

EXPLORING THE EVOLUTION OF INDIA'S ECONOMIC STRUCTURE: THE CASE OF MANUFACTURING-SERVICES INTER-LINKAGES

*Chaitanya Talreja**

Abstract

The Indian economy has seen a rapid increase of the service sector share in its GDP since the early 1990s or during the post-reforms period. The manufacturing sector share in output stagnated during the same period. The period did not see a commensurate increase in the employment share of the service sector and the manufacturing employment share also remained largely stagnant. With this backdrop this paper makes an attempt to understand the growth process associated with the evolution of India's economic structure during the post-reform period. This is done by analyzing the production and demand linkages between the manufacturing and service sectors using the available Input-Output Transactions Tables (IOTT) for India since the post-reform period i.e. post-1991. This is an important exercise in the Indian context and such an exercise has not been previously undertaken. The paper draws theoretical insights from the classic works of Albert O. Hirschman and Nicholas Kaldor which provide theoretical foundation for the analysis in this paper from a structuralist perspective. The usage of Input-Output techniques to assess production and demand linkages between manufacturing and services and their evolution over time can be seen in works of Park (1987), Park & Chan (1989), Guerrieri & Meliciani (2005) and Tregenna (2008) for various developed and developing regions in the world. This paper makes an attempt to evaluate the Indian experience with the backdrop provided by these studies. The paper finds some crucial aspects of structural change in India through this analysis which contributes to the debate on sectoral drivers of economic growth and structural change particularly in India and for the developing economies in general. The major findings of the paper include the declined importance of services as an input in the production structure and its limited contribution in stimulating output and employment in other sectors as compared to the manufacturing sector given this has been a period of rapid service sector growth in India. This also holds true for technologically intensive modern services like Information and Communication Technology services which have been largely driven through exports from

* PhD student at South Asian University, Chanakyapuri, New Delhi

Email: chaitanya@students.sau.ac.in

Acknowledgements: I am extremely thankful to my supervisor Dr. Anirban Dasgupta for his valuable guidance which helped me produce this research work.

India. The paper finds a greater role of final demand as a source of service sector demand and a rapid rise of services share in aggregate private consumption during this period. This is uncharacteristic to India's level economic development seen the in light of international experience. The analysis of this paper points towards a co-evolutionary process between income inequality and the output and employment structure of the Indian economy. Further research seems to be warranted to explore the link between the production structure in India and the demand pattern adequately in order to understand the causal channels of this process. This shall provide important insights regarding the employment and distributional implications of the post-reform growth process of the Indian economy.

References:

Guerrieri, P. and Valentina Meliciani, (2005), "Technology and international competitiveness: The interdependence between manufacturing and producer services", *Structural change and economic dynamics*, Vol. 16, No. 4, pp. 489-502.

Park, S.H., (1987), "Linkages between industry and services and their implications for urban employment generation in developing countries", *Journal of Development Economics*, Vol. 30, pp. 359-379.

Park, S. H. and Kenneth S. Chan, (1989), "A cross-country input-output analysis of intersectoral relationships between manufacturing and services and their employment implications" *World Development*, Vol. 17, No. 2, pp. 199-212.

Tregenna, F., (2008), "Sectoral engines of growth in South Africa: An analysis of services and manufacturing", *UNU-WIDER Research Paper No. 2008/98*.