SERVICE SECTOR-LED GROWTH IN INDIA:OUTCOMES AND OPPORTUNITIES

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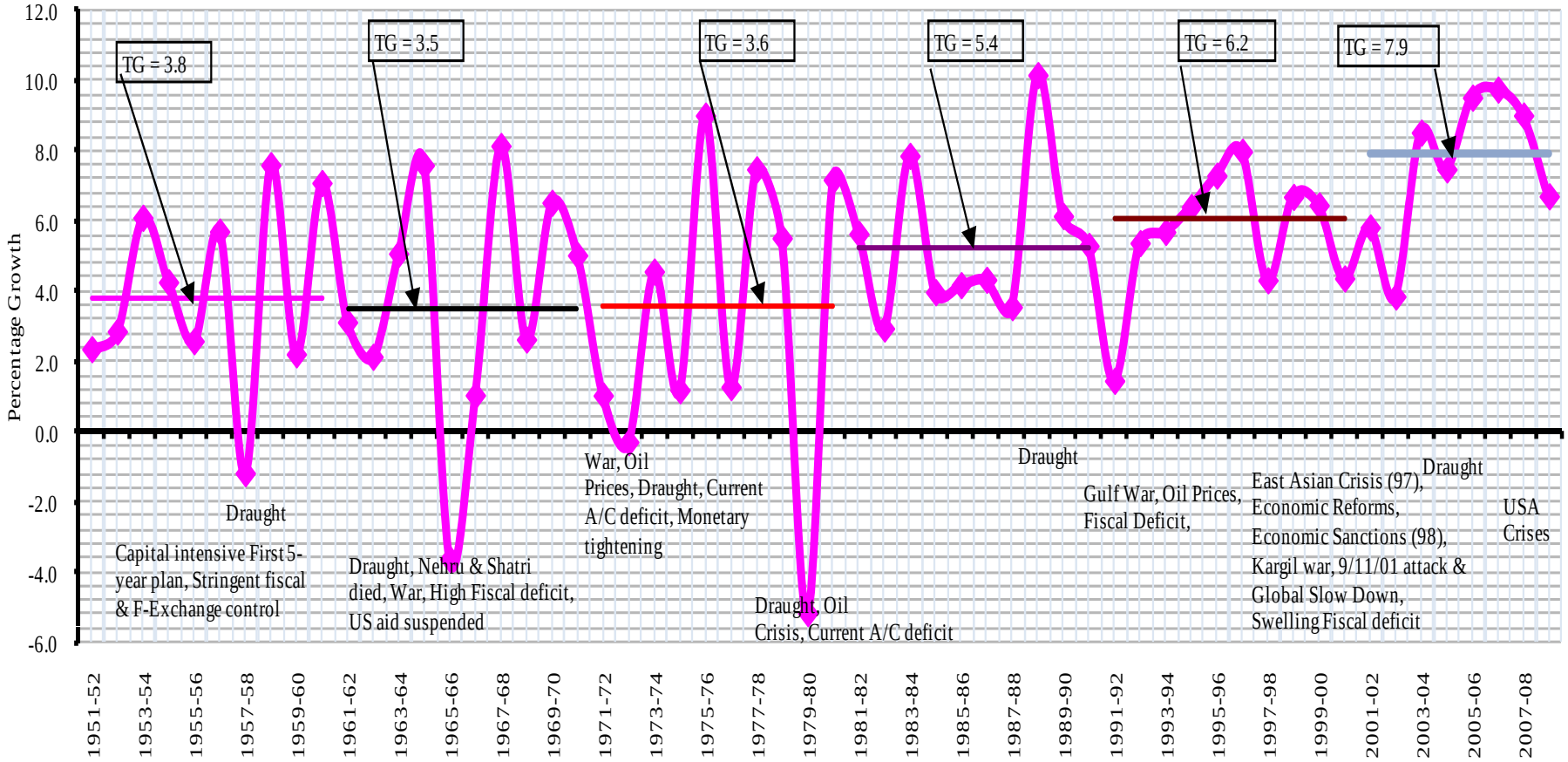
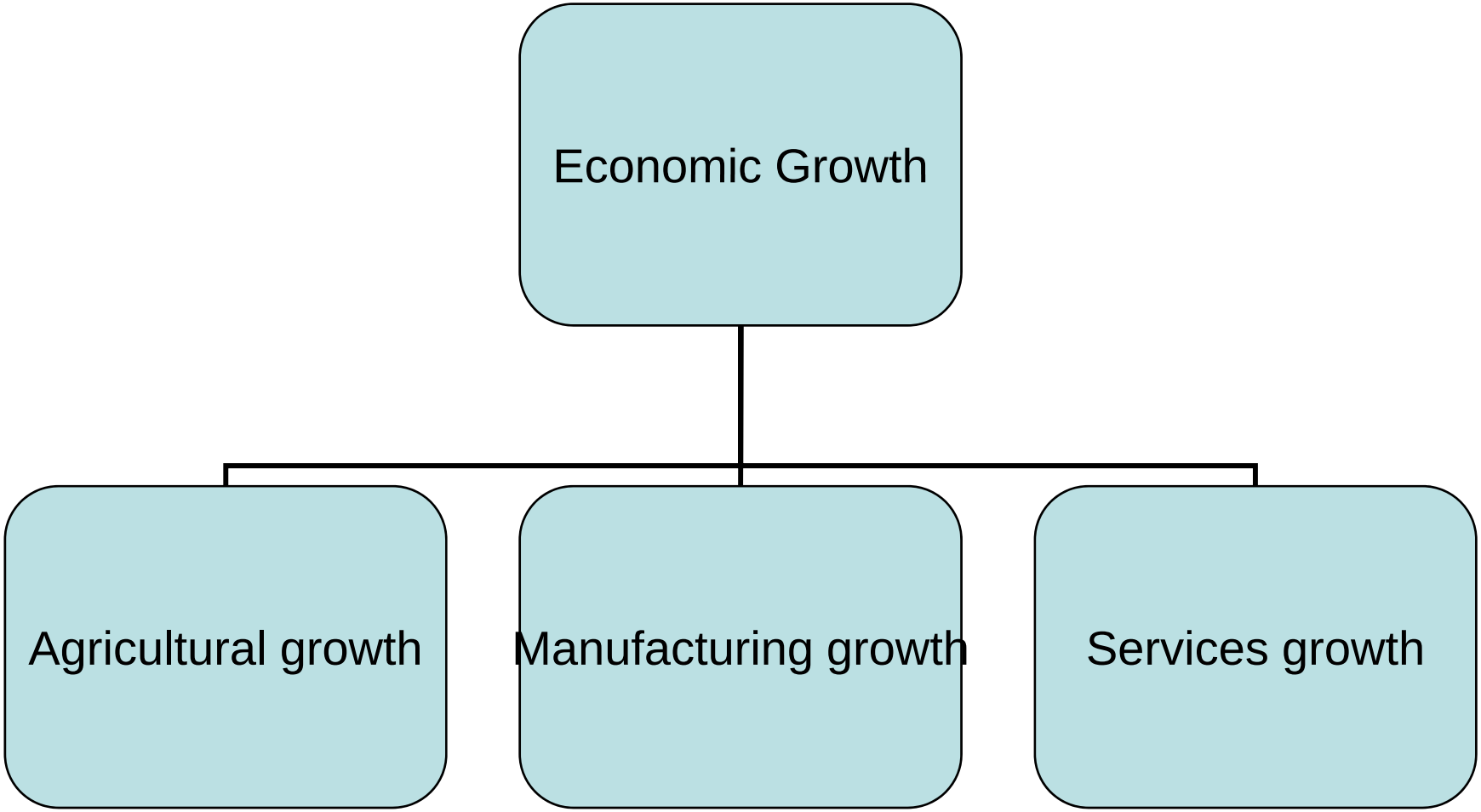
Growth Pattern of India



Sources of Growth



Asian Growth Models

- East Asian Growth Model

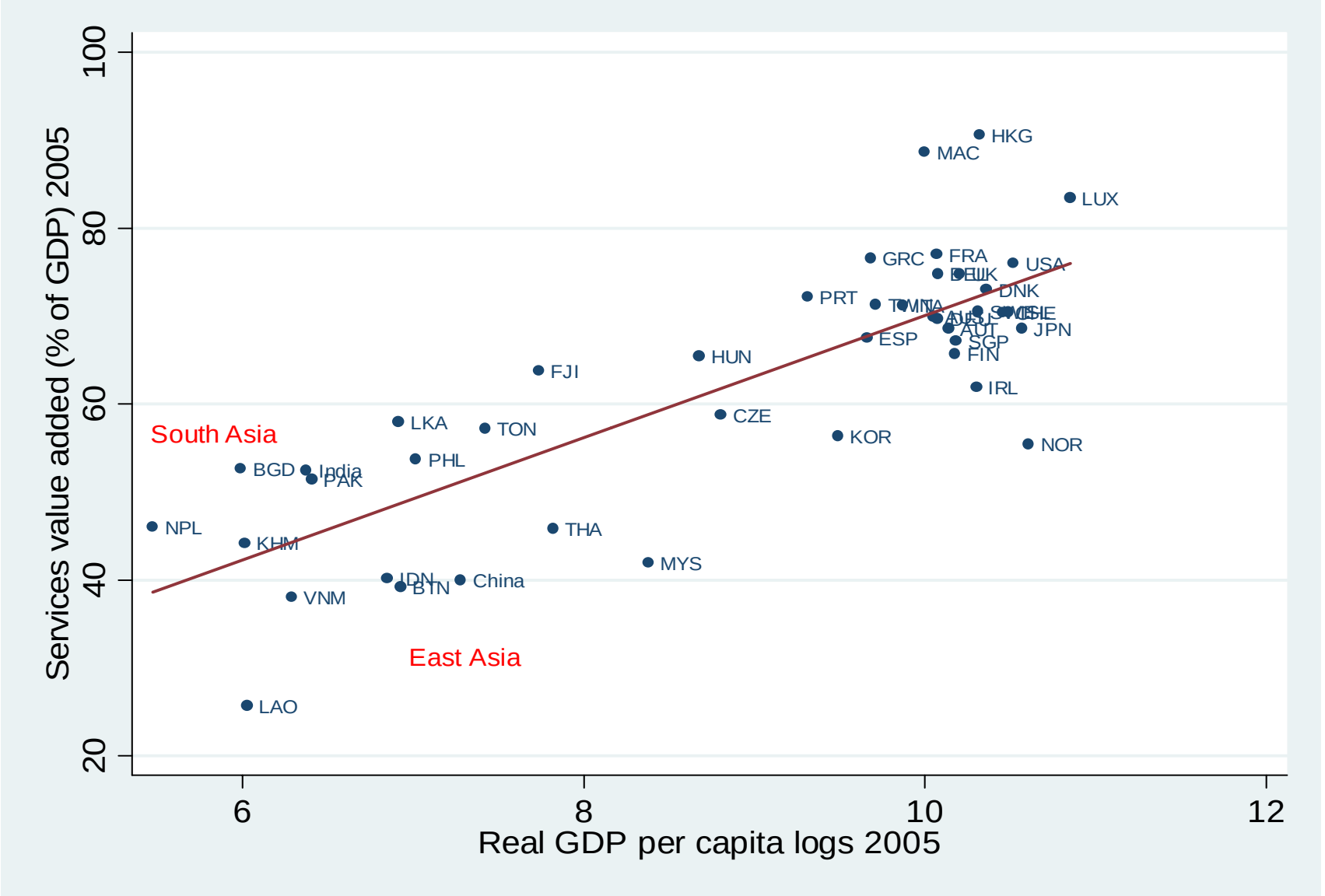
  Manufacturing export-led growth model.

  Nevertheless, agriculture fueled manufacturing growth.
- ASEAN growth model

  Flying geese growth model.
- South Asian growth model

  Service sector-led growth model with less impact from agriculture and manufacturing.

Services sector value added, 2005
Source: Ghani (2009)



- The important question is: whether India can realize the growth potential of its services sectors.
- Analytical procedures followed:

- Examination of the distributional pattern and determinants of India’s gross domestic product across states.
- Examination of the potential for growth in retail sector, which is an important component of the services sector, in India.
- Discussion about the growth potential in information technology business processing and environmental goods and services trade of the services sector.
- Overall conclusions.

Size and Income of India's states, 2005-06

No.	State/UT	Population Million	GSDP US$ Billion	Per Capita GSDP US$
1	Andhra	80.4	53.32	663
2	Arunachal Pradesh	1.2	0.66	567
3	Assam	28.5	13.00	456
4	Bihar	90.2	18.11	201
5	Jharkhand	29.1	14.06	483
6	Goa	1.6	2.80	1793
7	Gujarat	54.6	49.65	909

Models explaining variations in growth rates across states

$$AGR\_GSDP = \alpha_0 + \alpha_1 AGR8081 + \alpha_2 MFG8081 + \alpha_3 LIT8081 + \alpha_4 INVK + \alpha_5 COAST + \alpha_6 Metro + u_1$$

$$MFG\_GSDP = \alpha_0 + \alpha_1 AGR8081 + \alpha_2 MFG8081 + \alpha_3 LIT8081 + \alpha_4 INVK + \alpha_5 COAST + \alpha_6 Metro + u_2$$

$$SER\_GSDP = \alpha_0 + \alpha_1 AGR8081 + \alpha_2 MFG8081 + \alpha_3 LIT8081 + \alpha_4 INVK + \alpha_5 COAST + \alpha_6 Metro + u_3$$

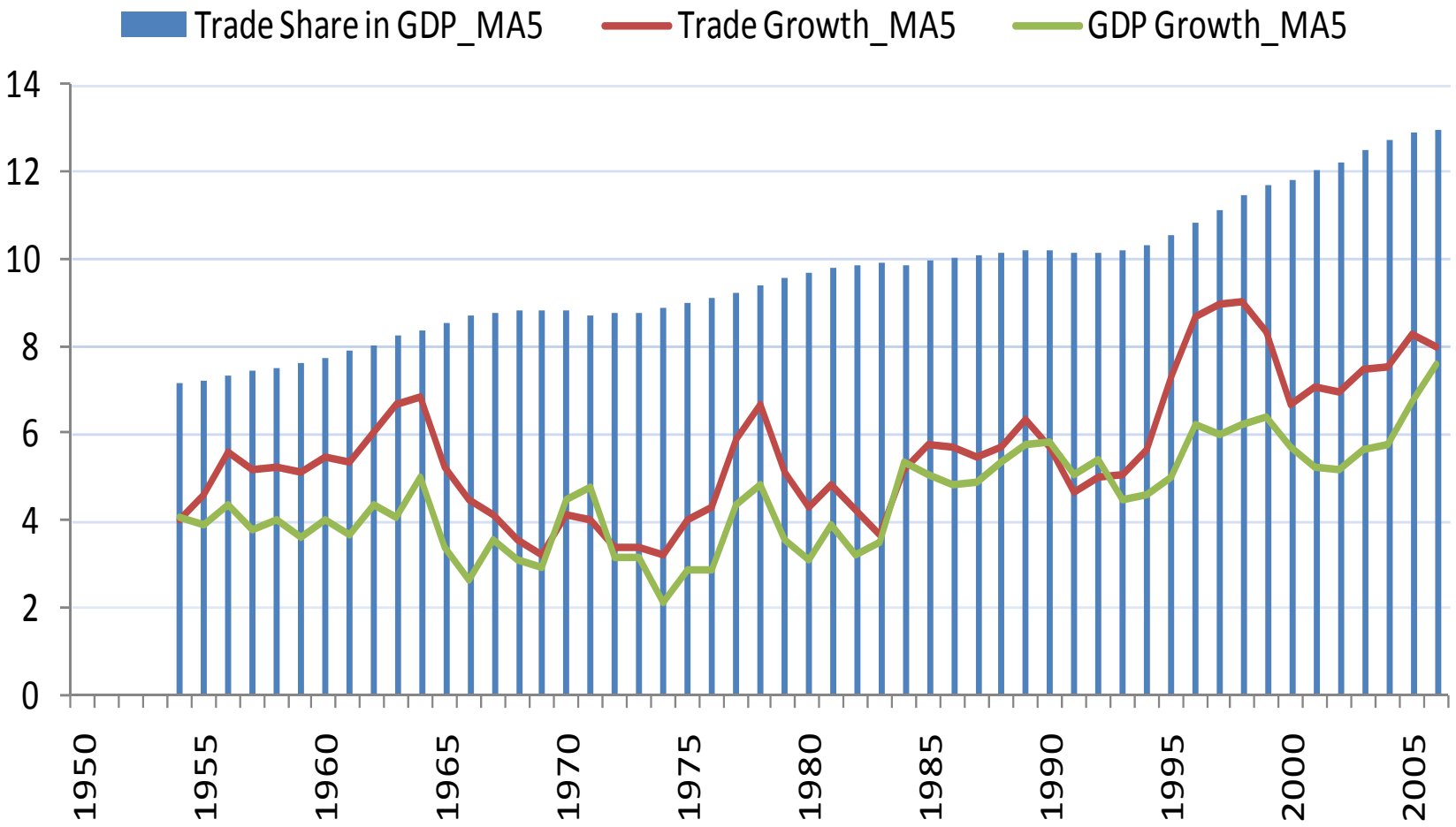
Models Estimations

Variables	AGRI_GSDP	MFG_GSDP	SER_GSDP
Constant	0.059**	0.273**	0.142*
	(0.025)	(0.128)	(0.051)
AGR8081	0.152*	-0.106*	0.123**
	(0.034)	(0.024)	(0.061)
MFG8081	-0.157**	0.756**	0.252**
	(0.069)	(0.356)	(0.121)
LIT8081	-0.162	0.867**	0.678*
	(0.238)	(0.414)	(0.252)
METRO	-0.017	0.026**	0.024**
	(0.016)	(0.013)	(0.012)
INVK	0.038**	0.056**	0.063**
	(0.016)	(0.027)	(0.028)
Cst	-0.011**	0.052**	0.047**
	(0.005)	(0.025)	(0.022)

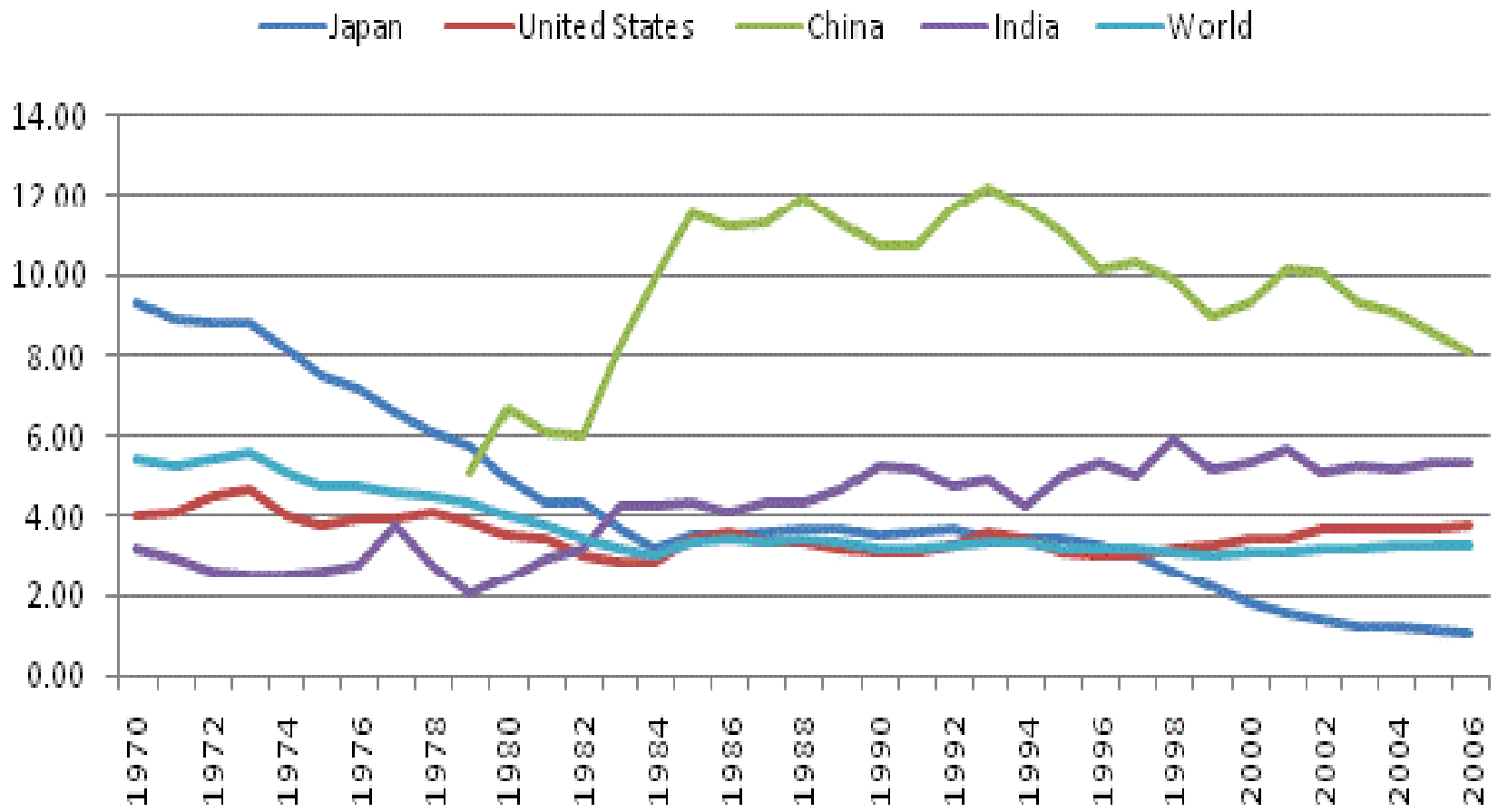
A.T. Kearney Retail Apparel Index, 2008

Rank	Country	Absolute Market Size	Growth Prospects	Consumer Affluence	Score
1	Brazil	44.5	33.4	42.1	48.2
2	China	74	22.1	35.7	47
3	India	57.4	37.4	31.1	46.6
4	Turkey	29.4	36.8	58.9	46.2
5	Chile	22.3	46.7	44.2	45.9
6	Romania	21.1	53.8	33.7	45.1
7	Argentina	20.6	43.7	38.8	41.1
8	Thailand	22	24.6	57	40
9	Russia	51.7	21.9	38.7	38.7
10	United Arab Emirates	31.2	41.9	27.9	38.1

Growth in domestic retail and its share in national income



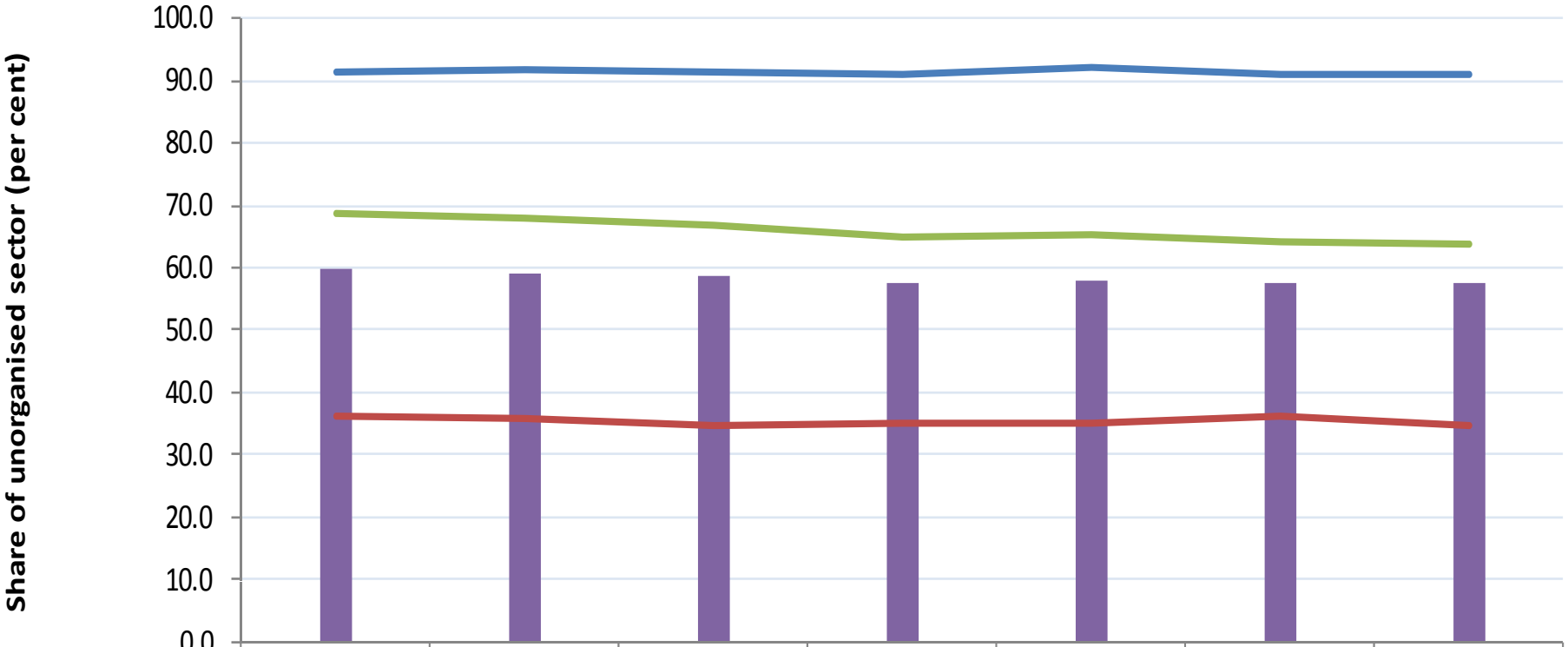
10 year moving average growth of personal consumption



Contribution to GDP growth by expenditure classes, India

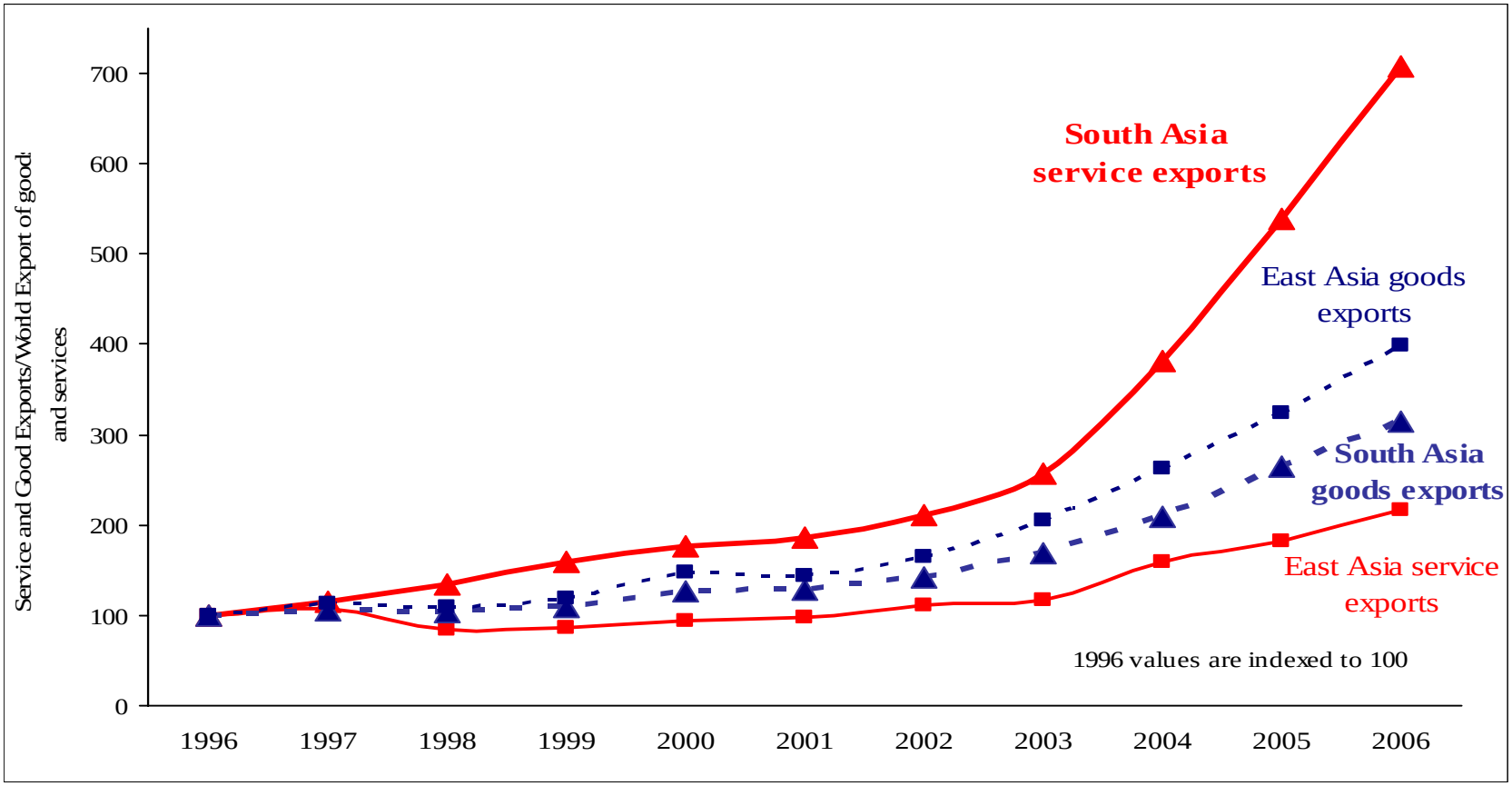
	2005-06	2006-07	2007-08	2008-09
GDP gro.(mkt)	9.24	9.69	9.03	6.08
Total Invest.	5.95	4.40	5.05	2.99
private corport.	3.19	2.10	1.66	1.03
Domest con. exp.	4.79	4.13	5.60	3.62
Priv.con. expend.	4.13	3.57	4.87	1.64

Contribution of unorganized sector



	1999	2000	2001	2002	2003	2004	2005
Total	59.5	59.0	58.5	57.2	57.9	57.5	57.4
Agriculture	91.1	91.7	91.2	90.8	92.0	90.8	90.8
Industry	36.3	35.9	34.8	35.1	35.3	36.2	35.0
Services	68.5	67.8	66.6	64.7	65.0	64.3	63.7

Goods and Services Exports of East Asia and South Asia



Note: Growth in share of export in world export is calculated by taking the respective region's export as a share of the world's export of goods and services.
Source: Balance of Payments, IMF. 2008 cited in Ghani (2009).

India’s IT sector

- NASSCOM has recently reported that the Indian IT sector’s contribution to GDP has risen from 1.2% in 1997 to 5.8% in 2008.
- It is expected that the export turnover from the IT sector would reach US $ 80 billion by 2011.
- During this period, direct employment is expected to reach nearly 2.23 million, while indirect job creation is estimated to touch 8 million.

India and Korea: IT sector

- Korea’s domestic software services market has an impressive growth rate of 30-35 percent while computer related services are projected to grow at over 30 percent.
- Korea’s expertise in electronics, hardware and telecom and India’s expertise in software and services could blend into a perfect synergy between the two countries.

- The Electronics & Computer Software Export Council (ESC) argues that software exports from India to Korea during 2001-02 were $27.53 million compared to $8.67 million in 2000-2001, a three-times growth within a year.
- Contrary to the common perception due to the East Asian ‘production network characteristics’ that Korea is a gateway to China and Japan, it is steadily emerging as a significant market in itself.
- Korea went through a period of restructuring over the last few years and they are now in a position to create new technology infrastructure. Japan has not yet completed its restructuring process and is lagging behind Korea.
- Though traditionally Korea has followed a more self-sufficient policy, the growing demand from its domestic market is forcing Korea to look out for outsourcing opportunities—and this is where India can benefit.

India’s Rural Sector

- Rural employment is not adequate either by time criterion, by productivity criterion or by income criterion.
- What are the effective ways of tackling this problem?
- An effective way to tackle India’s rural problem in the context of increasing global income is to diversify the rural economy through the development of production and trade in environmental goods and services (EGS) that helps mitigation too.

India’s Opportunity

- An important factor that has a significant bearing on employment and productivity in EGS is technology.
- An OECD report argues that about 50% of total EGS to be used within 2030 are yet to be created.
- This situation provides an opportunity for India to strengthen its research capabilities in the area of EGS.

India’s opportunity in Korea

- A Nasscom study argues that given Korea’s manufacturing know-how with embedded software and its strong focus on developing world-class information and communication infrastructure, opportunities for Indian companies exist in the area of chip design, broadband networking solutions, telecom solutions and digital content development.
- Other areas of possible co-operation include training of knowledge workers, software development outsourcing, software engineering, e-commerce, Web-based applications and bioinformatics.
  (Source: Gate4Korea.com accessed on 20.01.2010).

Feasible Growth Strategies for India

- India’s growth strategies need to be based on its own specific characteristics and comparative advantage rather than simply following the ‘flying geese’ type of models.
- India needs to move towards different ways of sustaining the services sector growth. Among other subsectors in services, retail ‘service-led’ growth, IT-Business Product Outsourcing, and trade in environmental goods and services (EGS) provide avenues.

Privatization of Public Service Delivery: Lessons from Australia

Comments on Chris Aulich

Ingo Borchert
Development Research Group, The World Bank

Korea Development Institute (KDI)
Seoul, 4 February 2010

Main Points

- Different motivations and technologies:
  - Yardstick for success (competition vs UAO)
- Impressive track-record of achievements
  - Divestment: fairly successful;
  - Outsourcing: many problems;
  - User charges: successful
- Gains from liberalization accrue at home
- ‘legitimacy deficit’ in terms of public discourse

Comments

- What private actors can and cannot do:

  Incentive-compatibility and cost vs markup effect

  - Yes: transparent, competitive setting (IT services, education, insurance)
  - Perhaps: network externalities, fixed costs: postal services, India banking (universal access vs competitive pricing)
  - Difficult: entrenched market share/incumbency: Australia's Medibank, Zambia banking, Armenia telecom
  - More emphasis on complementary regulation: New Zealand's 'kiwi share'

- Intertemporal effects of privatization:
  - Crisis resilience; static efficiency vs intertemporal stability
  - What if liberalization breaks prevailing cross-subsidization?