India’s Service Sector Boom Has Failed On The Jobs Front

(The editorial is based on the article “India’s Service Sector Boom Has Failed On The Jobs Front” which appears in BusinessLine for 20th November 2018. It analyses the issues related to jobless growth.)

India’s economic growth since the 1990s has largely been on account of an expansion of the services sector, in which exports of services are seen as having played an important role.

- The rise in the share of services in GDP was particularly sharp after 1996-97 amounting to 6.8 percentage points over the subsequent 10 years as compared with just 1.9 percentage points during the previous 10 years.
- In this period, services as a group came to dominate the Indian economy, accounting for more than half of the country’s GDP.

Trends in the services sector

> Economic Survey 2013-14 noted that: “India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9 percent, just below China’s 10.9 percent, during the last 11-year period from 2001 to 2012.”

The **compound annual growth rate (CAGR)** is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance assuming the profits were reinvested at the end of each year of the investment’s lifespan.

- **This trend has continued.** Between 2011-12 and 2016-17, gross value added from services grew at 8.7 percent per annum and accounted for 58 percent of the increase in total gross value added (GVA).
- Between 1999-00 and 2004-05, **employment in the tertiary sector increased by only 22 percent**, whereas GDP at constant prices contributed by the services sector expanded by 44 percent.
- **According to The Economic Survey 2016-17**: “Among the top 15 services producer

countries, the services sector accounts for more than two-thirds of total employment in 2016 in most of them except India, China, and Mexico where the shares are low. **India has the lowest share of 28.6 percent.”**

- Tertiary sector employment in amounted to only **25 percent** of the workforce, despite the fact that around **55 percent of GDP** came from this sector.

Importance of Service Sector

- This growth in services has been accompanied by a significant increase in the exports of services. **India’s success in the services exports area has meant that its share of services in total exports (38 percent) is much higher** than in countries such as China, Mexico and Brazil and close to ratios in the UK and the US (Chart 1).
- That success has raised India’s share in world services exports from **0.6 percent in 1990 to around 3.5 percent in 2017.**
- **India’s National Accounts Statistics** indicate that the set of “new” and more

productive services — transport, storage and communication, financial services, and real estate and professional services — together accounted for 28.5 percent of total gross value added (GVA) in 2016-17. Add on public administration and defence and the railways and the figure rises to 34.2 percent.

The problem of Job Creation

- Jobless growth can have **multiple causes**. Such as unskilled job-seekers, insufficient investment, the difficulty of doing business, and inadequate (or inappropriate) social security systems.
- Despite the presence of unorganized services, the share of the services sector in total employment was relatively low, and despite the expansion of services, the growth of employment in this sector has been limited.
- For example, within the modern services, financial intermediation, and real estate, renting and business activities together recorded an increase in the employment share of only one percentage point between 1999-00 and 2009-10.
- Part of the jobs slowdown can be attributed to inflexible labour laws and the rise of automation. Since it is not easy to fire employees in India, companies from outside India increasingly prefer to hire less and ramp up automation instead. The automation trend is accelerating not just in manufacturing but in services sectors such as IT too.
- Also, the growth in skilled jobs is simply not fast enough to accommodate India's growing literate population.

Way Forward

- **If a high growth sector like services does not contribute to absorbing the large numbers of under and unemployed workers in India, the welfare implications of the growth trajectory are bound to be adverse. So, the government should not be solely focussing on the tertiary sector as a whole.**
- India’s alternative growth model, which involves premature diversification in favour of high productivity services, won’t last long without adequate development of a manufacturing base.
- **The major policy focus in India has been** incentivised **capital investment, not job creation. By the time the government decides what skill to impart, the demand for that skill is gone. This mismatch should be balanced.**
- Manufacturing sector needs a boost: while the services sector contributes 58% to India’s GDP, the manufacturing sector’s contribution is 24%. India’s late policy resurgence towards manufacturing is the main reason why the country lags behind China. The sector’s role in triggering structural change has remained unattended while we have focused on the less employment-providing, less tradeable and less technology-oriented services sector.
- Producing periodic and reliable data on employment, regular estimation of job

numbers and related indicators will guide guided policy creation.

- Promoting entrepreneurial sector and maintaining the dignity of labour will also help the economy to tackle the problem of jobless growth.