unlike conventional Asian economies where we had the pattern of growth in the sense that first the agriculture sector was given focus and then it moved to the industry and then it moved to the services, but in case of India we do not see that. We saw that the agriculture sector was the major, we are mostly agrarian economy and in 1970's we were just struggling with our own set up whether we should go for more market oriented or we should remain with that.

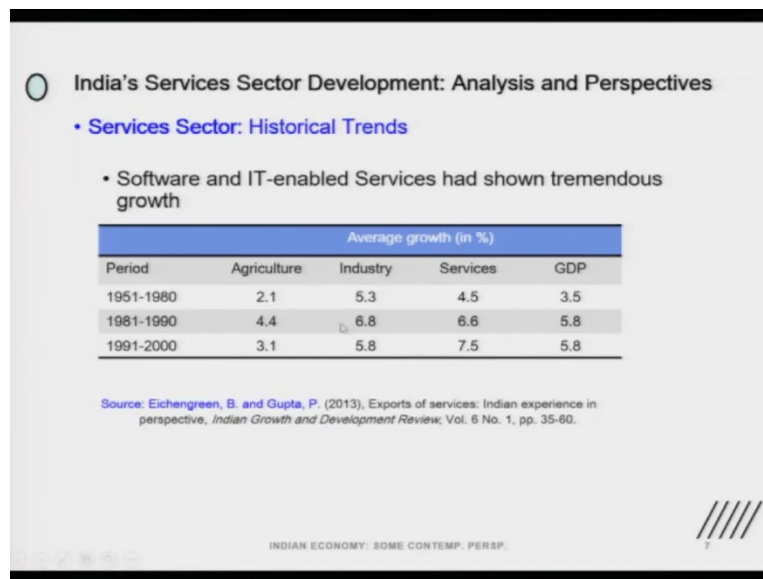
And then we focused more on the public sector socialist rule or I would say, socialist form of the economic set up but then post 1980's when they realised that we did not do well because of those control measures then we started liberalising and as a result services sector came up as one of the champion sectors at that point of time and that continued. And one of the reasons why people say that though India moved from agriculture to services directly with not so much focus on the manufacturing and that has resulted in terms of income share, in terms of income growth.

Though services sector has contributed a lot so it can be called as a net gainer but in terms of employment it has not contributed that much and that is one of the concerns for the India's economy that in terms of employment growth, employment generation, we do not see that much coming from the services though post 2000 we had for few years we had for few years, we had a bunch of people joining the services sector mostly IT and telecom and that also contributed a lot but compared to Asian countries experience where the manufacturing had a main say, the amount of employment created for the skill and semi-skill workforce, it is much higher compare to India because service sector required some kind of specialised skilled force and that we started generating that kind of workforce only post 2000.

So, in the beginning it was very difficult and our economic policy was not reoriented so we had to refit our economic model and when our focus was that, we should be focusing on the industrialization process and will be liberalising the economy and having a competition advantage in terms of industrial growth, but services sector came up as one of the surprising development and the growth and the development in this particular sector contributed a lot and that is why it is called that the service sector became one of the champions and then though the focus of the policy maker was on the industrial.

So, at that point of time post 2000 this is the scenario that we can see. The agriculture sector, the industry sector we see a more or less stagnant, the agriculture sector, we find it is completely downward so now you can see that this particular sector had a complete downward fall but in terms of food ability, food production though we increased but in terms of share, it has come down. So, from 55 million ton to we have now 290 plus million tons and in terms of share also it is almost continuously on a declining mode. So, this is one concern that I find.

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India's Services Sector Development: Analysis and Perspectives

- Services Sector: Historical Trends
- Software and IT-enabled Services had shown tremendous growth

Period	Agriculture	Industry	Services	GDP
1951-1980	2.1	5.3	4.5	3.5
1981-1990	4.4	6.8	6.6	5.8
1991-2000	3.1	5.8	7.5	5.8

Source: Eichengreen, B. and Gupta, P. (2013). Exports of services: Indian experience in perspective, *Indian Growth and Development Review*, Vol. 6 No. 1, pp. 35-60.

INDIAN ECONOMY: SOME CONTEMP. PERSP.

In terms of average growth, if you find then in case of agriculture it was just from 1951 till 2000, if you compare we had 1951 to 1980 2.1. Industry we had 5.3 to 6.8. In services you can see here you have the major difference that industry and services both in 1981 till 1990 both were doing at the same rate but after when we liberalising our economy, the service sector outsmarted the industry and here we have 5.8 percent and in services 7.5 percent.

So which means that the era we had in 1981 to 1990 though the focus was more on the industrialisation process giving more leeway to the market oriented development. Services sector came up as one of the surprising development and that led to because we had liberalised our in terms of foreign investment, in terms of D licensing, we had also opened the sectors for the private sector and that private sector had given a lot of opportunity for the growth and development in the services sector.

So, this is what you can see that, though the GDP growth remains same 5.8 5.8 during these periods but services sector jumped during this decade, it can be called as services sector decade from 1991 till 2000.

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India's Services Sector Development: Analysis and Perspectives

• Services Sector: Historical Trends

Sectors	1950s	GDP share	1970s	GDP share	1990s	GDP share	2000s	GDP share
Community, social and personal services	35	10.4	35.1	12.6	30.3	13.9	26.1	14.0
Financing, insurance, real-estate and business services	25.2	7.5	20.3	7.3	26.2	12.0	27.3	14.7
Trade hotel and restaurants	28.5	8.5	30.2	10.8	28.5	13.0	29.4	15.8
Transport storage and communication	11.3	3.4	14.5	5.2	15.0	6.9	17.3	9.3

Mukherjee, A. (2013). The service sector in India. *Asian Development Bank Economics Working Paper Series*, (352).

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Now I also got this from the paper this table and if you find then in 1950's the community personal social services, trade, hotel, restaurants, transports, storage and communication, if you think in terms of share, in 1950's the share in this services which is this particular part, it was 35 percent, 25 percent and 28 percent. But here if you think in terms of trade, hotels and the restaurants, so this is the GDP share that is 10.4, 7.4, 7.5, 8.5, and 3.4.

And this is the share in services that we had so out of the service sector, this is how it was distributed at that point of time. In 1970's also it was 35.1, in 1990's it was declined. What we can see is that there is a consistent rise in the share from trade, hotel and restaurants and then we have a trade, transport, storage and communication.

So, it has expanded so you can see 28.5 then we can see a jump in during 1970's 30.2 then again we can see some stabilization 28.5 and then we have 29.4. So, the major leading sectors, if you see then it became the finance, insurance, real estate, business services 27.3, trade, hotel and restaurant it is 29.4. In terms of share in the GDP, then you find that finance, insurance, real estate, business services sector has done well and even trade, hotels and restaurants has done well.

The transport and storage did not do well. The Transport and storage did well only in 1950's, then it continued but after that the share has gone down though in terms of GDP share, it is up but here we have only in 1950's we have the share of community, social and personal services 35 percent. 70's again we have 35.1 and then we have 90's going down again.

So, over all it looks like that there is a whole lot of transformational change in the services sector, the basket of services sub-sectors that we have and we have more moving towards financing, insurance, real estate and business services that we find it here. So, the overall... this I just mentioned that if you want to see the decadal change barring 1980's then we have a major change happening after 2000. In 1990's we found community financing and all remaining is same and this continuation is now even today this continuation is leading so finance, insurance, real estate, business services is leading. Trade, hotels and restaurants are also leading.

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India's Services Sector Development: Analysis and Perspectives

- Services Sector: Historical Trends
- The contribution of services sector in employment and capital formation

Period	Employment Share (in %)	
	Employment	Gross Capital Formation
1965-66	18.1	46.1
1970-71	20.0	43.7
1980-81	18.9	44.0
1990-91	24.4	41.2
1999-00	23.5	39.6

Source: Gordon, J., & Gupta, P. (2005). Understanding India's services revolution. In *India's and China's recent experience with reform and growth* (pp. 229-263). Palgrave Macmillan, London.

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Now coming back to the argument that the services sector has not contributed that much to the economy in terms of employment generation so if you look from the perspective then it appears that in 1965-66 we had the growth rate in employment around... share employment around 18.1 then it came to 20 and then we had 1980, 81, 89... in 99-2000 we had 23.5. In terms of, if you compare in terms of investment, gross capital formation then we find that it is declining but in terms of employment share, it has gone up but it is not that high that we expected and that we have the potential to generate that kind of employment in manufacturing and other sectors.

So, this particular aspects is one of the hotly debated topic and sometimes economists argue on this that we should have focused more on the manufacturing.

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India's Services Sector Development: Analysis and Perspectives

• Labour productivity in the services sector

Sectors	Level (constant 2005)		Growth (Percent)	
	1984	2010	1984-2010	2000-2010
Services	61,978	213,014	4.9	6.3
Manufacturing	48,817	125,349	3.7	4.2
Services Subsectors				
Trade, hotels and restaurants	56,284	144,108	3.7	7.3
Transport, storage and communications	68,823	172,058	3.6	4.5
Financial services and Insurance	198,584	706,297	5.0	-1.6
Real estate and Business services, etc.	1,012,017	875,073	-0.6	3.2
Public administration and Defense	41,154	231,109	6.9	7.0
Construction	62,773	95,866	1.6	2.1

Source: Economic Survey, 2014-2015, Volume 1, Table 7.1

INDIAN ECONOMY: SOME CONTEMP. PERSP.

Here in terms of labour productivity, I have just mentioned here so in terms of labour productivity, if you see then what that appears during 1984 to 2010 here in terms of growth if you see, then it appears that the services had the growth of 4.9 percent and here it is 6.3 which has gone up. Manufacturing, it is less 3.7, 4.2.

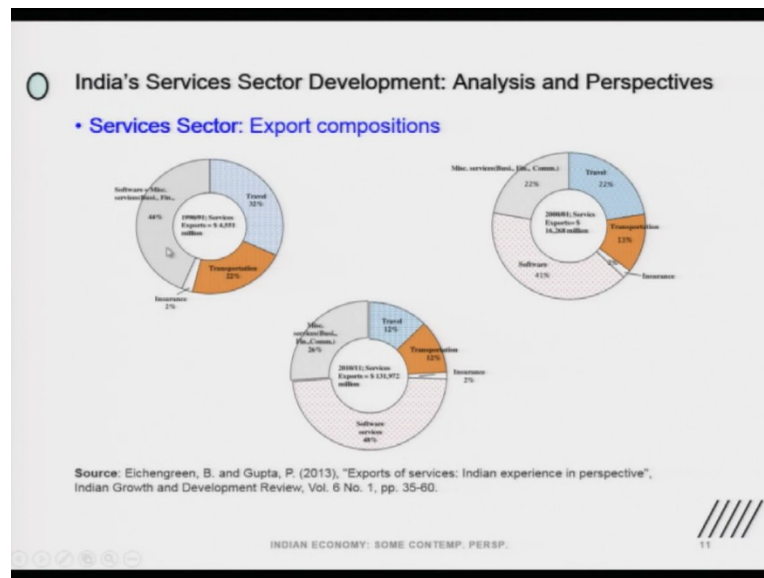
In terms services sub-sectors if you compare then we have the trade, hotel and the restaurants as I told in the previous slide, it is rising up, 7.3. In transport, storage and communication it is 3.6, 4.5. Again in terms of financial services, insurance, it has come down from 2000 to 2010, it has come down minus 1.6. We can see another real estate and business services though it was negative in 1984 during 1984 to 2010 but it has gone up further.

We also see construction sector contributing a lot but we do not see financial services and insurance doing that much till 2010 but now we can see that since these are highly, I would say techno oriented sectors so automations and all are having higher chances that this will be replaced. But till 2010 these product sector was in negative but post 2010 it must be having a better scenario.

So, overall it looks that among the sub-sectors in services we find trade hotels and restaurants as attractive and then we also find trade storage and communications quite attractive, 4.5 it has gone up but in terms of asset service s and insurance we do not find so this is what we say

that, so in terms of productivity this distribution shows that in certain sectors the expansions were more so maybe when we have a middle class rising so if per capita income is rising so this particular sector is expected to rise so trade, hotels and restaurants are expected to rise. And this is what we find it here also. Transport, storage and communication, we again see increase.

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In terms of export composition, we find that software was leading at that point of time, 1991 it had the share of 44 percent, travel was 32 then by 2000 to 2001, it reduced so it is from 22 to 20 percent travel reduced. Software alone became 41 percent share and software services now it is having by 2010-11 it has the share of 48 percent so this means that software plus miscellaneous all other services were included.

Here we can see that the software has taken over so now it is 48 percent which means that in this particular sub-sector, this particular sector expanded much better than all other sectors so these charts helps us to understand that how wise the competition of exports that we have. So, if you compare the 2011 scenario, it must be called or the transformation that we see from 1991-2001 that we can say that it was also because of the policies that we had undertaken.

So, at that point of time, the architecture of the software industry, it was such that, it was more supported by the government and even the fortunate part was that, we had a dynamic individual supporting this particular sector and thinking about the expansion of this particular sector.

So, if you go through the IT industry revolution in India, then one person name is Devang Mehta. Devang Mehta helped a lot in terms of boosting the IT sector in India because he was the NASSCOM chairman and then he became one of the stalwarts in terms of thinking about the India's IT industry because he has the proper vision of leading the IT sector, not from the perspective of just for export but he was also the one who thought that it has huge potential even in domestic economy.

So, computer as a major economic superpower, Devang Mehta helped a lot. So, some people even argue that the congress government at that time though they had introduced some majors that will be discussing now. Though they had introduced some measures but it was also the role of Devang Mehta whose untimely death led to the further it was said that if he would have continued then the IT sector would have been somewhere else.

But it also shows that the sector was headed by the right mind set of people and that is why this private sector had that much growth. So, here it is in terms of software we have 41 percent and in terms of software services we can see that by 2010-11 we reached to the financial and miscellaneous business services 26 percent. Software services reached to 48 percent.

So in the next session I will be talking more about the development so overall you can see that the composition that we have for the services sector looks more skewed towards the software exports and even in terms of business processing and the real estate and then we have the trade, hotels and the sector of restaurants and food industry supporting more. Going ahead this particular sector has immense potential to contribute to the GDP growth but there are certain requirements that we will be discussing in the next session. Thank you, thank you so much.