

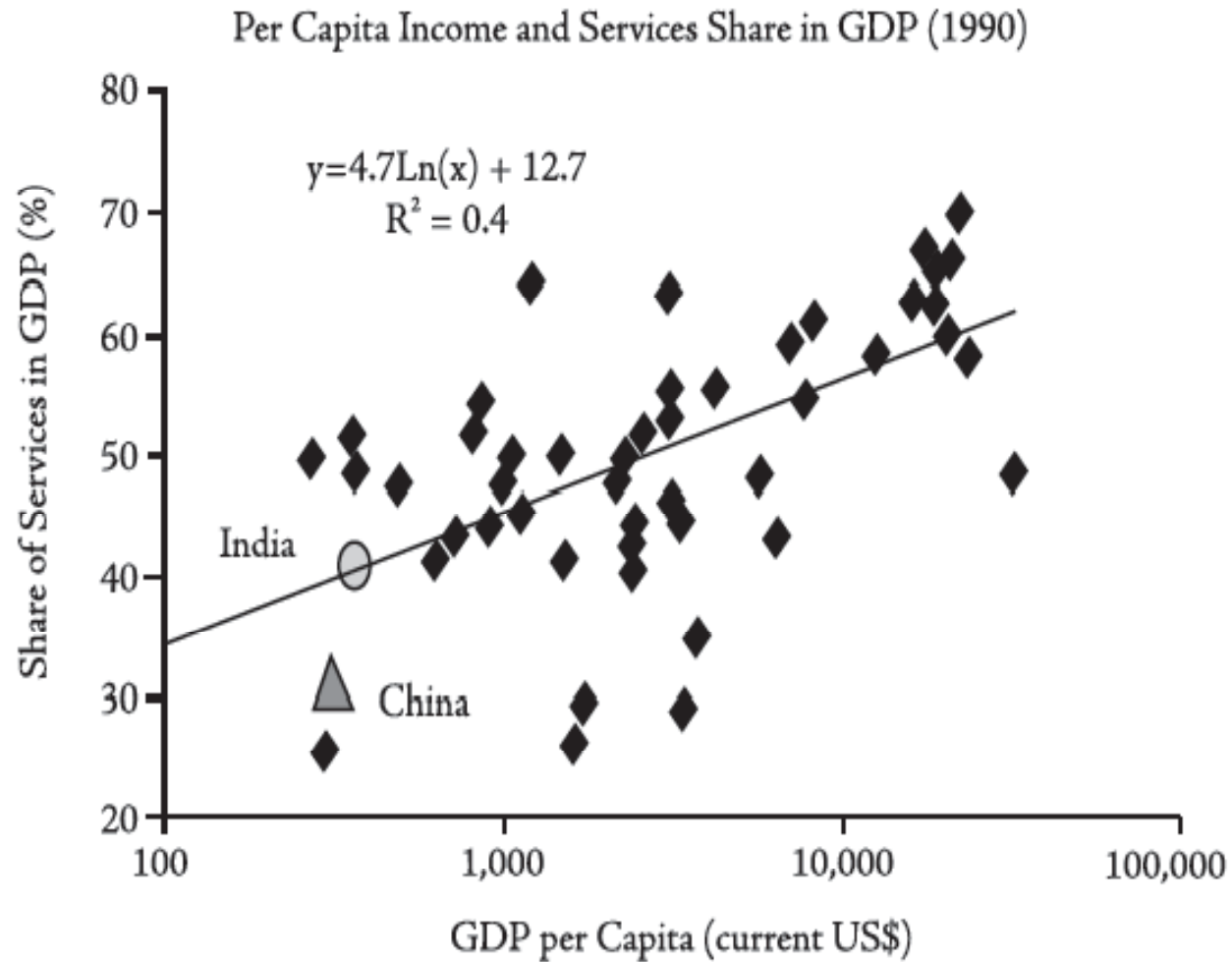
# Can India 'service' its growth

Sunil Jain and TN Ninan  
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# Issues dealt with

- India's high service sector share makes it an outlier?
- The sector is very large but doesn't really contribute much to growth?
- What caused the growth – splintering, low regulation, low infrastructure needs, suppressed demand?
- How sustainable is the growth?

# Not really an outlier -1



# Not really an outlier -2

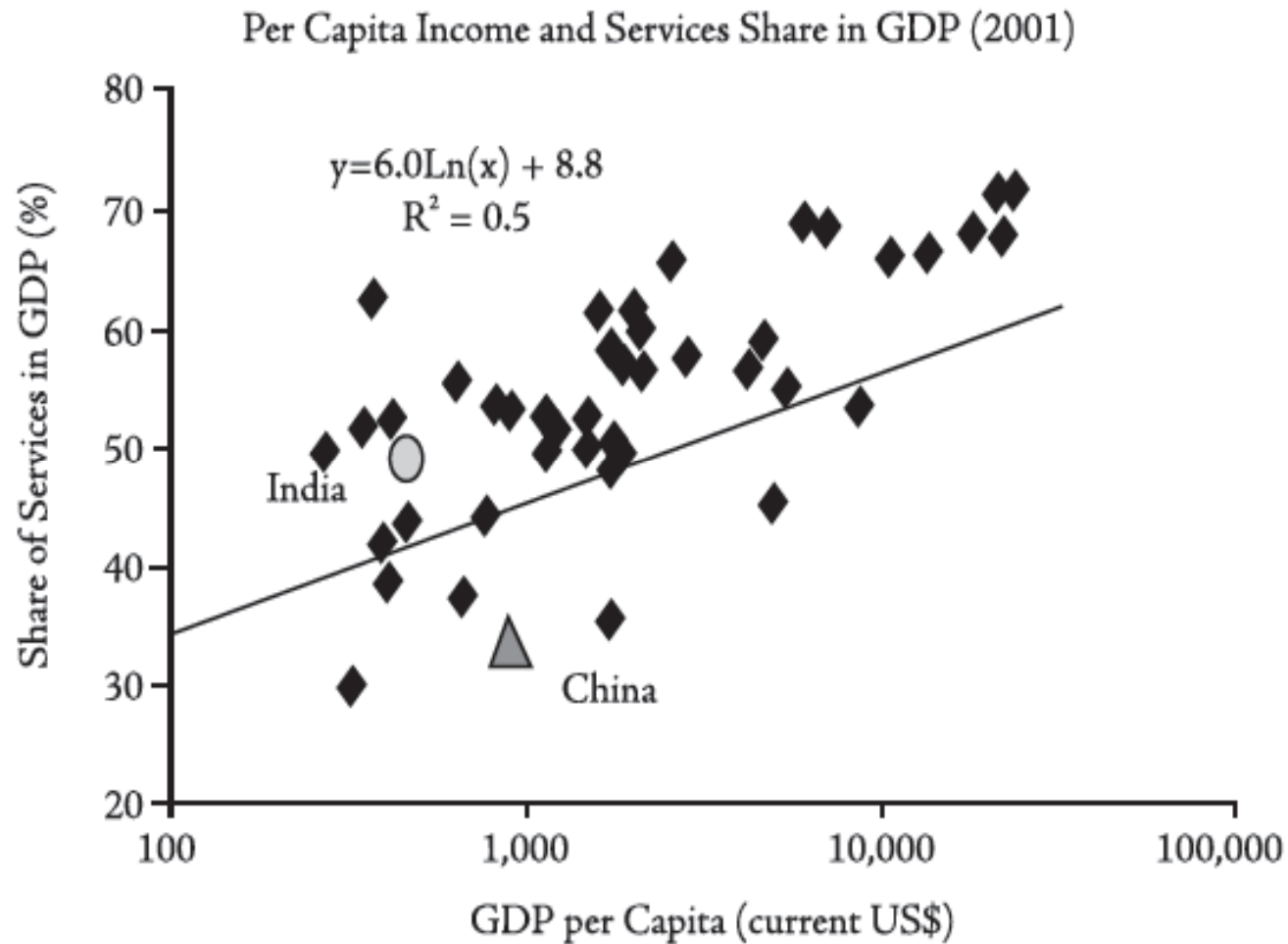


FIGURE 10.1 Per Capita Income and Services Share in GDP, 1990 and 2001

Source: Gordon and Gupta (2003).

# GDP share very high

TABLE 10.1 Sectoral Share of GDP in Per Cent  
(in per cent, at constant 1999/2000 prices)

	1950/1	1960/1	1970/1	1980/1	1990/1	2000/1	2006/7
Agriculture	55.11	50.62	44.26	37.92	31.37	23.89	18.51
Industry	15.03	18.68	22.07	24.04	25.92	25.8	26.75
Services	29.55	30.32	33.55	38.04	42.71	50.31	54.74

Source: Central Statistical Organisation (CSO), CRISIL.

Note: Construction has been included under 'industry' and not under 'services'.

# But value addition even higher

TABLE 10.2 Contribution to GDP Growth  
(in per cent)

	1951/2	1960/1	1970/1	1980/1	1990/1	2000/1	2006/7
Services	29.61	22.62	32.68	14.63	40.96	63.49	62.09
Industry	35.48	29.23	4.71	17.21	35.21	37.88	30.68
Agriculture	34.91	48.15	62.61	68.16	23.83	-1.37	7.24

Source: CSO, CRISIL.

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- In other words, this is not poor-quality growth – more on this later!

# Juxtapose the two ...

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.Growth contribution exceeds GDP share after 1991 reforms

# What caused the growth ...

- Bhagwati ... Splintering
- Lack of regulation ... ITeS, Cable TV
- Lack of labour laws
- Low infrastructure requirement – those with more infra-need grew 10% less than those with less infra-need (Gupta et al)
- Suppressed demand



# Contribution to growth-1

TABLE 10.4 Services Sub-sectoral Performance  
(at 1999/2000 prices)

	1960/1	1970/1	1980/1	1990/1	2000/1	2006/7
<b>Trade, hotels, and restaurants</b>						
GDP share	9.23	10.24	11.44	12.06	14.34	15.39
Growth p.a.	9.15	5.37	5.21	5.24	5.19	8.49
Contribution to GDP growth	11.92	10.98	8.31	11.95	17.09	13.57
<b>Transport, storage, and communication</b>						
GDP share	3.77	4.48	6	6.28	7.96	11.42
Growth p.a.	6.88	3.54	6.71	4.97	11.21	16.64
Contribution to GDP growth	3.67	3.17	5.62	5.91	20.49	19.75
<b>Financing, insurance, real estate, and business services</b>						
GDP share	7	6.82	7.49	10.58	13.04	14.32
Growth p.a.	2.07	4.18	1.92	6.21	4.07	13.92
Contribution to GDP growth	2.04	5.68	2	12.44	12.18	20.7
<b>Community, social, and personal services</b>						
GDP share	10.31	12.01	13.1	13.78	14.98	13.62
Growth p.a.	4.91	5.51	4.09	4.36	4.7	6.89
Contribution to GDP growth	7.15	13.2	7.47	11.37	16.17	9.75

Source: CSO, CRISIL.

# Contribution to growth-2

- The biggest jump has been in telecom and that's obvious with 10 mn new phones each month ... its contribution to growth rose from under 1% in 1991 to 14% in 2007
- Banking has seen a huge jump and will only rise in future with all the emphasis on inclusive banking and direct cash transfers through bank accounts – ratio of bank loans to GDP rose from 22.7 per cent in 2000 to 46 per cent in 2007 ... so long way to go



# How sustainable is the growth-2

- The change in consumption patterns suggest communication and banking have a way to go ... after phones, it'll be mobile internet ... after physical banks, it'll be UIDAI-led wireless banking
- Education and health spending already up and will rise even more ... both pvt and govt
- Services exports ... BPO, ITeS, KPO, health tourism, education
- Entertainment growing at 18% pa
- MIFC apart, as India Inc rises, so do financing needs

# Is the data dodgy?

- This is the point people like Bosworth make when they argue the productivity growth in services has never been seen anywhere else globally
- Evidence mixed. Goldar shows TFP in mfg has fallen in post-reforms period. Bhalla argues that the rise in K-intensity explains GDP growth ... i.e. the data isn't dodgy
- If Bosworth correct, it means the entire India growth story is fake!
- That we sincerely doubt

# 'Servicing' the growth-1

- Doesn't seem too bad on the demand front
- Manpower is the serious question
- 80% of work force functionally illiterate, according to TeamLease, 2/3 need 'structural repair' (1-2 year training) at a cost of Rs 490,000 crore!
- India is only country to fall against itself on World Bank knowledge score

# 'Servicing' the growth-2

- Govt policy a huge impediment ... witness the recurring telecom scandals
- Large part of the education/skilling depends on how future Monteks are able to push the system!

Thanks