

A Critical Study of Services Sector

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Services Sector in India has grown rapidly in the post reform era and has helped India to emerge as one of the fastest-growing economy in the world during the last decade. India has been ranked 9th and 10th in terms of overall GDP and Services GDP respectively in the world in 2011.

India has also figured as the topmost country in terms of increase in its Services share in GDP (8.1 percentage points) for the period 2001-2011. The compound annual growth rate (CAGR) of Services for the period 2001-2011 in India was 9.2 percent, second only in the world often china. Given its growth performance, the contribution of the Services sector (including construction) to overall GDP has increased sharply, from 41 percent in 1990-91 to 64.8 percent in 2012-13.

Services Sector has also contributed to India's enhanced trade performance. Services exports have grown significantly from less than \$7billion in 1995 to over \$137 billion by 2011.

India's share in global Services expands has risen from 0.5 percent in 1995 to over 3percent in 2011. The sector's share in the country's exports has risen from around 18percent in 1995 to over 39 percent in 2011.

Thus, Services sector has contributed significantly to the growth, GDP and linking of Indian economy with the external market in the post reforms era. However, there has been debate led growth on employment creation in spite of a significant jump in the Services share in GDP, the Services contribution to employment increased only marginally over the liberalization period in India due to this phenomenon, many economists have criticized India's growth story as "jobless growth", i.e., there has been high growth in Indian economy during past few years but adequate jobs were not being created.

This article focuses on unemployment aspect of India's Services growth story. It illustrates growth, Services sector contribution and unemployment scenario in India and its various states and explains the possible reasons for this paradox. It concludes by suggesting policy measures to increase the Services sector contribution to job creation and the employment scenario in India.

Services: Growth and Employment

The growth and liberalization of India's Services sector and consequent rise in its share in India's GDP is not well correlated with employment generation in India. Table 1 shows the share of employment per sector in India for the year 1993-94, 2004-05, and 2007-08. The data reveals that the while the share of employment in the tertiary sector (predominantly Services) increased over the years, the primary sector (predominately agriculture) is still the dominant employer.

The share of the primary sector in employment fell sharply between 193-94 and 2004-05. The consequent rise in the share of employment in the secondary (predominantly industry) and tertiary sectors was fairly balanced between the two.

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Table 1: share of employment per sector in India (%)

Year	Primary	Secondary	Tertiary
1993-94	64.5	14.3	21.2
2004-05	57.0	18.2	24.8
2007-08	55.9	18.7	25.4

Source: Economic Survey, 2010-11.

This observed trend for India is in contrast to the trend for India is in contrast to the trend in developed and some developing countries wherein the contribution of Services sector to the employment not only increased over time with the process of development, but Services also become the dominant player in employing human resources in these economics. For instance, by the beginning of 2000, about three quarters of employs were working in Services in several OECD countries. Not only developed countries, even developing countries, such as Latin American countries like china, Peru, Columbia, panama and many Asian countries, such as Korea, also have a significantly higher share of Services in their overall employment. Among BRICS countries, only china and India have LOW employment contribution of Services. However, the gap between employment and GDP contribution of Services for India in much wider than china. This is because of the fact that share of Services is low for both GDP and employment in china due to the predominance of its industrial sector.

A deeper analysis of employment data of India reflects that there are widespread differences in employment in various Services sector and states across India. While some states, such as Kerala, have a high share of employment in the Services sector, states like Chhattisgarh, Madhya Pradesh, Gujarat have relatively low shares of employed people in Services. It is worth nothing of employed people in Services. It is worth nothing that many north-eastern states like Sikkim, Tripura, and Manipur have a high share of employment in the Services sector. From a sect oral perspective, construction, trade, hotels and restaurants and public administration, education, and community Services are the major employment providing Services sectors in different states.

There are also wide differences in the employment share of Services sector in rural and urban India. In urban India, such share is very high are most of the states as compared to the rural India. It implies that Services growth has more or less limited itself only to the urban India and the fruits of high Services growth have not percolated down to the rural India. A natural corollary of this imbalance is that, of late, there has been a lot of internal migration in India from rural to urban areas there by increasing the challenges for the urban civic bodies, which are already finding it difficult to meet the growing needs of rapid urbanization in India.

Table 2: shows rural and urban sector employment per 1000 employed people for various states in India.

State/UT	Agriculture and Allied		Industry		Services with construction		Services without construction	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Andhra Pradesh	687	53	97	241	217	705	150	583
Arunachal Pradesh	757	140	32	41	213	817	158	722
Assam	725	27	38	137	257	833	222	757
Bihar	669	146	53	121	279	732	174	609
Chhattisgarh	849	53	39	282	112	666	83	553
Goa	239	14	365	289	397	696	353	552
Delhi	0	1	120	285	879	712	542	682
Gujarat	783	53	62	306	156	641	112	576
Haryana	598	53	98	319	304	627	195	511
Himachal Pradesh	629	85	53	149	320	767	167	676
Jammu & Kashmir	597	110	84	227	316	662	218	552
Jharkhand	548	52	92	160	361	787	145	602

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Karnataka	757	94	67	221	176	686	132	558
Kerala	357	110	132	178	511	711	357	570
Madhya Pradesh	824	98	48	203	128	700	62	569
Maharashtra	794	47	52	236	154	716	116	638
Manipur	534	205	90	118	377	677	240	604
Meghalaya	707	58	56	65	236	877	178	780
Mizoram	806	360	14	53	180	587	128	499
Nagaland	741	219	17	35	241	745	200	684
Odisha	676	103	84	215	240	683	144	549
Punjab	618	83	81	249	298	669	168	552
Rajasthan	633	70	54	186	312	743	110	595
Sikkim	539	0	48	99	414	901	282	874
Tamil Nadu	537	136	117	276	246	586	146	482
Tripura	306	21	63	89	633	891	244	716
Uttarakhand	695	54	41	199	263	747	131	629
Uttar Pradesh	669	91	76	257	257	653	134	551
West Bengal	563	36	173	279	265	683	206	621
A&N Islands	430	30	91	98	477	873	330	766
Chandigarh	31	22	145	122	826	856	629	778
Dadra & Nagar Haveli	591	38	160	632	251	332	155	315
Daman & Diu	548	394	340	177	110	430	106	398
Lakshadweep	452	277	57	164	491	558	361	483
Pondicherry	461	29	144	201	396	770	238	647
All India	679	75	80	242	241	683	147	582

Table 2: State-Wise Employment Different Sectors in rural and urban India in 2009-10 (per 1000 employed people).

Paradox of high growth and low employment: why?

Low employment contribution of Services in spite of high growth rates and GDP contribution is a phenomenon particular to India. One of the primary reasons for low employment creation in India's Services sector is the neglect of secondary (industry) sector during the liberalization period. The economic theory postulates that in the initial phase of development of an economy, the role of primary sector is dominant. As the secondary sector becomes important in the second phase. In the third stage, when the economy further progresses, the tertiary sector's contribution increased. However, for India, it seems that the second stage of the development process has been bypassed and India has entered into the third stage directly from the first stage.

In this context, it is worth nothing that though china has shown highest Services CAGR of 11.1 percent in 2001-2011 period. Its share of Services in GDP is only marginally changed during this period. However, for India, high Services CARG (9.2 percent) are also associated with the highest charge in its contribution to the GDP. This also shows that china's growth story is based on the development of both the industrial and Services sector; whereas, India's growth story is mainly driven by the Services sector ignoring the industrial one. The other reason for observing this paradox in India is the lack of backward and forward linkage between agriculture, industry and Services sectors. For instance, if the agriculture sector (primary) could have been linked with the agro processing industries (secondary) in the rural areas, which in turn, could have been linked to various input Services (tertiary) such as financial, transport, insurance etc., more employment may have been generated. This would have also solved the problem of large scale migration from the rural areas to the urban settlements.

The relatively less contribution of Services to employment may also be attributed to poor recording of Services data in India. Many of the Services are provided in the unorganized sector, such as, housemaids, workers in the local kirana etc. because of their unorganized nature, employment in these Services is often underestimated, though such Services provide employment to a number of unskilled workers of Services providers, guides tourism personnel with special emphasis on target groups who are mainly from weaker section of the society. Similarly, at the federal level, the ministry of tourism has implemented various schemes during 2007-01, such as, product infrastructure development for destination and circuits (PIDDC); overseas promotion and publicity including market development assistance to academic institutions for capacity building for Services providers; assistance to large revenue generating projects, etc. the approach paper to the 12th five year plan of the government of India has recommended a “pro-poor tourism” approach for increasing the net benefits to the poor from tourism and to ensure that tourism growth contributes to employment and poverty reduction.

It is also important to have more broad-based growth within the Services sector in order to ensure balanced, equitable and employment oriented growth in the economy. Such broad-based growth will require reforms in infrastructure, regulation and FDI liberalization in Services. These measures are likely to help to diversify the source of growth, thereby increasing employment opportunities in Indian economy.

Services sector is so far not looked in a comprehensive manner in India rather, various facts of Services, such as growth, trade and employment are looked into in a compartmentalized manner. For instance as the current account deficit of India is rising owing to merchandise trade deficit, government started focusing on increasing Services exports. However, there is no comprehensive policy as of yet which focuses on Services. Therefore, Services sector should be looked into in an integrated and holistic manner instead of in silos, so as to enhance its contribution not only GDP but also to employment and exports. Leave related to Services. Therefore, Services sector should be looked into in an integrated and holistic manner instead of in silos, so as to enhance its contribution not only GDP but also to employment and exports.

Conclusion:-

There has been an insignificant increase in the Services sector's share in employment in India in spite of a very large increase in its share in GDP during the last two decades. This phenomenon could be attributed to both structural factors as well as lack of appropriate policy interventions. The demographic profile of India requires more and more jobs to be created in order to provide gainful employment to its growing young workforce. As the Services contribution to GDP is accepted to further rise in coming years, the policy makers need to focus on additional employment creation in various Services. This could be achieved through facilitating more broad-based growth within the Services sectors, creating backward and forward linkage between agriculture, industry and Services, government intervention and targeted policies and further reforms in infrastructure regulation and FDI liberalization.

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