

An Analysis of the Growth of Distributive Trade in India

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Distributive trade accounts for roughly two-fifths of the service sector which has grown steadily relative to Gross Domestic Product (GDP) in the Indian economy. To explain the growth of trade share in GDP it is useful to divide it into two parts - trade in final goods (Final Trade Ratio, (FTR)) and that in intermediate goods (Intermediate Trade Ratio, (ITR)). Rough estimates show that the FTR does not have a strong upward or downward trend but the ITR has a strong rising trend. Mainly, the share of output of 'manufacturing and construction' (MNC) in GDP seems to explain the ITR. Thus the rising trade ratio results from the process of industrialization.

I Introduction

Sustained growth of the share of services in Gross Domestic product (GDP) is a fact of life for the Indian Economy as it is for almost all the developing economies of the world. Appropriateness of this development is, however, viewed in certain quarters with some doubt. It is felt, with due recognition of the importance of education and other services, that manufacturing, rather than services, should be the focus of activities for a developing economy.¹ In this perspective it is important to clearly understand the reason for the rapid growth of the service sector. In the present paper we take up distributive trade, which is by far the largest sub-sector, according to the National Accounts Statistics (NAS) classification of the Central Statistical Organization (CSO), accounting for almost two-fifths, in terms of value added, of the service sector in India.

The share of distributive trade in GDP at factor cost (referred to here as the trade ratio) gradually increased from 8 per cent in 1950-51 to 12 per cent in 1993-94 (Table 1). Ignoring short interruptions, over the whole period of about four and a half decades value added in trade services increased at the rate of about 4.9 per cent per annum. This is about 0.8 per cent higher than the rate of growth of GDP at factor cost. This fact is reflected in the growth of trade ratio at 0.8 per cent per annum.² Our purpose here is to understand the factors affecting the growth of trade services.

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¹ Sometimes it is argued that the rapid growth of the tertiary sector makes GDP unsuitable as an indicator of development of an underdeveloped economy (Chandra, 1981). For a debate on manufacturing versus services for developed economies, see several articles in *Economic Affairs*, 1989, vol. 9, no. 4.

²The trends are obtained by fitting the following semi-logarithmic curves: $\log(\text{value added in trade}) = 3.52 + 0.049 \cdot T + 0.788 \cdot \text{AR}(1)$; $R^2 = 0.998$, $DW = 1.69$. And $\log(\text{trade ratio}) = -2.45 + 0.0083 \cdot T + 0.838 \cdot \text{AR}(1)$; $R^2 = 0.974$, $DW = 2.13$. All the coefficients are significant at 1 per cent level. AR(1) refers to first order autoregressive correction.