

INDIAN SERVICES SECTOR : GROWTH AND STRUCTURAL CHANGES SINCE 50s

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The present article attempts to investigate the role of services in the Indian economy by indicating the growing importance of the services sector the world over. The growth aspects of services sector have been squarely dealt with. Then the discussion shifts to the services impact on employment in the public and private sector. The discussion also focuses on the sector-wise composition of services sector to examine the emerging trends and problems of infrastructure in the Indian trade in services.

Services now dominate in the world economy. There is, however, little understanding of services, reasons for their growth and structural changes that are taking place in this sector of the economy. This is primarily because of the historic tendency to focus on tangible sectors - agriculture and manufacturing - on the premise that these are primary to any economy. However, recent expansion of services in GDP and employment puts a question mark on the very premise of agricultural/industrial economy. Today, service is an indispensable function, it pervades the whole economy. We are in the service era which has surpassed industrial era. The relative decrease in the importance of other sectors makes it necessary to investigate the role and relevance of the emerging world service economy. The declining importance of employment in the agriculture and industry (including manufacturing) has made it popular to think of the world economy as the service economy or the post-industrial era, meaning that banking, insurance, telecommunications, etc. are most important agents of economic change.

1. GROWTH OF SERVICES SECTOR

Table 1 presents the basic structure, its proportion and growth of the Gross Domestic Product (at factor cost) at constant prices. The figures are with 10-year gap from 1950-51 to 1990-91 and then for each year for different sectors of the Indian economy; agriculture, forestry and logging, fishing, mining and quarrying; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estate and ownership of dwellings and business services; and public administration and defence and other services. The table reveals that until 1990-91, all sectors of the Indian economy were growing in absolute terms, the absolute values for agriculture sector declined in 1991-92, 1996-97 and 1997-98; the manufacturing sector faced decline once in 1991-92. All other sectors of the economy showed definitive contribution to the GDP for all the years under review. The growth of components of GDP in relative terms (with 1980-81 and later 1993-94 as constant prices indicator) indicate that agricultural sector picked up

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annual growth-rate of about 2% in 50s to 7% in 60s and 70s and 13% in 80s. However, 1990s saw a decline in the growth of contribution of agricultural sector. The manufacturing sector saw an annual growth rate of 4-10% in 1950-51 to 1990-91 period. It took a dip in 1991-92. But again it picked up the annual growth levels of 4-9%. Thus, this sector has slightly declined in importance in the Indian economy because of relative slow growth in the post 1991-92 period (4-9%) than pre 1991-92 period (4-10%).

When looked with the services sector in view, growth has taken place even in 1991-92 (when agriculture and manufacturing sectors declined) but it was least growth period for transport, communication and trade sector; even though banking and insurance, real estate and ownership of dwellings and business services grew at 10.5% rate during the same period. Of all services sector components since 1991-92, transport etc. has been growing annually at about 8% (banking 6%, others at 8%). The overall annual growth in GDP is at 5% or above. Further, through the contribution of the components of GDP, one can measure the relative importance of various sectors of the economy. The '% of GDP' column of the Table 1 provides glaring trends. For example, the agricultural sector has contributed less to the GDP over the 50 years under review; from 56.5% (1950-51) to 29.2% (1998-99). However, all other sectors have registered a definitive push in their contribution to overall GDP - transport by 10.3%, manufacturers by 9.7%, banking by 3.1% and Other by 4.2%. Further, though the relative share of agriculture is still

declining, slowly, the relative loss is distributed amongst the transport, banking and other sectors:

Thus, we see that the contribution/importance of agricultural sector has declined in relative terms; relative to manufacturing, transport, banking and other sectors. The decline in agriculture sector is not to the advantage of manufacturing or service sectors, for there has been definitive increase in the absolute values from 24,204 crores in 1950-51 to 315,415 crores in 1998-99, a 13-times increase in 50 years. Nevertheless comparably, the manufacturing, transport, banking and other sectors have increased by 41-times, 49-times, 34-times and 38-times respectively during the same period. Overall, the total GDP has been increased by 25-times in 50 years. Thus, we can say that India moved out of the agricultural dominance to manufacturing sector during 1980s; it moved into the service economy sometime in 1995-96 when the combined contribution of transport and banking (clearly identifiable as services), as provided in Table 1, crossed agriculture sector (bigger of the agriculture and manufacturing sectors). If we combine other services also, India moved into service economy sometime in mid 1980s.

II. BEHIND THE GROWTH OF SERVICE SECTOR

1961-80 Period

The planned outlay of select services indicate, in Table 2, an overall decline (by approximately 11 per cent) in the amount for different plan periods.

Table 1 : GDP, % of GDP and its Annual Growth Rates (%) at Factor Cost by Industry of Origin
(in Rs. Crores) (at Constant Prices)

Periods	Agricu- lture ¹ etc.	% of GDP	Manuf- acturing ² etc.	% of GDP	Trans- port ³ etc.	% of GDP	Bank- ing ⁴ etc	% of GDP	Others ⁵ etc.	% of GDP	Total GDP ⁶ etc
(at 1980-81 prices)											
1950-51	24204	56.5%	6451	15.0%	4718	11.0%	3870	9.0%	3628	8.5%	42871
Annual Growth	1.7%		4.2%		2.6%		2.3%		3.0%		2.3%
1960-61	32793	52.1%	11790	18.7%	7945	12.6%	5185	8.2%	5191	8.3%	62904
Annual Growth	6.9%		9.9%		8.6%		2.1%		4.9%		7.1%
1970-71	41385	45.8%	20209	22.3%	12884	14.2%	7256	8.0%	8692	9.6%	90426
Annual Growth	6.6%		2.0%		4.9%		4.2%		5.5%		5.0%
1980-81	48536	39.6%	29828	24.4%	20437	16.7	10791	8.8%	12835	10.5%	122427
Annual Growth	12.9%		3.0%		5.6%		1.9%		4.1%		7.2%
1990-91	69860	32.9%	59493	28.0%	37744	17.8%	21700	10.2%	23456	11.1%	212253
Annual Growth	4.2%		7.0%		5.2%		6.4%		4.3%		5.4%
1991-92	68480	32.0%	58505	27.3%	38612	18.0%	23972	11.2%	24414	11.4%	213983
Annual Growth	-2.0%		-1.7%		2.3%		10.5%		4.1%		0.8%
1992-93	72421	32.2%	61091	27.1%	41020	18.2%	25084	11.1%	25624	11.4%	225240
Annual Growth	5.8%		4.4%		6.2%		4.6%		5.0%		5.3%
(at 1993-94 prices)											
1993-94	262059	33.5%	185070	23.7%	150500	19.3%	90084	11.5%	93632	12.0%	781345
Annual Growth	3.6%		6.9%		12.5%		5.6%		3.9%		6.2%
1994-95	276012	33.0%	202214	24.2%	165329	19.8%	95541	11.4%	96768	11.6%	835864
Annual Growth	5.3%		9.3%		9.9%		6.1%		3.3%		7.0%
1995-96	275041	30.7%	227438	25.4%	187313	20.9%	102798	11.5%	104400	1.6%	896990
Annual Growth	-0.4%		12.5%		13.3%		7.6%		7.9%		7.3%

Table 1 (Contd...)

1996-97	299354	31.0%	242352	25.1%	201708	20.9%	110136	11.4%	110840	11.5%	964390
Annual Growth	8.8%		6.6%		7.7%		7.1%		6.2%		7.5%
1997-98	296151	29.2%	255825	25.3%	213368	21.1%	123121	12.2%	124351	12.3%	1012816
(provisional)											
Annual Growth	-1.1%		5.6%		5.8%		11.8%		12.2%		5.0%
1998-99 (quick estimates)	315415	29.2%	267269	24.7%	230556	21.3%	130671	12.1%	137923	12.7%	1081834
Annual Growth	6.5%		4.5%		8.1%		6.1%		10.9%		6.8%

¹Agriculture, Forestry and logging, fishing, mining and quarrying.

²Manufacturing, construction, electricity, gas and water supply.

³Transport, communication and trade.

⁴Banking and insurance, real estate and ownership of dwellings and business services.

⁵Public administration and defence and other services.

⁶Gross domestic product at factor cost. i.e., (1 to 5).

Source: Indian Economic Survey, Ministry of Finance, Government of India, New Delhi, March 2000.

Table 2 : Plan Outlays of Select Services 1961-80

(in Rs. Crores)

Service Items	III Plan 1961-66 Plan	Annual Plans 1966-69 Plan	IV Plan 1969-74 Plan	V Plan 1974-79 Plan	Annual Plan 1979-80 Plan
Transport and Communication	2111.7	1222.4	3080.4	6870.3	2044.9
Education	588.7	306.8	774.3	1710.3	263.0
Scientific Research	71.6	47.1	130.8(part of education)		91.4
Health	225.9	140.2	335.5	760.8	223.1
Family Planning	24.9	70.4	278.0	491.8	118.5
Water Supply and Sanitation	105.7	102.7	458.9	1091.6	387.6
Total of the above	3128.5	1889.6	5057.9	10924.8	3128.5
Total	8576.5	6625.4	15778.8	39426.2	12176.5

The decline is noticeable particularly for transport and communications sector by 7.8% (of total plan outlay) for the period 1961-80. This downward trend is conspicuous for Education (6.9% to 2.2%) and Health (2.6% to 1.8%); though no per cent change is reported for amount earmarked for Scientific Research. However, there is slight positive trend for Family Planning, and Water Supply and Sanitation, from 0.3% to 1.0% and from 1.2% to 3.2 respectively.

1980-2000 Period

The actual outlay of select services for 20 year period indicate, in Table 3, an overall increase in spending for specific services like transport, communications, science, technology and environment, education, medical and public health, and family welfare.

The increase in relative percent is rather drastic- 23.0% to 43.9%, a 20.9 percentage point jump. For specific services like transport, the increase is by 3.3% of which railways has taken negligible maximum leap (3.4%). As a result, there is almost stagnation in the spending for other transport means. However, communications services have seen a quantum jump of 13 percentage point; followed by science, technology and environment (2.0%), education (1.8%), and medical, public health and family welfare (0.9%).

This means that actual expenditure for transport, communications, science and technology, environment, education, medical and public health and family welfare have tremendously increased during the 20 year period. Particularly after VII plan (1985-90), the 1990s can be referred to be the period when actual outlays on select

Table 3: Actual Outlays of Select Services 1980-2000

Services Items	VI Plan 1980-85	VII Plan 1985-90	Annual Plan 1990-91	Annual Plan 1991-92	VIII Plan 1992-97	Annual Plan 1997-98	Annual Plan 1998-99 (revised estimate)	Annual Plan 1999-2000 (budegted estimate)
Transport	14208.4 13.0%	29548.1 13.5%	8074.3 13.8%	9314.0 14.4%	65173.0 13.4%	12272.0 17.3%	22001.7 13.9%	16850.0 16.3%
of which Railways	6586.0 6.0%	16549.2 7.6%	4892.8 8.4%	5393.3 8.3%	32180.0 6.6%	8239.0 11.6%	8755.0 5.5%	9700.0 9.4%
Others	7612.7 7.0%	12998.9 5.9%	3181.5 5.5%	3920.7 6.1%	32993.0 6.8%	4033.0 5.7%	13246.7 8.4%	7150.0 6.9%
Communications	3469.5 3.2%	8425.5 3.9%	2948.3 5.1%	3613.7 5.6%	36374.9 7.5%	10130.5 14.3%	13475.8 8.5%	16811.2 16.2%
Science, Technology and Environment	1020.4 0.9%	3023.9 1.4%	758.7 1.3%	861.7 1.3%	7109.5 1.5%	1883.2 2.7%	2594.1 1.6%	2988.2 2.9%
Education	2976.6 2.7%	7685.5 3.5%	2316.5 4.0%	2599.0 4.0%	21598.7 4.4%	2931.5 4.1%	9249.2 5.8%	4699.4 4.5%
Medical and Public Health	3412.2 3.1%	3688.6 1.7%	1040.8 1.8%	924.8 1.4%	8137.6 1.7%	746.5 1.1%	3564.1 2.2%	1218.1 1.2%
Family Welfare	(included above) ...	3120.8 1.4%	782.2 1.3%	1023.3 1.6%	5972.8 1.2%	1822.2 2.6%	2253.0 1.4%	2920.0 2.8%
Total of the above (percentage)	25087.1 23.0%	55492.4 25.4%	15920.8 27.3%	18336.5 28.3%	144366.5 29.7%	29785.9 42.0%	53137.9 33.5%	45486.9 43.9%
Total	109291.7	218729.6	58369.3	64751.2	485457.2	70861.4	158598.4	103521.0

Source: Indian Economic Survey, Ministry of Finance, Government of India, New Delhi, March 2000.

Note: Figures for 1997-98 and 1999-2000 includes only Central plan.

Table 4 : Employment in the Indian (Public and Private Sector) by Industry
(as on March 31)

S.No.	Sector	Lakh Persons				
		1990	1992	1994	1996	1998
1	Agriculture ⁷	14.25	14.85	14.28	14.59	14.34
	Percentage	5.4%	5.5%	5.2%	5.2%	5.1%
2	Mining ⁸	10.65	10.94	11.16	11.00	10.28
	Percentage	4.0%	4.0%	4.1%	3.9%	3.7%
3.	Manufacturing	63.27	64.27	64.14	67.87	68.49
	Percentage	24.0%	23.8%	23.4%	24.3%	24.3%
4.	Electricity ⁹	9.37	9.56	9.78	9.88	9.96
	Percentage	3.6%	3.5%	3.6%	3.5%	3.5%
5.	Construction	11.97	12.29	12.18	12.12	11.83
	Percentage	4.5%	4.5%	4.4%	4.3%	4.2%
6.	Wholesale ¹⁰	4.41	4.53	4.63	4.79	4.85
	Percentage	1.7%	1.7%	1.7%	1.7%	1.7%
7.	Transport ¹¹	30.75	31.18	31.40	31.52	31.49
	Percentage	11.7%	11.5%	11.5%	11.3%	11.2%
8.	Finance ¹²	13.93	14.80	15.55	15.86	16.29
	Percentage	5.3%	5.5%	5.7%	5.7%	5.8%
9.	Community ¹³	104.79	108.14	110.63	111.78	114.14
	Percentage	39.8%	40.0%	40.4%	40.0%	40.5%
1 to 9	Overall Total	263.44	270.56	273.80	279.41	281.61
	Percentage increase over previous period	2.7%	1.2%	2.0%	0.8%
1	Total Agriculture	14.25	14.85	14.28	14.59	14.34
	Percentage	5.4%	5.5%	5.2%	5.2%	5.1%
2+3+5	Total Industry	85.89	87.50	87.48	90.99	90.60
	Percentage	32.6%	32.3%	32.0%	32.6%	32.2%
4+6+7+8+9	Total Services	163.25	168.21	171.99	173.83	176.73
	Percentage	62.0%	62.2%	62.8%	62.2%	62.8%

⁷Agriculture, Hunting etc.

⁸Mining and Quarrying.

⁹Electricity, Gas and Water.

¹⁰Wholesale and Retail Trade.

¹¹Transport, Storage & Communications.

¹²Finance, Insurance, Real Estate etc.

¹³Community, Social & Personal Services.

services crossed 50% (of total outlay) mark. This can be attributed to the service-prone government attitude for creating basic infrastructure as a solid foundation for the 21st century.

III. EMPLOYMENT IN SERVICES SECTOR

Table 4 titled 'Employment in the Indian (Public and Private Sector) by Industry' for the 1990s reveal interesting facts.

Persons employed in public and private sector for agriculture have almost stagnated in number terms during 1990s; there is slight increase in employment in industry, but there is definite quantum jump in services part of industry. In relative terms (percentage wise) there is most decline in employment in agriculture sector followed by industry sector. While the services sector registered increase other sectors have reportedly declined in importance for employment. Within services sector, finance, insurance and real estate, and community, social and personal services have registered a definite increase in employment. Similarly within services sector, the employment in transport, storage

and communications is on the decline. However, wholesale and retail trade figures have remained stable for the 1990s. This, in the light of increased contribution of GDP through transport sector (Table 1) and actual outlay for railways (not other transport sector) mean that government need to look into transport, storage and communications sector for developing healthy infrastructural foundation so that distribution network (supply/demand logistics) could improve. (It is to be noted that actual outlays for communications sector is also increasing, as shown in Table 3). Thus, the sea, air, surface transport sectors are under constant neglect. Boost to this sector can bear a good chunk of distribution network in any service economy. This is further supported by finding relating to Table 4.

IV. INDIA IN SERVICE TRADE

The position of India's exports, imports and trade balances for 1990-91 to 1989-99 show that, in absolute terms, imports and exports are increasing and the total trade has increased close to 1.8-times during the period.

Table 5 : India's Exports, Imports and Trade Balance

Year	Imports (c.i.f) (US \$ m.)	Percent	Exports (f.o.b.) (US \$ m.)	Percent	Total Trade (US \$ m.)	Trade Balance (US \$m.)	Trade Balance Percent
1990-91	27915	60.2%	18477	39.8%	46392	-9438	-20.3%
1992-93	24316	56.3%	18869	43.7%	43185	-5447	-12.6%
1993-94	26739	54.1%	22683	45.9%	49422	-4056	-8.2%
1994-95	35904	57.2%	26855	42.8%	62759	-9049	-14.4%
1995-96	43670	57.5%	32311	42.5%	75981	-11359	-14.9%
1996-97	48948	58.9%	34133	41.1%	83081	-14815	-17.8%
1997-98	51187	58.9%	35680	41.1%	86867	-15507	-17.9%
1998-99	47544	58.1%	34298	41.9%	81842	-13246	-16.2%

Source : Indian Economic Survey, Ministry of Finance, Government of India, New Delhi, March 2000.

However, imports are declining in relative terms, even when exports are increasing.

As a result, the total trade is reduced by 4 per cent during the same period.

Table 6 : India's Services Exports, Imports and Trade Balances

Year	Imports (c.i.f) (US \$ m.)	Percent	Exports (f.o.b.) (US \$ m.)	Percent	Total Trade (US \$ m.)	Trade Balance (US \$ m.)	Trade Balance Percent
1990-91	7706	50.8%	7464	49.2%	15170	-242	-1.6%
1992-93	7413	44.3%	9334	55.7%	16747	1921	11.5%
1993-94	8421	42.7%	11319	57.3%	19740	2898	14.7%
1994-95	9874	38.8%	15554	61.2%	25428	5680	22.3%
1995-96	12216	40.9%	17665	59.1%	29881	5449	18.2%
1996-97	11209	34.4%	21405	65.6%	32614	10196	31.3%
1997-98	13237	36.3%	23244	63.7%	36481	10007	27.4%
1998-99	16562	39.1%	25770	60.9%	42332	9208	21.8%

Source: Indian Economic Survey, Ministry of Finance, Government of India, New Delhi, March 2000.

Once we focus our attention to India's services trade (Table 6), we find that during 1990-91 to 1998-99 period absolute amount of services imports increased by 2.2-times, the services exports increased by 3.5-times, bringing the total trade increase to 2.8-times during the same period. The overall impact on trade balance is that since 1992-93, the services trade balance has been positive (11.5%) from a negative (-1.6%) in 1990-91. Since then, the trade balance has increased year by year; though in percentage terms it dipped in the last two years, setting a declining trend for the future. The reason; services imports increased by 4.7% in 2 years while services exports decreased by the same percentage points, meaning that the gap between services exports (receipts) and services imports (payments) must reduce. Therefore a detailed estimation of India's services exports with itemised list becomes all the more important, as can be seen in Table 7 titled 'India's Services Exports-Itemised'.

It is particularly notable that services exports took a quantum jump in 1970s and it has never taken a back seat since then. During the period 1990-91 and 1998-99, the services exports have become 3.5-times bigger in size. However, specific problems are noted in India's services exports when decline took place for transportation sector (1996-97 to 1998-99), insurance (1997-98 to 1998-99), investment income (1996-97), private transfer payments (1990-91, 1995-96 and 1997-98), and miscellaneous items (1970-71, 1993-94 and 1996-97). Specifically, decline is more drastic or continual for transportation sector and private transfer payments. The observations for transport sector have already been made in discussions on employment in service sector. The findings here further confirm/reinforce the lacking distribution network which can cripple the business activity or investment environment.

¹⁴Figures in % show percentage of total services exports.