

An Input Output Analysis of Services-Led Growth in India

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India's growth in the last decade has been primarily fueled by the services sector. Using the concept of linkages, both backward and forward, this paper presents an empirical analysis of the connection of this sector with other sectors of the economy in the input-output framework.

I Introduction

India has emerged as one of the fastest growing economies since the 1990s. Much of this growth has been attributed to the rapid growth of its tertiary sector. In concurrence to the global trends, Indian service sector has witnessed a major boost and is currently a major provider to both the GDP, income and employment. However in the recent months concern has been voiced about the slowdown of the Indian economy. The overall GDP is at its nine year low at 5.5 per cent,¹ manufacturing output is on the decline from the last year at 2.9 per cent and capital inflows have also been volatile. All these are making economists wonder and question the services-led growth development strategy of the Indian economy.

Since both agriculture and manufacturing have taken a backseat and are not growing as much as in the precedent years, it has become even more important to look at the perspective growth of the service sector and to see whether it will be able to steer the economy on the path of recovery. Economic growth in post-independence India has seen several turns and twists. The year 1991, when economic reforms were introduced, is seen as a turning point in the development history of the country. With the economy liberalized, we moved from a low-growth economy to a high-growth economy. Structural changes as reflected in the changes in the shares of agriculture, manufacturing and services have broadly followed the same time pattern as changes in growth rate but the contents of change have varied from period to period.

There is no doubt that the share of agriculture has continued to consistently decline over the past six decades: If we look at Table 1, we notice that the share of agriculture has gone down from 42.7 per cent in 1970-1971 to 36.05 per cent in 1980-1981, 29.61 per cent in 1990-1991, and about 14 per cent in 2011-2012 in GDP. On the other hand, manufacturing and services have both

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