THE SERVICE SECTOR IN INDIA'S DEVELOPMENT

A striking aspect of India's recent growth has been the dynamism of its services sector. In 2010, it accounted for 57 per cent of the country's GDP and 25 per cent of its total employment. The results do not conform to the growth experience of currently industrialized countries or other developing economies. Is the increasing share of the service sector in India's total output simply notional, as several activities that were earlier classified in the industrial sector are now subsumed in services' value added, or perhaps because the relative price of services has increased over time? The answer is: neither. The sector's growth is real – linked to household final demand, policy reforms and increased service exports. Is this service-led growth process sustainable? That remains an open question because the service sector is highly heterogeneous, ranging from software services and business process outsourcing to wholesale and retail trade and personal services. These sub-sectors vary considerably in the context of different economic characteristics that are important for development.

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The Service Sector in India’s Development

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For my mother and father

with love
## Contents

[List of Figures]  page x
[List of Tables]  xi
[Preface]  xv

1. Introduction  1
   1.1. The Services Sector: Structural Change in Economies  1
   1.2. The Services Sector in India: Patterns of Structural Change  5
   1.3. Outline  16

2. Services: Concepts, Measurement and India's National Accounts  22
   2.1. Introduction  22
   2.2. Services: A Definition  23
   2.3. Characteristics Distinguishing Services from Goods  24
   2.4. Output of the Services Sector: Issues of Measurement  27
   2.5. National Income Accounting  29
   2.6. India's National Accounts Statistics: Some Basic Definitions  30
   2.7. India's National Accounts Statistics: Estimating Output of the Services Sector  32
   2.8. India's National Accounts Statistics: Limitations of Services-Sector Data  36
   2.9. Conclusion  38

3. Explaining the Growth of India's Services Sector  39
   3.1. Introduction  39
   3.2. Notional or Real?  40
   3.3. Real Factors: Supply and Demand  47
## Contents

3.4. Combining the Different Elements ........................................ 58
3.5. Conclusion ........................................................................... 64

4. The Demand for Services in India: A Mirror Image
   of Engel's Law for Food? ......................................................... 65
   4.1. Introduction .................................................................... 65
   4.2. Engel Curves ................................................................... 67
   4.3. Data ................................................................................. 68
   4.4. Estimation of Engel Curves: Econometric Analysis ............ 73
   4.5. Results ............................................................................ 76
   4.6. Robustness Checks .......................................................... 81
   4.7. Changes over Time ............................................................ 85
   4.8. Conclusion ..................................................................... 89

5. The Services Sector in India: Inside the Black Box .................. 92
   5.1. Introduction .................................................................... 92
   5.2. A Brief Description of the Different Services Sectors ......... 94
   5.3. Methodology for Developing a Taxonomy of the Services Sector in India ............................................................... 98
   5.4. The Taxonomy ............................................................... 102
   5.5. Implications .................................................................. 137
   5.6. Conclusion ..................................................................... 145

6. The Nature of Employment in India's Services Sector:
   Educational Requirements and Quality .................................... 146
   6.1. Introduction .................................................................... 146
   6.3. Data ................................................................................. 151
   6.4. Descriptive Statistics ....................................................... 153
   6.5. Notation and Description of Variables .............................. 158
   6.6. Educational Requirements .............................................. 158
   6.7. Wages or Earnings .......................................................... 162
   6.9. Endogeneity and Selectivity Bias .................................... 171
   6.10. Conclusion ................................................................. 173

7. Labour Productivity in India's Urban Informal Services Sector:
   A Comparison with Agriculture ............................................. 181
   7.1. Introduction .................................................................... 181
   7.2. The Literature on Dual-Economy Models ......................... 183
   7.3. Analytical Framework: A Modified Harris-Todaro Model  184
   7.4. Empirical Puzzle? ........................................................... 187
Contents

7.5. Infrastructure and Labour Productivity: Empirical Analysis 189
7.6. Modified Harris-Todaro Model: Equilibrium Revisited 194
7.7. Reconciling the Data with the Modified Harris-Todaro Model: 'Dornbusch' Overshooting? 196
7.8. Conclusion 201

8. Conclusion 204
8.1. Conclusions and Policy Implications 205
8.2. Future Research 217

Appendices 221
Bibliography 277
Index 291
Figures

1.1. Per capita income and services share in GDP (1960) .......................... page 6
1.2. Per capita income and services share in GDP (1980) ......................... 8
1.3. Per capita income and services share in GDP (2009) ......................... 9
1.4. Services output versus employment shares (1980) ............................. 12
1.5. Services output versus employment shares (2005) ............................. 13
3.1. Composition of India’s service exports in 1990–91 ............................. 53
3.2. Composition of India’s service exports in 2008–09 ............................. 54
4.1. Engel curve for aggregate services: Censored quantile regressions (2004–05) ................................................................. 84
4.2. Engel curve for aggregate services: Censored quantile regressions (1993–94) ................................................................. 84
6.1. Variation in service sub-sector dummy variable coefficients for wage regression (2004–05) ......................................................... 164
6.2. Free-entry and restricted-entry sub-sectors of services .......................... 166
6.3. Variation in service sub-sector dummy variable coefficients for job contracts regression (2004–05) ......................................................... 170
6.4. Variation in service sub-sector dummy variable coefficients for social security benefits regression (2004–05) ................................. 170
6.5. Quantity and quality of employment I (1993–94) ................................ 177
6.6. Quantity and quality of employment I (2004–05) ................................ 178
6.7. Quantity and quality of employment II (1993–94) .............................. 178
6.8. Quantity and quality of employment II (2004–05) .............................. 179
7.1. Phase-plane diagram ...................................................................... 199
Tables

1.1. Sectoral shares in GDP in 2008: Global averages .......................... page 5
1.2. Sectoral shares in India's GDP: 1950–51 to 2009–10 ......................... 7
1.3. Sectoral shares in India's total employment: 1951 to 2009–10 .......... 11
1.4. Output per worker (rupees per person at 1993–94 constant prices): 1983 to 2009–10 .................................................. 13
1.5. Rate of growth of sectoral output in India: 1960 to 2010 ................. 14
1.6. Sectoral contribution to GDP growth in India: .......................... 15
            1970–71 to 2004–05
3.1. Implicit GDP deflators .......................................................... 41
3.2. Input-output coefficients for the Indian economy ......................... 43
3.3. Changes in service input-output coefficients: .......................... 46
            1993–94 to 2006–07
3.4. India's exports of goods and services: 1990 to 2008 ..................... 52
3.5. Private final consumption expenditure on services in India .......... 56
3.6. Rates of growth in India ......................................................... 57
3.7. Government final consumption expenditure ................................ 57
3.8. Compensation of employees ................................................. 58
3.9. Explaining the service sector's increasing share in India's GDP ....... 63
4.1. Sample size ........................................................................... 69
4.2. Sub-sectors of services in GDP .............................................. 71
4.3. Notation and description of variables ...................................... 74
4.4. Households in the sample with zero expenditure on different services ................................................................. 75
4.5. Engel curve for services: Tobit ................................................. 77
4.6. Marginal effects from the Tobit regression for services ................. 79
            (2004–05)
### Tables

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.7.</td>
<td>Marginal effects from the Tobit regression for services (1993–94)</td>
</tr>
<tr>
<td>4.8.</td>
<td>Engel curve for services: Tobit (non-linearities)</td>
</tr>
<tr>
<td>4.9.</td>
<td>Engel curve for services: Instrumental variable Tobit estimation</td>
</tr>
<tr>
<td>4.10.</td>
<td>Some time-series evidence</td>
</tr>
<tr>
<td>4.11.</td>
<td>Decomposition of an increase in household budget share allocated to services: 1993–94 to 2004–05</td>
</tr>
<tr>
<td>4.12.</td>
<td>Engel curve for services: 'Region' fixed-effects model</td>
</tr>
<tr>
<td>5.2.</td>
<td>Share of the public sector in total output for different services sectors: Z-scores</td>
</tr>
<tr>
<td>5.4.</td>
<td>Share of the public sector in the GDP of the services sector: 1993–94 to 2008–09</td>
</tr>
<tr>
<td>5.5.</td>
<td>Share of the GDP of a services sector that satisfies intermediate demand: 1993–94 to 2006–07</td>
</tr>
<tr>
<td>5.6.</td>
<td>Illiterates and graduates (and above) as a percentage of the labour force of different services sectors: 1983 to 2004–05</td>
</tr>
<tr>
<td>5.7.</td>
<td>Ratio of net capital stock to the number of persons employed in different services sectors: 1980–81 to 2004–05</td>
</tr>
<tr>
<td>5.8.</td>
<td>Professional, technical and related workers and administrative, executive and managerial workers as a percentage of the labour force for different services sectors: 1993–94 to 2004–05</td>
</tr>
<tr>
<td>5.9.</td>
<td>The proportion of enterprises with more than 20 workers: 1999–2000 to 2004–05</td>
</tr>
<tr>
<td>5.10.</td>
<td>Trade in services as a percentage of GDP for different services sectors: 1990–91 to 2008–09</td>
</tr>
<tr>
<td>5.11.</td>
<td>Research and development expenditure as a proportion of gross value added for different services sectors: 1990–91 to 2005–06</td>
</tr>
<tr>
<td>5.12.</td>
<td>Trend rate of growth of output per worker in different services sectors: 1980–81 to 2004–05</td>
</tr>
<tr>
<td>5.13.</td>
<td>Exploring the heterogeneity of the services sector</td>
</tr>
<tr>
<td>5.14.</td>
<td>Clusters across sectors and characteristics</td>
</tr>
<tr>
<td>6.1.</td>
<td>Sample size</td>
</tr>
<tr>
<td>6.2.</td>
<td>Individuals in the sample employed in different sub-sectors of services: All-India (principal usual status activity)</td>
</tr>
</tbody>
</table>
6.3. Number of people in the sample employed in different sub-sectors of services: Rural-urban division 155
6.4. Employment in different sub-sectors of services by occupation in the sample 157
6.5. Notation and description of variables 159
6.6. Educational requirements 162
6.7. Quality of employment in terms of wages: A dividing line 165
6.9. Quality of employment in terms of job contracts and social security benefits: A dividing line 172
6.10. Quality of employment across different sub-sectors of services 174
6.11. Coefficients on the services-sector dummy variables from the regression analysis for the all-India sample in 2004–05 175
7.1. Output per worker at the all-India level 188
7.2. Output per worker for fourteen major Indian states 189
7.3. Output per worker and infrastructure for fourteen major Indian states: 1993–94 to 2004–05 191
Preface

This book is a modified version of my doctoral dissertation at the University of Oxford. It is a product of research carried out at the University's Department of Economics between 2005 and 2009. First and foremost, I would like to acknowledge the generous support of the Dorothy Hodgkin Scholarship, without which it would not have been possible for me to take up the opportunity to carry out doctoral research at Oxford. The Chellgren Scholarship, awarded by University College, Oxford, also made a valuable contribution in this regard. Second, I would like to thank both my fellow doctoral students and faculty members in the Department of Economics for an intellectually stimulating environment. But my greatest debt is to John Knight, without whose constant help, guidance and advice, this book would have been difficult to complete. At the very outset, he clarified many of my ideas to help balance ambition and feasibility.

Conversations with Amit Bhaduri, who was researching a certain aspect of India's service sector growth at the time, provided the starting point for the study. The wide coverage of India's 'services revolution' in the media, alongside the relatively thin academic literature on the subject, provided a further impetus. Subsequently, for elaborate discussion on different aspects of the work, I am extremely grateful to Sudhir Anand, Ajit Singh, Anjan Mukherji and Bilal Siddiqui. I am also grateful to Francis Teal, John Muellbauer, Frances Stewart, Christopher Adam, Andrew Glyn, Pronob Sen and Dipak Mazumdar for valuable comments, criticisms and suggestions. For advice and insight on the available household survey data relevant for the book, I would like to thank Alakh Sharma and Sandip Sarkar. But special thanks are due to Balwant Singh Mehta for helping me sift through, organise and interpret mountains of unit-level household survey data collected by India's National Sample Survey Organisation. Moreover, I am grateful to Savita Sharma for her advice on India's National Accounts Statistics as
Preface

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The objective of this book is to analyse the role of the service sector in development, with reference to the Indian experience. Much of the analysis covers the period from the early 1990s to 2004–2005. This is due to two reasons. First, the period from 1990 to 1991 saw a dramatic increase in the share of the services sector in India's GDP, while the share of the industrial sector in GDP remained largely constant. Second, there are constraints imposed by the availability of data. In particular, when this research was undertaken, the last complete household survey on employment and consumer expenditure – conducted by India's National Sample Survey Organisation approximately every 5 years – for which unit-level data were available was carried out for the period between July 2004 and June 2005. The unit household level data from the 2009–2010 surveys were not available at the time.

The key overview statistics on employment in 2009–2010, however, were available and hence are included in the study. Furthermore, wherever else possible, the most recent data available have been analysed. In the case of India's National Accounts Statistics, for example, data on aggregate output extends to 2009–2010 while that on a host of other variables goes to 2008–2009. Of late, unit-level household data for the 2009–2010 surveys on employment and consumer expenditure have become available. While the major conclusions emerging from the book are unlikely to be affected (in any notable way) by the inclusion of these new data, some follow-up research may be a useful exercise.

It should also be said that I have got several new ideas on the subject since the manuscript was completed. These ideas have been posed in the concluding chapter. Hopefully, this additional set of questions sheds some light on future research topics in the area, perhaps even laying the ground for a new book.

I would like to acknowledge the fact that certain portions of the book – in somewhat different forms – have been published as papers in refereed journals. First, one section of Chapter 3 appeared as a paper entitled 'Growth of the Services Sector in India: Notional or Real,' in Economics Bulletin. Second, a sub-set of Chapter 6 was published in Applied Economics as a paper entitled 'The Quality of Employment in India's Services Sector: Exploring the Heterogeneity.' Third, a sub-set of Chapter 5 is forthcoming in the Cambridge Journal of Economics as a paper entitled 'Inside the Black Box of Services: Evidence from India.'

I would like to thank my wife, Naira, for coming up with solutions to all kinds of problems that I faced during the writing of this book – her
comments as a non-specialist audience, her (relative) prowess in the use of word-processors and her patience with my stress-induced idiosyncrasies were all equally valuable. In fact, she patiently read through an entire earlier draft of the book even when we were not bound in holy matrimony! And last, but not least, this book would be incomplete without an acknowledgement of my parents, Rohini and Deepak Nayyar, who have been a constant source of inspiration, support and guidance.