

# *Development of Service Sector: Is There Any Hope for the Economies of North-Eastern States of India*

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## **1. Introduction**

Most of the economies of the world are passing through different stages in the process of globalisation. During this regime, a definite and distinguished pattern of structural transformation among these economies is being observed. One of the characteristic features displayed by these economies is better known as 'tertiarisation' of the economy. It means the share of service sector to the Gross Domestic Product is continuously rising. Mukhopadhyaya (2002) has shown on the basis of world development indicators that the economies of High Income countries like USA, Japan and France have been dominated by the service sector. The share of service sector in GDP was over 50 percent in these countries in 1980. Furthermore, these economies have been experiencing a rising trend, the share of service sector has increased to over 60 percent in 1999.

This phenomenon is also being observed among the South Asian countries like India, Pakistan, Bangladesh, Sri Lanka and Nepal where the regional average of the share of service sector was 37 percent in 1980. This has increased

to 47 percent in 1999. Specifically, in case of India share of service sector has increased from 36 percent to 46 percent during the same period. This clearly shows the growing importance of service sector during the era of globalisation. The expansion of service sector is expected to play a vital role in generating employment, trade and business opportunities in the most of the economies in future.

In this context it would be interesting to study the role of service sector in the economies of the North- Eastern states of India. The objective of this paper highlights some of the recent developments and trends in the service sector of this region. I have also analysed the structure of the service sector and the changes among the sub-sectors of the service sector for the period 1980-81 to 1995-96. An attempt is also being made to compare the structure of service sector of North- Eastern region with other Indian states. This paper further deals with the possibility of the growth of service sector in the North- Eastern region.

The rest of the paper is organized in the following manner. The second section highlights some of the important inter-state socio-economic features in the region; sectoral economic structure and trends in past decades in the region are discussed in third section. Fourth section deals with the structure of service sector and inter-state comparative analysis. Section 5 concludes the paper.

## **2. Salient features of the North- Eastern states of India**

The North- Eastern region of India comprises of seven states.<sup>1</sup> These states are Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and Tripura. The region as a whole accounts for 7.7 percent of the total geographical area of the country and has 3.88 percent of the total population. The states Mizoram, Nagaland, Meghalaya and Arunachal Pradesh

have predominantly tribal population. This region is rich in natural resources like land, water and forests resources, of which larger proportion is under utilized. Assam is, relatively speaking, a more economically active state surrounded by less economically active and smaller states. Population is mainly concentrated in Assam, where other states are relatively sparsely populated with lower population density.

Table 1 reveals some of the socio economic indicators of the North- Eastern states. Process of urbanization, which was initially slow before the independence, got momentum afterwards with the reorganization of administrative units: Urban nodes became service center and place for government jobs. Some industrial estates also developed in and around urban centers. The level of urbanization measured as percentage of urban population to total population is 13.89 percent in the region, which is significantly lower than the all India level of 25.71 percent in 1991. Assam Tripura and Nagaland are least urbanized states while Mizoram is most urbanized state (46.10 percent).<sup>2</sup>

(See Wide Table 1)

Economy of North- Eastern region is predominantly agriculture based. These are the places where most primitive form of cultivation i.e., slash and burn, is being practiced and there are places in the plains where modern techniques are increasingly being used in cultivation. The variety in economic structure and distribution has a significant impact on social settings, which is reflected in the behavior pattern of the people of the region.

Industrial sector is less developed in the region. There were only 177 large and medium scale industries in 1998, out of which 72.3 percent were in Assam alone, the other six states were sharing only 27.7 percent industries. Tripura, Nagaland and Mizoram were least industrialized states sharing

Table 1: Socio-Economic Indicators of the States in North-Eastern Region

STATE	Literacy Rate			FWFP	HH per Sq. Km	Prop. of workers		U. Level	Average Growth
	Total	Male	Female			Primary	Tertiary		
Arunachal Pradesh	41.59	51.45	29.69	37.49	02	67.44	23.90	12.80	5.63
Assam	52.89	61.87	43.03	NA	49	73.99	20.45	11.10	2.72
Manipur	59.89	71.63	47.60	38.96	13	70.00	20.34	27.52	1.48
Meghalaya	49.10	53.12	44.85	34.93	15	74.81	21.46	18.60	5.49
Mizoram	82.27	85.61	78.60	43.25	06	65.99	28.94	46.10	3.77
Nagaland*	61.65	67.62	54.75	37.96	13	75.26	21.26	17.21	7.02
Tripura	60.44	70.58	49.65	13.16	50	64.08	29.51	15.30	2.90
ALL INDIA	52.21	64.13	39.29	22.27	50	67.53	20.50	25.71	5.50

Note: Literacy rate is in percent, FWFP is female work force participation rate in percent, HH per sq.km. is household density per square kilometer, Prop. of workers is proportion of workers in primary and tertiary sectors in percent, U. Level is urbanisation level, in percent and Average Growth is average growth of GDP during 1987-88 and 1993-94, in percent. For All India, average growth rate is for GDP.

Source: Census of India, 1991 and Economic Survey 1996-97.

less than five percent of the industries. The distribution of small-scale industries (SSIs) depict almost similar picture, where almost half of SSIs of the region are located in Assam, while Arunachal Pradesh, Meghalaya, Mizoram and Nagaland share less than 10 percent industries in each state<sup>3</sup>. So, Assam is an industrially active state, relatively speaking while the other states of the region are yet to be industrially developed.

The Infrastructural sector is also less developed in the region in comparison to all India level. Per capita consumption of electricity for the year 1995-96 was much below the national average and lowest among Tripura, Arunachal Pradesh and Nagaland. Similarly, percentage of surface road to total road length is lowest in Assam.

The per capita net state domestic product at current prices for the year 1993-94 is also lower than per capita net domestic product at the national level except in Arunachal Pradesh<sup>4</sup>. These observations show that North- Eastern region is less economically developed than the rest of India.

Agriculture is the major economic sector with more than 65 percent rural population dependent for earning their livelihood from this sector. On an average 25 to 30 percent population earn their livelihood from tertiary sector. Level of urbanisation is low except in Mizoram. These states continue to show lower per capita net state domestic product (NSDP) than all India average. All the states of North- Eastern region again except Arunachal Pradesh show slower rate of growth of NSDP than all India during the period 1980-81 to 1995-96. This clearly shows that the economies of North- Eastern states are trapped in the state of low equilibrium. This fact is further substantiated by the higher and increasing rates of unemployment among these states (see Table 2).

(See Wide Table 2)



Despite these economic conditions the literacy rates are significantly higher among these states except in Assam and Meghalaya (see Table 1). However, female literacy rate is higher in all the seven states than all India average. The consequence of this is also reflected in higher female work force participation (FWFP) rate, which is significantly higher in these states except in case of Tripura.

### 3. Economic Structure of the North- Eastern States

Against this background we now describe the economic structure of the North- Eastern region states on the basis of sectoral share in NSDP. The sectoral composition of NSDP was not available for Mizoram, so, this study could not include Mizoram for further analysis.

As shown in Table 3 all the North- Eastern states were having highest share of service sector followed by agricultural sector in the year 1980-81. The manufacturing sector contributes as an average around 5 percent share of NSDP. The share of agricultural sector has shown to be continuously in a declining trend during the period 1980-81 to 1995-96. During same period the share of manufacturing sector has declined in Assam, whereas in other North- Eastern states it has shown increasing trend. But services sector in all the North- Eastern states have shown significant increase in their share to NSDP.

These trends give the impression that all is well so far as the structural change replicates the trend of other developed and developing economies of other states of India and abroad. But this may not be proven if we probe further into the inter-sectoral growth patterns for the economies of North- Eastern states during this period.

**Table 3: State-wise Sectoral shares in percentage of NSDP at 1980-81 prices**

State	Sector	1980-81	1985-86	1990-91	1995-96
Arunachal Pradesh	Agriculture	36.9	38.2	35.1	31.9
	Manufacture	6.5	6.1	6	6.9
	Service	56.6	55.7	58.9	61.2
Assam	Agriculture	44.2	38.8	38.1	35.1
	Manufacture	6.5	7.1	6.5	5.5
	Service	49.3	54.1	55.4	59.3
Manipur	Agriculture	45.6	39.6	32.9	30.81
	Manufacture	4.6	5.1	6	5.21
	Service	49.8	55.3	61.1	641
Meghalaya	Agriculture	37.7	35.5	26.9	21.1
	Manufacture	3.2	3.3	4.1	4.5
	Service	59	61.2	68.9	74.4
Mizoram	Agriculture	NA	NA	NA	NA
	Manufacture	NA	NA	NA	NA
	Service	NA	NA	NA	NA
Nagaland	Agriculture	27.5	27.1	18.5	181
	Manufacture	2.1	1.7	8	7.91
	Service	70.4	71.2	73.5	74.11
Tripura	Agriculture	45.8	42.2	37.4	31.31
	Manufacture	4.6	4.6	5	6.31
	Service	49.6	53.3	57.61	62.41

Source: Table 29 National Accounts Statistics of India, EPW Research Foundation, Mumbai, October 1997

Note: 1 for the year 1993-94.

We begin with analyzing the per capita NSDP, which was much below in these states than all India average in the year 1980-81. This should be kept in mind that most of the North- Eastern states have lower than national average population density. That is to show that lower per capita NSDP in fact reflects the smaller size of the economy among

these states. During the period 1980-81 to 1994-95 the all India per capita GDP have increased by 163 percent, while all the North-Eastern states have shown increase in their per capita NSDP lower than national average except in case of Arunachal Pradesh. This shows slower economic growth of North- Eastern states and further supports the hypotheses that these economies are trapped in the state of lower level economic equilibrium.

**Table 3a State-wise Sectoral shares in percentage of NSDP at 1980-81 prices**

State	Sector	1980-81	1995-96
Gujarat	Agriculture	36.9	31.9
	Manufacture	6.5	6.9
	Service	56.6	61.2
Goa	Agriculture	44.2	35.1
	Manufacture	6.5	5.5
	Service	49.3	59.3

Source: as in Table 3

Tables 4 and 5 show the state wise sectoral composition of service sector on the basis of their percentage contribution to NSDP at factor cost by industry of origin for the year 1980-81 and 1993-94 respectively.

(See Wide Table 4 and 5)

First we look the composition of service sector between the North- Eastern states for the year 1980-81. Arunachal Pradesh was having highest share of construction followed by the public administration among the service sector. Meghalaya has the highest share of public administration followed by construction. Nagaland also, shows similar composition of service sector. Tripura and Manipur show the highest share of construction followed by real estate and business services, while Assam has

**Table 4: State-wise Sectoral Composition of Service Sector and their contribution (in percentage) to NSDP at factor Cost by industry of Origin for the year 1980-81**

Service Sector	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura
Construction	18.7	4.5	6.5	11.7	-	14.5	4.5
Electricity, Gas & Water Supply	-3.0	0.5	-3.5	-0.3	-	-3.0	-1.5
Transport, Storage & communication	0.4	2.6	1.5	2.3	-	1.6	1.9
Trade, hotel & restaurants	4.4	11.7	5.3	10.7	-	7.6	6.9
Banking & Insurance	0.6	1.4	1.2	1.7	-	1.3	1.2
Real estate & business service	7.8	11.3	12.8	8.5	-	14.2	10.1
Public Administration	10.4	3.6	10.0	12.0	-	18.7	8.4
Other Service	7.0	9.8	12.4	8.4	-	12.0	7.9
Net State Domestic Product	100.0	100.0	100.0	100.0	-	100.0	100.0
NSDP (in Rs. Lakh)	9770	229887	19956	17962	-	10979	26445

Source: National Accounts Statistics of India, EPW Research Foundation, Mumbai, October 1997

**Table 5: State-wise Sectoral Composition of Service Sector and their contribution (in percentage) to NSDP at factor Cost by industry of Origin for the year 1993-94 at 1980-81 prices**

Service Sector	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura
Construction	22.4	4.4	9.1	10.2	-	30.6	3.9
Electricity, Gas & Water Supply	0.0	0.1	-3.8	1.9	-	-2.6	-3.5
Transport, Storage & communication	1.4	3.3	6.9	6.7	-	2.2	4.4
Trade, hotel & restaurants	6.9	12.7	3.9	12.8	-	4.4	6.8
Banking & Insurance	1.2	4.3	2.0	3.0	-	3.1	2.2
Real estate & business service	5.1	11.5	13.1	7.7	-	7.0	6.4
Public Administration	8.6	5.4	12.2	16.9	-	9.0	18.8
Other Service	12.0	9.9	15.2	11.8	-	12.1	22.4
Net State Domestic Product	100.0	100.0	100.0	100.0	-	100.0	100.0
NSDP (in Rs. Lakh)	27084	375392	37458	32005	-	28757	54298

Source: National Accounts Statistics of India, EPW Research Foundation, Mumbai, October 1997

highest share of trade, hotel and restaurants. Ironically, all the North- Eastern states have shown lowest share of banking and insurance and transport, storage and communication service sectors.

Let us see whether this scenario has changed during 1994-95 (better known as post globalisation era). For this we turn to Table 5, where we find that percentage share of public administration to NSDP has in fact increased in Assam, Manipur, Meghalaya and Tripura. Nevertheless, the share of construction has declined in Assam, Meghalaya and Tripura. Electricity, Gas and water supply have continued to show deficit in Manipur, Nagaland and Tripura. This clearly shows that major portion of the growth in service sector as shown in Table 3 was due to significant increase in public administration expenditure among the North-Eastern states, which is mainly financed and sponsored by the state. This implies that these economies are yet to develop a self-sustaining and growth oriented service sector.

The techniques of input-output analysis are helpful in quantifying the employment, output and income linkages of various economic sectors. But such information is not available for the North- Eastern states at a disaggregated level. But in another study for the other parts of India (Srivastav, 1985), it has been shown that expenditure on public administration has lower employment and output linkages, whereas construction and trade, hotel and restaurant (service sector) have relatively higher employment and income generating capabilities.

In the present context it can be said that for most of the North- Eastern states the growth of service sector may not be translated in to generating additional employment and income generating opportunities. Thus, this type of development may not address the major economic problems such as growing unemployment.

**Table 6: State-wise ranking of Sectoral Composition of Service Sector on the basis of their contribution to NSDP for the year 1980-81 and 1993-94**

Service Sector	Arunachal Pradesh	Assam	Manipur	Meghalaya	Mizoram	Nagaland	Tripura	Gujarat	Goa
Construction	1980-81 1	4	4	2	-	2	5	3	5
	1993-94 1	5	4	4	-	1	6	4	7
Electricity, Gas & Water Supply	1980-81 8	8	8	8	-	8	8	8	8
	1993-94 8	8	8	8	-	8	8	8	8
Transport, Storage & Communication	1980-81 7	6	6	6	-	6	6	6	2
	1993-94 6	7	5	6	-	7	5	5	1
Trade, Hotel & Restaurants	1980-81 5	1	5	3	-	4	4	1	1
	1993-94 4	1	6	2	-	5	3	1	2
Banking and Insurance	1980-81 6	7	7	7	-	7	7	5	7
	1993-94 7	6	7	7	-	6	7	2	3
Real estate & Business ser.	1980-81 4	2	1	4	-	3	1	2	3
	1993-94 5	2	2	5	-	4	4	4	6

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Public	1980-81	2	5	3	1	-	1	2	7	6
Administration	1993-94	3	4	3	1	-	3	2	7	5
Other Service	1980-81	3	3	2	5	-	5	3	4	4
	1993-94	2	3	1	3	-	2	1	3	4

Note: (1) Rank 1 denotes highest and rank 8 denotes lowest sectoral percentage share to NSDP.  
 (2) For Mizoram it cannot be calculated, as sectoral distribution of NSDP is not available.  
 (3) This table is derived from table 4 and 5 except for Gujarat and Goa.

Source: National Accounts Statistics of India, EPW Research Foundation, Mumbai, October 1997.

Similarly, transport, storage and communication and banking and insurance have higher forward and backward linkages, which in turn generate higher growth impulses and facilitate faster economic growth. Both of these service sectors are almost lopsided in North- Eastern states. One of the possible reasons may be that these sectors have higher forward linkages with the industrial sector and when industrial sector is not fully developed the inter-dependent service sectors are also not developed in these states.

(See Wide Table 6)

For the purpose of comparison, Table 6 demonstrates the ranking of sectoral composition of service sector on the basis of their contribution to NSDP for the year 1980-81 and 1993-94 for the North- Eastern states. Rank 1 denotes the highest and rank 8 denotes the lowest percentage share to the NSDP of respective states. It is evident by analyzing the Table 6 that the ranking orders of the various service sectors have not changed much during this period. This implies that the basic structure of the service sector has not changed despite the significant growth in the share of service sector to the NSDP for the North- Eastern states. It is evident, therefore that the post-globalisation situation and state incentives have not been able to generate sufficient push and pull to transform service sector which is required for more vibrant and growth oriented development for the economies of North- Eastern region.

#### **4. Service Sector Structure: an Inter-State Comparison**

We now look for the possibility of comparison of the structure of the service sector of North- Eastern states with the other states of India. We know that North- Eastern region comprises of six smaller states and one relatively bigger state i.e., Assam. For the purpose of comparison we look for one bigger and one smaller states but relative more

economically developed from rest of India. We select for this purpose Gujarat and Goa located in the western most part of India (table 3a).

We are fully aware of the limitations of such a type of comparison. It is important to note that the purpose here is not to compare Assam with Gujarat and Meghalaya with Goa as such. But what we are looking for that how the structure of service sector appears in a relatively economically developed state and transforms overtime.

If we compare Table 3 with Table 3a, we find that Assam does not have a very different economic structure from that of Gujarat and Arunachal Pradesh with Goa. Structural changes are also revealing almost similar trends. This may mislead us to think that the economies of North-Eastern states are also marching ahead on the right path of economic development. But when we compare the service sector structure with that of Gujarat and Goa we notice a significant difference.

In Gujarat, trade, hotel and restaurants have the highest contribution to service sector, followed by construction and real estate and business (see Table 6, column 10). What is more important is that the rank of banking and insurance sector have increased from 5 to 2 in case of Gujarat and from 7 to 3 in case of Goa during 1980-81 to 1993-94. Public administration has touched the bottom rank among the services sectors. Similarly, electrical, gas and water supply continue to show either deficit or lowest percentage contribution to the NSDP in all the North-Eastern states during 1993-94, but in Gujarat, it is not only positive but makes a significant contribution to NSDP. This shows that Gujarat could effectively implement the economic reforms in this sector and could revise the service charges to cover economic costs. We are yet to make these reforms in most of the North- Eastern states.

So, it is evident that in economically developed States of India, the service sector is contributing towards employment and income generating sectors and giving stimulus to economic growth. As a result of which per capita NSDP of Gujarat is more than double and in Goa it is more than triple of the per capita NSDP of Assam in the year 1994-95.

## 5. Conclusion

We have analyzed the economic structure of the North-Eastern States of India on the basis of National Account Statistic. These statistics were available only for the six North-Eastern states and not available for the Mizoram.

It was found that North-Eastern states are showing the trends of reduction in the share of agriculture sector and increase in the share of service sector to the NSDP during the period 1980-81 to 1993-94. But further structural analysis of service sector suggests that major contribution towards the growth of services sector is due to increase in public administration expenditure, though, construction and trade, hotel and restaurants sectors have also started developing in some of the North-Eastern states. But other important service sectors like transport, storage and communication and banking and insurance are yet to fully develop in this region.

Inter-state comparative analysis suggests that the states which are adopting more focused approach towards economic growth by implementing state level economic reforms policies will move ahead in future to give better employment and income generating opportunities and thus better standard of living to their people. For marching towards the balanced and sustainable economic development, North-Eastern states have to adopt and implement a more focused growth oriented policy measure.

## FOOTNOTES

1. Sikkim has also been included in North-Eastern region, under the jurisdiction of North-Eastern Council since 1997. However, as basic statistics on Sikkim is not yet published by the North-Eastern Council (Basic Statistics of Northeastern Region: 2000), therefore, we have excluded Sikkim as the part of North-Eastern region in this study.
2. See, Table-6, Basic Statistics of North-Eastern region 2000, North-Eastern C, Ministry of Home Affairs, Government of India, Shillong, based on Census of India 1991, Series – 1, paper-2 of 1992.
3. See, Table -148 and 149, Basic Statistics of North-Eastern region 2000, North-Eastern C, Ministry of Home Affairs, Government of India, Shillong,.
4. See, Table-129 and 175, Basic Statistics of North-Eastern region 2000, North-Eastern C, Ministry of Home Affairs, Government of India, Shillong, Table no. 129 and 175.

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