

## FROM TRADITIONAL TO MODERN ECONOMY: A CASE STUDY OF INDIA

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**Abstract:** The present study is an attempt to examine the structure of production in the Indian economy since 1950 till 2014. The study aims to analyse the different types of Production structure (Traditional, Transitional and Modern) which Indian economy has experienced and also tries to determine the factors that underlie such change. Holub's methodology has been used in this study for this purpose.

**Keywords:** Service sector, India, A.Holub, production structure

### Introduction:

From the land of beggars and snake charmers of yesterday to being a land of knowledge, Indian economy has transformed from agriculture based to the knowledge based economy. However the pattern of transition from agricultural sector to the service sector is not similar to the trend followed by most of the developed countries. The developed economics follows the trend where the growth of service sector is initially supported by the growth of industrial sector but later on, the growth of service sector surpasses the growth of industrial sector, learning it behind. Whereas Indian economy (and many developing economics) has shifted directly from primary to the tertiary sector, skipping the industrial sector in between.

This shows that the economics tend to shift from lower stages of development to higher ones. The Agricultural sector loses its importance when the per capita income of the country increases. As the demand for agricultural products (food/good) could be increased to a certain limit only, therefore, the people start consuming non food items if the per capita income rises. The consumption of health, education, tourism, transportation, defence, etc increases leading to the growth in the service sector of the economy.

As India's structure is a quasi-federal there are some services which are undertaken by the central government & comes under the union list, some services are undertaken by the State Government and comes under the state list. The remaining services are undertaken by both the centre and State Government and therefore comes under the concurrent list. The classification of services on the basis of Union, State and Concurrent list is as follows :

**Union List:** Telecommunication postal, Broadcasting, Financial services (including insurance and banking), National highways, Mining services.

**State List:** Healthcare and related services, real estate services, retail services incidental to agriculture, hunting and forestry.

**Concurrent List:** Professions services, education, printing and publishing, electricity.

### Classification of the Indian Economy

According to the Indian National Industrial Classification (2008) the Indian economy is classified as follows:

Section A	Agriculture , forestry and fishing
Section B	Mining and quarrying
Section C	Manufacturing
Section D	Electricity, gas, steam and air conditioning supply
Section E	Water supply, Sewerage, Waste Management and remediation activities
Section F	Construction
Section G	Wholesale and retail trade; repair of motor vehicles and motorcycles

Section H	Transportation and Storage
Section I	Accommodation and food services activities
Section J	Information and Communication
Section K	Financial and insurance activities
Section N	Administrative and Support Service
Section O	Public administration and defense; compulsory social security
Section P	Education
Section Q	Human health and social work activities
Section R	Arts entertainment and recreation
Section S	Other services activities
Section T	Activities of household as employers; undifferentiated goods and services producing activities of household for own use
Section U	Activities of extra territorial organisation and bodies

According to Planning commission, Government of India (2017) has classified the Indian economy into three sectors- Agriculture and Allied, Industry and services Agriculture Sector, Agriculture (Agriculture proper & livestock Forestry & Logging, Fishing and related activities. Industry includes 'Mining & quarrying, Manufacturing (Registered and Unregistered), Electricity gas, Water supply and Construction. Service Sector includes "Trade, hotels, transport, communication and services related to broadcasting", 'Financial, real estate & Prof servs; 'Public Administration, defence and other services.

### **Review of Literature**

Gordon and Gupta (2004) tries to analyse the pattern of the growth followed in India. They divided the growth pattern in two stages. In stage I industrial sector grows & increases their contribution in GDP from 15% to 27%. In stage II service sector contribution increases from 28% to 41%. Surpassing the industrial sector share. The agricultural sector contribution constantly decline. The study also tries to find fast grower and trend grower sectors of the service sector. Communication, Banking sector, community service and hotels and restaurants were categorised as fast growers white distributional services, public administration and defense, personal services, transportation devilling and storage were categorised as Trend growers. The paper also finds the factors that were responsible for the growth of service sector since 1980s.

Eichengreen and Gupta (2010) Compared India with OECD Countries and found that it took many years for India to be in line with service performance if the other countries. The Indian service sector was divided into three groups depending their growth performance. Group I services were more or less stable since 1970s. Whereas Group II services (education, health, etc) grew less and had large scope for its expansion. Group III services grew at fastest rate (IT and communication, etc). The paper also tries to explore the determinants of the services sector which lead to it's growth and even questions on the sustainability of such growth.

Mukherjee and Goyal (2012) finds out that India was a positive outlier in case of GDP growth but a negative outlier in case of employment. The study brings forward the various issues that one restricting the growth of the Indian economy and suggests their removal for inclusive growth in Indian service sector.

Singh and Kaur (2014) tries to explore the production structure of Indian economy and find out various factors responsible for this structural change.

Jain, D et al (2015) tries to analyse different macro economic variables that influence the GDP of Manufacturing, service and Industrial sector. Multiple regression Analysis was used for assessing their influence.

Desai and Bhatia (2016) tries to predict the Indian GDP by exploring the effects of CPI inflation, crude price, interest rate and purchasing managers index on it. Linear regression model was used in his study.

Raboloko, M. (2018) tries to explore the factors that affect the service sector growth of Bots wara using Auto Regressive Distributed Lag model (ARDL). After analysing the determinants the study advises such policies which

encourage government spendings in service sectors, especially banking sector so that they can provide credit to private sectors on easy terms.

#### Objective of the Study:

The main aim of the study is to analyse the changing production structure of the Indian economy since 1950s and to assign various cause for it's change.

#### Data Sources and Methodology:

Secondary data source has been taken from Ministry of statistics and programme Implementation, Planning commission, Government of India (issue updated on 21 March, 2017). To analyse the structural changes after Holu'b methodology has been used.

Table 1 : Typology of Production structure as per the A.Holub		
Sr. No.	Percentage share in GDP	Type of Structure
1.	Agriculture > Services > Industry	ASI - Traditional
2.	Agriculture > Industry > Services	AIS - Traditional
3.	Industry > Agriculture > Services	IAS- Transitional
4.	Services > Agriculture > Industry	SAI - Transitional
5.	Industry > Services > Agriculture	ISA - Modern
6.	Services > Industry > Agriculture	SIA - Modern
Source : Kaur, 2008		

#### Analysis:

According to Holub there are broadly three sectors in the economy i.e. Primary sector, secondary sector and tertiary sector. Primary sector, which is also known as Agricultural sector is denoted by 'A'. Secondary sector which is also known as Industrial sector is denoted by 'I'. Tertiary sector is also known as service sector is also known a service sector and is therefore denoted by 'S'.

In Holub's typology of production structure he has classified the production structure as.

- (a) Traditional - where percentage share of agriculture is greater than services or industry in GDP (ASI or AIS)
- (b) Transitional - where percentage share of industry is greater than agriculture and services (IAS) or services share is greater than Agriculture and Industry (SAI)
- (c) Modern - where the percentage share of industry is greater than services and agriculture, respectively. (ISA) or services share is greater than industry and agriculture, (SIA).

From the data collected from the planning commission of India (2017).

Table 2 Sectoral shares in GDP (in%) (at current prices)

Year	Agriculture & Allied	Industry	Services	Types of Structure
1950-51	51.81	14.16	33.25	A > S > I (Traditional)
1951-52	50.67	15.00	33.59	A > S > I (Traditional)
1952-53	50.05	14.38	35.22	A > S > I (Traditional)
1953-54	50.64	14.47	34.34	A > S > I (Traditional)
1954-55	45.86	16.20	38.18	A > S > I (Traditional)
1955-56	43.77	17.06	39.78	A > S > I (Traditional)
1956-57	46.58	16.84	36.44	A > S > I (Traditional)
1957-58	44.61	17.20	38.34	A > S > I (Traditional)
1958-59	46.27	16.69	36.87	A > S > I (Traditional)

1959-60	44.26	17.76	38.04	A > S > I (Traditional)
1960-61	42.56	19.30	38.25	A > S > I (Traditional)
1961-62	41.77	19.93	38.36	A > S > I (Traditional)
1962-63	39.89	20.61	39.91	S > A > I (Transitional)
1963-64	41.08	20.54	38.47	A > S > I (Traditional)
1964-65	42.96	19.64	37.15	A > S > I (Traditional)
1965-66	40.91	20.43	38.73	A > S > I (Traditional)
1966-67	41.81	20.06	37.95	A > S > I (Traditional)
1967-68	44.53	18.78	36.16	A > S > I (Traditional)
1968-69	43.52	19.35	36.71	A > S > I (Traditional)
1969-70	43.29	20.11	36.07	A > S > I (Traditional)

1970-71	41.95	20.48	37.22	A > S > I (Traditional)
1971-72	40.28	21.23	38.37	A > S > I (Traditional)
1972-73	40.28	21.29	38.27	A > S > I (Traditional)
1973-74	43.31	20.16	35.79	A > S > I (Traditional)
1974-75	40.31	21.47	37.60	A > S > I (Traditional)
1975-76	37.62	22.19	40.05	S > A > I (Transitional)
1976-77	35.75	23.45	40.86	S > A > I (Transitional)
1977-78	37.09	23.20	39.47	S > A > I (Transitional)
1978-79	35.47	24.26	40.12	S > A > I (Transitional)
1979-80	33.63	25.02	41.33	S > A > I (Transitional)
1980-81	35.39	24.29	39.92	S > A > I (Transitional)

1981-82	34.07	25.12	40.39	S > A > I (Transitional)
1982-83	32.88	25.19	41.53	S > A > I (Transitional)
1983-84	33.54	25.22	40.81	S > A > I (Transitional)
1984-85	32.21	25.57	41.83	S > A > I (Transitional)
1985-86	30.89	25.70	43.06	S > A > I (Transitional)
1986-87	29.74	25.89	44.05	S > A > I (Transitional)
1987-88	29.18	25.92	44.58	S > A > I (Transitional)
1988-89	30.20	25.79	43.67	S > A > I (Transitional)
1989-90	28.97	26.53	44.17	S > A > I (Transitional)
1990-91	29.02	26.49	44.18	S > A > I (Transitional)
1991-92	29.39	25.40	44.96	S > A > I (Transitional)

1992-93	28.74	25.77	45.22	S > A > I (Transitional)
1993-94	28.68	25.50	45.57	S > A > I (Transitional)
1994-95	28.27	26.41	45.03	S > A > I (Transitional)
1995-96	26.26	27.40	46.05	S > I > A (Modern)
1996-97	27.13	26.60	45.96	S > A > I (Transitional)
1997-98	25.38	26.41	47.45	S > I > A (Modern)
1998-99	25.79	25.74	48.26	S > A > I (Transitional)
1999-2000	24.50	25.22	50.27	S > I > A (Modern)
2000-01	23.02	26.00	50.98	S > I > A (Modern)
2001-02	22.92	25.08	51.99	S > I > A (Modern)
2002-03	20.70	26.17	53.13	S > I > A (Modern)



2003-04	20.74	26.01	53.05	S > I > A (Modern)
2004-05	19.03	27.93	53.06	S > I > A (Modern)
2005-06	18.81	28.13	52.87	S > I > A (Modern)
2006-07	18.29	28.84	52.71	S > I > A (Modern)
2007-08	18.26	19.03	53.93	S > I > A (Modern)
2008-09	17.78	28.29	54.50	S > I > A (Modern)
2009-10	17.74	27.76	54.50	S > I > A (Modern)
2010-11	18.21	27.16	54.64	S > I > A (Modern)
2011-12	17.86	27.22	54.91	S > I > A (Modern)
2012-13	17.52	26.21	56.27	S > I > A (Modern)
2013-14	18.20	24.77	57.03	S > I > A (Modern)

Source : Ministry of statistics and Programme implementation Planning commission, Govt. of India (2017)

Table 3 Sectoral Shares in GDP (in%) (at constant prices with Base Year 2004-05)

Year	Agriculture & Allied (at 2004-05 prices)	Industry (at 2004-05 prices)	Services (at 2004-05 prices)	Types of Structure
1950-51	57.88	16.19	29.54	A > S > I (Traditional)
1951-52	57.45	16.69	29.63	A > S > I (Traditional)
1952-53	57.61	16.22	39.71	A > S > I (Traditional)
1953-54	52.39	16.15	28.81	A > S > I (Traditional)
1954-55	57.73	16.77	28.94	A > S > I (Traditional)
1955-56	50.01	18.07	29.62	A > S > I (Traditional)
1956-57	49.89	18.56	29.31	A > S > I (Traditional)
1957-58	48.23	18.61	30.78	A > S > I (Traditional)
1958-59	49.34	18.49	29.79	A > S > I (Traditional)

1959-60	47.80	19.33	30.60	A > S > I (Traditional)
1960-61	47.65	20.09	30.19	A > S > I (Traditional)
1961-62	46.25	20.80	30.85	A > S > I (Traditional)
1962-63	44.39	21.76	31.92	S > A > I (Traditional)
1963-64	43.24	22.74	32.19	A > S > I (Traditional)
1964-65	43.90	22.57	31.64	A > S > I (Traditional)
1965-66	40.53	24.38	33.76	A > S > I (Traditional)
1966-67	39.56	25.01	34.45	A > S > I (Traditional)
1967-68	42.02	23.89	33.07	A > S > I (Traditional)
1968-69	40.88	24.41	33.71	A > S > I (Traditional)
1969-70	40.85	24.62	33.28	A > S > I (Traditional)

1970-71	41.66	23.62	33.26	A > S > I (Traditional)
1971-72	40.47	23.97	34.14	A > S > I (Traditional)
1972-73	38.56	24.92	35.25	A > S > I (Traditional)
1973-74	39.54	23.99	34.82	A > S > I (Traditional)
1974-75	38.49	24.05	35.84	A > S > I (Traditional)
1975-76	39.86	23.62	35.06	A > S > I (Traditional)
1976-77	37.09	25.35	35.23	A > S > I (Traditional)
1977-78	37.98	25.24	35.38	A > S > I (Traditional)
1978-79	36.83	25.58	35.77	A > S > I (Traditional)
1979-80	33.89	26.13	38.57	S > A > I (Transitional)
1980-81	35.69	25.66	37.65	S > A > I (Transitional)

1981-82	35.35	26.23	37.49	S > A > I (Transitional)
1982-83	34.25	25.85	39.03	S > A > I (Transitional)
1983-84	34.97	25.86	38.25	S > A > I (Transitional)
1984-85	34.17	25.88	39.04	S > A > I (Transitional)
1985-86	32.91	25.94	40.36	S > A > I (Transitional)
1986-87	31.42	26.30	41.62	S > A > I (Transitional)
1987-88	29.86	26.81	42.76	S > A > I (Transitional)
1988-89	31.35	26.56	41.51	S > A > I (Transitional)
1989-90	29.89	27.10	42.58	S > A > I (Transitional)
1990-91	29.53	27.63	42.55	S > A > I (Transitional)
1991-92	28.54	27.33	43.91	S > A > I (Transitional)

1992-93	28.89	26.77	44.05	S > A > I (Transitional)
1993-94	28.24	26.73	44.76	S > A > I (Transitional)
1994-95	27.80	27.42	44.52	S > A > I (Transitional)
1995-96	25.73	28.44	45.69	S > I > A (Modern)
1996-97	26.19	28.03	45.51	S > I > A (Modern)
1997-98	24.47	27.95	47.53	S > I > A (Modern)
1998-99	24.39	27.28	48.24	S > I > A (Modern)
1999-2000	23.18	26.77	50.05	S > I > A (Modern)
2000-01	22.26	27.25	50.49	S > I > A (Modern)
2001-02	22.39	26.54	57.07	S > I > A (Modern)
2002-03	20.13	27.39	52.48	S > I > A (Modern)

2003-04	20.33	27.22	52.44	S > I > A (Modern)
2004-05	19.03	27.93	53.05	S > I > A (Modern)
2005-06	18.27	27.99	53.74	S > I > A (Modern)
2006-07	17.37	28.65	53.98	S > I > A (Modern)
2007-08	16.81	28.74	54.45	S > I > A (Modern)
2008-09	15.77	28.13	56.11	S > I > A (Modern)
2009-10	14.64	28.27	57.09	S > I > A (Modern)
2010-11	14.59	27.92	57.48	S > I > A (Modern)
2011-12	14.37	28.22	57.42	S > I > A (Modern)
2012-13	13.95	27.27	58.79	S > I > A (Modern)
2013-14	13.94	26.13	59.93	S > I > A (Modern)

Source : Ministry of Statistics and Programme Implementation Planning Commission, Government of India (2017)

Table 2 shows the percentage share of agriculture industry and services in the total GDP (at current prices). We can see that traditional production structure is present in the Indian economy, where the agricultural share is the dominant one. Agriculture contributes 51.81%. Whereas services contribution is the second with 33.25% and industrial contribution is the least with 14.16% (in 1950-51).

We can also see the share of agriculture sector keeps on declining whereas the share of industrial sector and service sector keeps on increasing. However the increase in the percentage share of service sector in GDP (at current prices) increases more rapidly than the percentage share of industrial sector. Overall the traditional production structure continues till 1975.

The production structure changes thereafter from 1975. Transitional production structure starts with services sector contributing the most to the GDP of the economy (40.05%) followed by agricultural sector contribution of 37.62% and then Industrial sector contribution with 22.19% (SAI).

This transitional production structure also ends after 1995 with services sector again contributing the most (46.5%), followed by industrial sector contribution (27.40%) and agricultural sector contribution (26.26%). This modern production structure (SIA) continues till date.

Table 3 also shows the percentage shares of the three sectors in the total GDP, which is calculated at constant price, keeping the year 2004-05 as the base year. The table shows mostly the same trend. With the traditional production structure till 1979, followed by transitional production structure till 1995 and then modern production structure till date.

It is clear from the percentage sectoral shares that the Indian structural change was unlike the structural change experienced by the developed nations. Indian service sector growth surpasses the industrial sector growth, leaving it behind. The reason for the rapid growth of the service sector is because of some key sectors of the service sector which has grown rapidly after the reform period of 1991. The Key sectors of the service sector were communication Banking sector, Information Technology (IT), community services, trade, transport, hotels and restaurants. Whereas the other sectors followed stagnant growth rate and could be termed as trend growers (Public administrator, Personal services, defense, etc.)

The determinants which were responsible for the growth of the service sector were openers to trade (Total exports + Total imports/Total GDP), Net Foreign Direct Investment (FDI) inflows, Domestic Credit to the private sector) Gross national expenditure, splintering of the industries, Increase in intermediate demand for inputs from service sector, increase in final consumption demand of services, increase in gross fixed capital formation, increase in per capita GNP.

### **Conclusion and Policy implications**

The organisation of Economic Cooperation and Development (OECD) in a report released in November 2012, has forecasted major shifts in global GDP by the year 2060. The report said that India is expected to overtake the US economy to become the second biggest in 2051. The report also forecasted that the combined GDP of china and India will exceed the combined GDP of G-7 nations by 2025. G-7 nations are regarded as the world's richest economics. They include Canada, France, Germany, Italy, Japan, United Kingdom, United States of America. It was also forecasted that the combined GDP of India and China will be 1.5 times. Larger than GDP of G-7 nations by 2060.

Still some economist rise the question of sustainability of India's service sector growth. They are of the view that emphasis should also be given on the manufacturing sector of the economy so that the economy can benefit further from it's formed and backward linkages. Secondly the policies should be framed in such a way that more sectors are privatised and trade restrictions should further be liberalised for greater growth of the economy.

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