



Structural Change in The Course of Economic Development ; India's Experience

KEYWORDS

structural change, employment, service ,sector

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ABSTRACT *Since its origin economic theory has given significant attention to structural changes (Quesnay, 1758; Turgot, 1766; and Steuart 1767). For Pasinetti, economic growth is linked to continuous structural transformation and change. During 1991 when new economic policy was unleashed, a new growth story got a big push and consequently India underwent a structural transformation in the form of service led growth. It was believed that the early development phase of any country, expansion of output in manufactured goods precedes growth in the services sector. But in the case of the Indian economy, the services sector has been taking a substantial lead over manufacturing. Can the service sector become a gateway to development in India? In this light, this paper analyzes and discusses the structural changes in India .*

Introduction

Economic development has historically been associated with structural changes in the national economies. The most common meaning refers to long term and persistent shift in the sectoral composition of economic system. Structural change is commonly understood as "the different arrangement of productive activities in the economy and different distributions of productive factors among various sectors of the economy, various occupations, geographic regions types of product etc," (Machlup, 1991: 76 in silva and Teixeira 2008: 275)

Since its origin economic theory has given significant attention to structural changes (Quesnay, 1758; Turgot, 1766; and Steuart 1767). For Adam Smith(1776), structural changes were strongly related to the level of economic development. While for Ricardo (1817) changing composition of the productive system was a requisite for economic growth. In Schumpeter's view, innovation was the essential force leading to structural economic shifts. Chenery viewed economic development as a set of interrelated changes in the structure of an economy that are required for its continued growth.

Review of literature

Economic development entails structural change. The most basic and widely acknowledged structural transformation accompanying economic development comprises of falling agriculture, which is at first offset by rising manufacturing and consequently services. This was confirmed by many empirical studies. Fisher (1939), Clark (1940), Kuznets(1966) and Chenery(1960) and Syrquin (1975), who postulated that, as the economy grows, the production shifts from the primary to the secondary to the tertiary sector . In Schumpeter's view, innovation was the essential force leading to structural economic shifts. An attempt was made to explain the process of de-industrialisation and the accompanying structural change through models like Cambridge models (Cornwall, 1982 and Thirlwall,1978) and the Dutch disease models (Corden and Neary, 1982).

Research on the East Asian experience (Clemes et al 2003) showed that when manufacturing is dynamic and export-led, the services sector follows suit. A World Bank report (April 2009) took an uncharacteristically strong position in advocating that services will deliver high growth

in South Asia. Ana M. Fernandes (2007) argued that with appropriate policies and by attracting FDI, the services sector in less well-off economies can experience sustained productivity growth.

Cortuk and Singh (2011) examined the connection between measures of structural change and growth in India, for the period 1951-2007. Few studies have showed that liberalisation is one of the important factors contributing to the growth of services sector in India (Chanda 2002, Gordan and Gupta 2003, Banga and Jain and Ninan 2010).

It is clear from above discussion that there is a systematic relationship between agriculture, industry and service sector and the level of development . When the large role of services in Indian growth was first noted in Indian economy , it tended to be described as disproportionality. Currently many are prone to term it as India's services revolution . The phenomenon has also provoked a lot of debate regarding the factors explaining it, its desirability and long-term sustainability .It has also led to the raising of the question—Is India pioneering a new pattern where services can play the same role as industry had for other countries in the past? The methodology adopted in this paper is analytical and descriptive .This paper is based on secondary taken from NSSO different round reports , CSO ,World Bank and Economic Surveys of India .

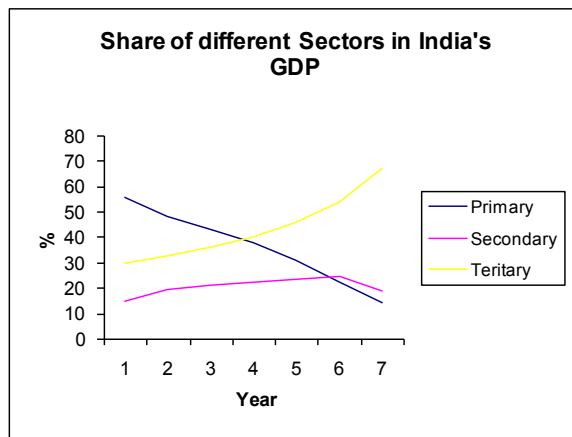
Structural Changes - India's Experience

Not only is more than half of India's output contributed by services , the service sector has the distinction of leading the growth process .Generally ,an increasing ratios of services to GDP over time is indicative of a high degree of development and rise in the standard of living .The rise in the share of this sector has been accompanied by a steady decline in the share of agriculture and a near constancy in the share of manufacturing in the recent years .The share of agriculture to GDP has come down drastically over the time ; but it has remained the largest employer.

Two important features have marked out from Indian economy . The first is the premature nature of the transition to a services dominated economy, at an exceptionally low level of per capita income and without achieving a full-fledged industrialization. The second is that the large share of services in output has not been matched by a cor-

responding one in employment. These have of course distinguished the India .

Graph No 1 show decadal average share of the different sectors in India's GDP for the period 1950-2010 .It is quite clear that over the time the share of agriculture in GDP has come down from 55.3% to 21.8 % . The share of manufacturing sector which was 14.8 in 1950-60 increased to 24.5 percent in 2000-2010 .The share of tertiary sector rose rapidly from 29.8 percent to 53.7 percent in 2000-2010 . In the last decade, the share of services has surpassed the combined share of agriculture and industry, making it the most important contributor to the country's output.



India being a highly populated country, employment becomes a crucial element. An analysis of sectoral share in employment over the years reveals that there has been a shift in employment away from agriculture towards manufacturing, construction and service activities. The occupational shift witnessed in the development experiences of other countries did not happen here .We bypassed manufacturing .The share of agriculture has declined continuously from 61.1 per cent in 1993-94 to 47.1 per cent in 2011-12 as shown in Table No 1 . It was for the first time in the history of Indian labour market ; the share of employment in agriculture fell to below 50 percent. Employment elasticity is in the negative zone for agriculture sector indicating the movement of people out of agriculture to other sectors in search for productive and gainful employment. Services have seen an increase in its share, particularly in sub sectors such as transport, banking, storage and communications and education services .Employment elasticity has increased for both services and industry in 2009-10 to 2011-12 compared to 2004-05 to 2009-10, though industry had relatively higher employment elasticity.

Table 1 Sector –wise share in employment (UPS)

Sector	1993-94	2011-12	Employment elasticity
Primary	61.1	47.1	-0.5
Secondary	16.0	24.4	0.9
Tertiary	22.9	28.5	0.5

Source ; Economic survey 2014-15 p 113

International Comparison

Nevertheless, the share of services is lower than that of developed countries (the United Kingdom (UK, 78.6%) and the United States (US, 78.2%)), but higher than that of China (46.1 %). The US ranks first in services GDP as well as in overall GDP, with China and Japan a distant second

and third as shown in Table No1 . Among the world's top 15 countries in terms of GDP, India ranked 10th in terms of overall GDP and 11th in terms of services GDP in 2013

India's services sector has a high share in income and relatively low share in employment, while in China, the shares of both services income and services employment are relatively low. India's trade in services have increased overtime and services accounts for the largest share in India's FDI inflows and outflows .Increasing importance of services in exports made a significant contribution to the structural changes in the Indian economy. It has not only been faster than the growth of merchandise exports, but has also exhibited greater resilience and sustainability as seen in their robust growth even during the global meltdown . During 2001-13 the CAGR of world commercial services exports was 10 per cent, with India at the top among the top fifteen largest economies at 20.1 per cent followed by China at 16.5 per cent. India's share in global exports of commercial services increased to 3.2 per cent in 2013 from 1.2 per cent in 2000. India's major services exports in 2013-14 are computer services (45.8 per cent share).

Sector –An Engine of structural transformation

Building upon the Rodrik (2013)framework, the two sectors—manufacturing and services of Indian economy were evaluated on the five attributes that allow a sector to serve as an engine of structural transformation : High level of productivity ; Unconditional Convergence (i.e. faster productivity growth in lower productivity areas); Expansion; Alignment with comparative advantage; and Tradability.

Table No1 International comparisons

Countries	Rank in GDP Overall	Rank in Services	Service growth CAGR	Share of service sector in GDP in 2013	Share of service sector in employment in 2013	Share of service sector in exports in 2013	Service export growth CAGR
US	1	1	1.8	78.6	81.2	29.5	7.7
China	2	2	10.7	46.1	35.7	8.5	16.5
India	10	11	8.7	57.3	28.1	32.5	20.1

Source ; Economic survey 2014-15 p 107

The level of productivity in registered manufacturing is high compared to most other sectors of the economy .Registered manufacturing is characterised by unconditional domestic convergence. Indian industries converge at a much slower rate than average (0.005 percent)—almost not at all. The phenomenon of deindustrialisation is particularly salient for India due to large population . Indian manufacturing must foster technological deepening ,based on more secure labour practices ,build an innovative system ,and promote process and product innovation .On the other hand many—but not all – service subsectors satisfy the requirements of high productivity growth, domestic convergence, and international convergence. It was noticed that registered manufacturing was a fairly skill-intensive sector with high average educational attainment. Except It and financial services ,the service sector does employ the largest percent of the workforce , most of the jobs are in-

formal jobs with low wages and negligible labour protection. Much of the growth in services has necessitated the transfer of resources to the private corporate sector. The question also worries whether the growth with the current structural characteristics will at all be sustainable in the medium and long run when inequalities, both horizontal and vertical, have shown a sharp rise over the past two to three decades. Indeed, India's services sector is like an uncharted sea with plenty of opportunities and also new challenges.

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