

ISID

Institute for Studies in Industrial Development

An institution of Indian Council of Social Science Research (Ministry of Education)

Policy Research to Foster India's Industrial Transformation

271

WORKING PAPER

Pre-mature Servicification of Consumption Demand and India's Service-led Growth

Satyaki Roy



October 2023

Pre-mature Servicification of Consumption Demand and India's Service-led Growth

Satyaki Roy

ISID Institute for Studies in Industrial Development
An institution of Indian Council of Social Science Research (Ministry of Education)

4 Vasant Kunj Institutional Area, New Delhi – 110 070

Phone: +91 11 2689 1111 | *E-mail:* info@isid.org.in | *Website:* <https://isid.org.in>

October 2023

ISID Working Papers are meant to disseminate the tentative results and findings obtained from the ongoing research activities at the Institute and to attract comments and suggestions which may kindly be addressed to the author.

Pre-mature Servicification of Consumption Demand and India's Service-led Growth

Satyaki Roy*

[Abstract: Structural change in the economy signifies changing relative shares of output and employment by sectors. The change is assumed to be linked with per capita income of countries as relative importance of agriculture, industry and services in consumption expenditure changes with rising income. In case of India the share of industry particularly that of manufacturing both in terms of value added and employment didn't decline rather decadal average growth rates in two decades of the past four decades considered were higher than that of services. India did face de-industrialisation during the colonial period but during the recent past industry's share didn't show any decline in output or employment. But the pre-mature rise in the share of services in both counts can be explained by the fact that services account about half of the private final consumption expenditure and the share of durable and semi-durable goods account only ten per cent of average consumption basket. This paper argues that this early servicification of consumption with a low industry share in value added had not been the trajectory of structural change in countries which are India's peers and experienced faster growth in per capita income. Moreover, in the recent past the productivity indicators in the destination sectors shows a declining trend. In fact, services growth manifests low base in high value-added activities and hence increasing absorption of employment comes with declining productivity.]

* Satyaki Roy, Associate Professor at ISID.

Acknowledgements: This paper has been prepared from the study which is being funded by the Indian Council for Social Science Research (ICSSR) as a research programme titled, "Explaining the Conundrum of Service-led Growth in India: Changing Composition of Demand and Income Distribution". I would like to thank ICSSR for sponsoring this two-year study. The usual disclaimer applies.

For the complete working paper, please contact the author at sroy@isid.org.in

List of ISID Working Papers

- 270 Manufacturing-led Transformation for Realizing India's Development Aspirations in the Context of a Fractured Trading System: Challenges, Opportunities, and Strategic Interventions, *Nagesh Kumar*, October 2023
- 269 Determinants of Energy Intensity: Evidence from India's Iron and Steel Firms, *Anjali Tandon*, September 2023
- 268 Manufacturing Productivity in Indian States: The Role of Infrastructure, Agglomeration, and Exports, *Mahua Paul & Smruti Ranjan Sahoo*, September 2023
- 267 FDI, International Trade and Global Value Chains (GVCs): Trends and Patterns in India's GVC Participation, *Isha Chawla & Nagesh Kumar*, March 2023
- 266 R&D behaviour of Indian Firms: A Case of High-tech Manufacturing, *K Seenaiiah*, March 2023
- 265 Impact of Import Liberalisation on Employment in Manufacturing Industries in India, *Ramaa Arun Kumar*, March 2023
- 264 Public Sector Performance in India and the Ongoing Contestation between Efficiency and Equity, *Satyaki Roy & Santosh Kumar Das*, March 2023
- 263 Trade, Structural Change, and Productivity Growth in the Indian Manufacturing Sector, *R Rijesh*, February 2023
- 262 Adoption of Industry 4.0 Technologies in India's Start-up Ecosystem, *Sanjaya Kumar Malik*, February 2023
- 261 For Whom the Bell Tolls: Inclusive Innovation and Innovation Policy, *Suma Athreye & Abhijit Sengupta*, January 2023
- 260 The Complementarity between the Formal and Informal Sub-Sectors of the Indian Industry, *Mehak Majeed, Saeed Owais Mushtaq, & Zahid Gulzar Rather*, January 2023
- 259 Competitive Manufacturing as a Driver of India's next Economic Transformation: Opportunities, Potential, and Policies, *Nagesh Kumar*, December 2022
- 258 Vaccine Manufacturing Industry of India: Structure, Size, and Competitiveness, *Shailender Hooda*, December 2022
- 257 India's Unbalanced Industrial Development: Possible Explanations for Inter-State Variations, *Shiladitya Chatterjee*, December 2022
- 256 Status and Scope of Industrial Development in Aspirational Districts of India, *Surya Tewari*, November 2022
- 255 Growth Slowdown in the Automobile Industry in India: Dwindling Middle Class Demand or Changing Consumption Pattern? *Satyaki Roy*, November 2022
- 254 Examining Regional Disparities among States of India through Sectoral Compositions, *Sangeeta Ghosh*, October 2022
- 253 India's Trade in Manufactures: The Role of Intra Industry Trade, *Manmohan Agarwal & Neha Betai*, September 2022

* Most of the working papers are downloadable from the institute's website: <https://isid.org.in/>

The **Institute for Studies in Industrial Development (ISID)** is a public-funded, non-profit, autonomous institution dedicated to conducting policy research, advocacy, capacity-building, and outreach activities to foster the industrial transformation of India.

Registered on October 7, 1986, under the Indian Societies Registration Act 1860, ISID in 1988, became one of the institutions that are supported by the Indian Council of Social Science Research (ICSSR), (Government of India), through grants-in-aid. Since 2006, the Institute operates from its own well-appointed campus located in the Vasant Kunj Institutional Area in South Delhi.

The research themes and key projects are classified under following broad thematic areas:

- o Industrial Structure, Performance, and Policies
- o Corporate Governance and Industrial Financing
- o Leveraging MSMEs and Start-ups for Industrial Transformation
- o Globalization, FDI, and Trade
- o Technology, Innovation and Industry 4.0
- o Green Industrialization Strategy
- o Employment and Labour Markets
- o Spatial Dimensions of Industrial Development and Industrial Infrastructure
- o Sectoral Studies on Competitiveness of Indian Manufacturing

ISID is recognized as a Scientific and Industrial Research Organization (SIRO) by the Government of India. It is also listed on DARPAN portal of NITI Aayog (India's Planning Agency) as a recognized think-tank. It is also a member of the Asia-Pacific Research Network on Trade (ARTNet) and the South Asia Network on SDGs (SANS) of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). ISID's Databases and e-resources are accessed by the academic community across the country through the Information and Library Network (INFLIBNET) Centre of the University Grant Commission (UGC).

ISID **Institute for Studies in Industrial Development**
An institution of Indian Council of Social Science Research (Ministry of Education)

Policy Research to Foster India's Industrial Transformation

4 Vasant Kunj Institutional Area, New Delhi - 110070, India

Phone: +91 11 3510 4511 | E-mail: info@isid.org.in | Website: <https://isid.org.in>