

# Performance And Problems Of Services Sector Growth In Karnataka State

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## Abstract

Today services sector has become the dominant component of the economy of Karnataka with its share in the economy crossing 70 per cent in terms of gross value added compared to the figure of 50 per cent at the beginning of the 21st century. Karnataka's service sector, including construction, contributes about 8.5 per cent of the services sector Gross Value Added (GVA) of the national economy. Given the importance of the sector in terms of the income it generates in the state, it is useful to understand its composition, growth and distribution across the geography of the state. This article highlights the performance the services sector in the state. Further, the article throws light on the challenges of the service sector in the state and suggest some policy prescriptions to overcome the challenges.

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## I. Introduction

Services sector has been the dominant of the three broad sectors in the Karnataka's economy accounting for nearly 70 percent of the total Gross Value Added in the recent years. Among the different sub-sectors of the economy, the state is well-known for its world class IT services industry, besides being a hub for a variety of scientific Research and Development services. Accelerated development of infrastructure over the years such as transportation has also laid the foundations for rapid expansion of services related to this sector in the state. The state has also seen steady development of education and health services over the years helping the creation of much needed improvement of human capital both in the state and also in the country as a whole. Building human capital, skilled labour force and infrastructure are the key steps on which the future expansion of the economy would be realised.

Even though economies around the world including that of India suffered setback during the last two financial years 2020-21 and 2021-22, as the Covid pandemic inflicted multiple waves of infections through different geographies in the advanced and developing countries. However, the services sector

played a remarkable role through these difficult years, as it provided the life line for the economy. The transportation, communication, public administration, health and education services kept the economy and society functioning. The advances in the ICT sector and its wide spread application provided a channel of interactions where physical interactions could not be done.

## II. Service Sector Contribution to GSDP

A distinguishing feature of Karnataka economy from the overall national perspective is not only the predominance of its services sector in terms of output but also the significant position of the computer related services. The contribution of different sectors including that of service sector to state economy in the last one decade starting from 2011-12 to 2019-20 is presented in the following table.

Table-1  
Sectoral Contribution to State GSDP (in %)

Sector	Contribution to Karnataka GSDP			
	2011-12	2017-18	2018-19	2019-20
Agriculture and Allied Activities	13.68	10.07	9.12	9.72
Industry	20.37	21.14	20.76	19.43
Services	65.95	68.79	70.12	70.85
Construction	9.11	6.44	6.40	6.35
Transport (also includes air transport)	4.54	4.82	4.81	4.79

Air Transport	0.07	0.20	0.15	0.15
Storage	0.05	0.03	0.03	0.03
Communication	1.47	1.31	1.34	1.33
Trade, Hotels and Restaurants	10.95	10.72	11.01	11.17
Financial Services	5.21	5.62	5.57	5.76
Real estate, Ownership of Dwellings and Business services (includes computer related services)	26.02	31.45	31.95	31.91
Computer related services	15.26	21.35	21.74	21.88
Public Administration	2.70	2.32	2.60	2.74
Other services	5.90	6.08	6.39	6.78
<b>TOTAL GSDP</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Economic Survey of Karnataka -2020-21, Department of Planning, Programme Monitoring and Statistics, Govt. of Karnataka

From the above table it is clear that in the last one decade compared to the share of other sectors share of service sector has increased immensely. In 2011-12 the share of service sector was 65.95 and by the turn of the decade it increased to 70.85 thereby contributing major share to state GSDP. Again within services, Trade, Hotels and Restaurants and Business Services, account for the large two subsectors after the Computer related services. The trade sub-sector reflects both the specialisation of production activities in the economy requiring trade and the increasing urbanisation which also enhances opportunities for trade. Even in the rural areas, all the consumption requirements are largely met through the market. The business services reflect the growing need for professional services to facilitate production and commerce. But in both the cases, their share in the overall economy is similar for the state and national levels. The sub-sectors of hotels and restaurants besides transport, are also crucial inputs to tourism, which has experienced growing domestic and international demand, generating employment in the state economy. The share of 'other services', which includes the social sector services such as education and health, and personal services, accounted for 6.8 per cent of the overall GVA in the state in 2019-20.

### III. Employment Generation and Service Sector

Economic growth has to be translated into employment growth to achieve the broader goals of policy. Employment will also be considered in terms of both number employed and quality of employment reflected in the wage payments. Given the large size of the service sector in the state economy, it is expected that it would also create a large demand for employment. There have been a number of studies that have explored the pattern of employment in the period of India's economic growth led by services. In this section a broad review of the pattern of employment that has been experienced in Karnataka economy in the last one decade is presented.

Data on the employment from National Sample Survey (NSS) 68th Employment Unemployment round, corresponding to the year 2011-12 and three rounds of Periodic Labour Force Survey (PLFS) viz., PLFS-I (2017-18), PLFS-II (2018-19) and PLFS-III (2019-20) are used for an assessment of the employment pattern. The data points to the fact that although the major share of working population of Karnataka economy is still engaged in agriculture and allied activities, there is a sharp increase in the share of services in employment in Karnataka between 2011-12 to 2019-20. Table -2 presents the employment structure across different sectors in the state economy from 2011-12 to 2019-20. The following disaggregation of the subsectors is based on the concordance of income category (reflecting the sector from which workers obtain their income) with NIC 2008 classification.

**Table-2**  
**Employment structure across different sectors from 2011-12 to 2019-20.**

Sectors	2011-12	2017-18	2018-19	2019-20
Agriculture & Allied Activities	49.8	46.0	41.5	46.6
Industry	12.6	12.1	11.5	12.0
Services	37.6	41.9	47.0	41.4
Construction	6.0	7.9	8.7	6.8
Trade	9.1	8.5	10.1	10.5
Hotels & Restaurants	2.9	2.9	2.8	2.6
Communication	0.3	0.4	0.4	0.2
Financial Services	1.0	1.2	1.7	1.3
Public Administration	1.6	1.8	1.6	1.3

Transport & Storage	4.3	6.0	7.1	5.9
Real Estate, Ownership of dwelling, Professional and Other Service	12.4	13.1	14.7	12.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Economic Survey of Karnataka -2020-21, Department of Planning, Programme Monitoring and Statistics, Govt. of Karnataka

While there are some important changes in the structure of employment, with the services sector increasing its share over time, how has the employment fared? Between 2011-12 and 2019-20 the employment in service sector went up from 9.5 million to 11.4 million i.e. an increase of 1.9 million during 2011-12 to 2019-20.

The changes in the shares of sectors discussed above are also reflected in the growth rates of employment summarised in table-3. Among the services, only trade, hotels and restaurants segments have registered positive growth of employment in 2019-20. The large fluctuations in the annual growth rates of employment at the sub-sector level are a concern in terms of the implications to the workers. While there is more stability at the aggregate level indicating flexibility in the labour market to absorb the shocks, there is a need to be watchful of these patterns.

**Table-3**  
**Growth of Employment across the sectors (Y-O-Y basis) from 2011-12 to 2019-20**

Sectors	2011-12 to 2017-18	2017-18 to 2018-19	2018-19 to 2019-20
Agriculture & Allied Activities	-1.93	-8.31	22.70
Industry	-1.41	-2.73	13.69
Services	0.72	13.99	-3.77
Construction	3.18	11.54	-14.87
Trade	-1.85	20.77	13.76
Hotels & Restaurants	-0.98	-1.66	1.90
Communication	4.95	-16.30	-37.90
Financial Services	2.51	37.10	-15.15
Public Administration	0.50	-8.12	-8.98
Transport & Storage	4.01	20.58	-9.34
Real Estate, Ownership of dwelling, Prof and Other Services	0.05	13.37	-4.90
<b>Total</b>	<b>-0.82</b>	<b>1.71</b>	<b>9.23</b>

Source: Economic Survey of Karnataka -2020-21, Department of Planning, Programme Monitoring and Statistics, Govt. of Karnataka

#### IV. Regional Disparity in Service Sector Growth

Though service sector is playing crucial role in the economy of Karnataka, the major problem is regional imbalances in its growth. Table-4 presents the share and growth rate of Service Sector across Districts in Karnataka average for the period 2011-12 to 2018-19.

**Table-4**  
**Share and Growth rate of Service Sector across Districts in Karnataka: average for the period 2011-12 to 2018-19**

Sl. No.	District	Average Growth Rate (of GVA from Services) (%)	Share in the State's Service Sector GVA (%)	Share of Services in District Domestic Product (DDP) (%)
1	Bengaluru Urban	10.6	42.4	83.4
2	Dharwad	8.2	2.7	74.7
3	Hassan	8.3	2.4	70.9
4	Uttara Kannada	7.9	1.8	69.1
5	Shivamogga	7.7	2.8	68.9
6	Bidar	8.2	1.4	67.3
7	Mysuru	8.8	3.4	67.2
8	Gadag	8.2	1.1	65.5
9	Mandya	8.3	2.5	64.8
10	Raichur	7.9	1.6	63.4

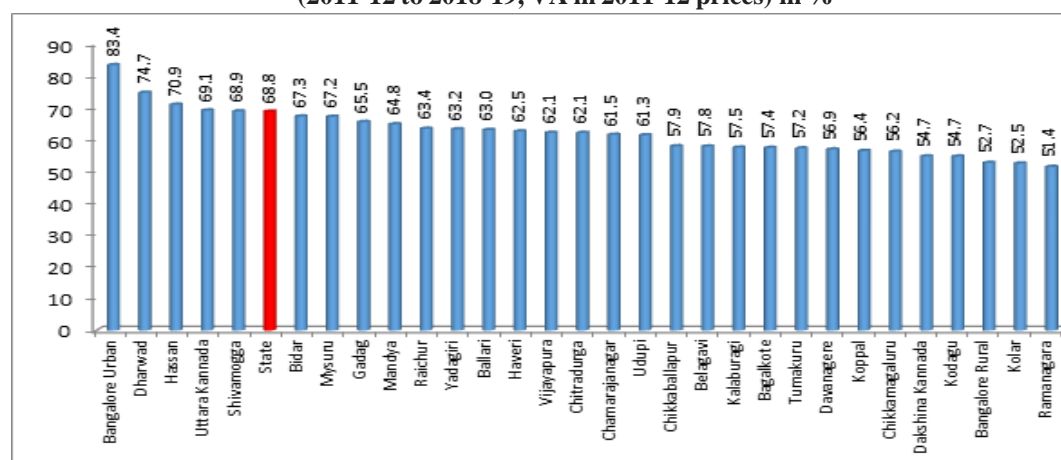
## Performance And Problems Of Services Sector Growth In Karnataka State

11	Yadagiri	8.0	0.9	63.2
12	Ballari	7.8	3.1	63.0
13	Haveri	8.1	1.4	62.5
14	Vijayapura	7.7	1.7	62.1
15	Chitradurga	8.1	1.4	62.1
16	Chamarajanagar	8.2	1.1	61.5
17	Udupi	8.8	2.4	61.3
18	Chikkaballapur	8.2	1.2	57.9
19	Belagavi	7.8	3.7	57.8
20	Kalaburagi	8.1	1.8	57.5
21	Bagalkote	8.1	2.1	57.4
22	Tumakuru	8.0	3.2	57.2
23	Davanagere	7.6	1.6	56.9
24	Koppal	7.9	1.0	56.4
25	Chikkamagaluru	8.3	1.9	56.2
26	Dakshina Kannada	8.6	4.8	54.7
27	Kodagu	8.0	0.5	54.7
28	Bengaluru Rural	8.9	1.3	52.7
29	Kolar	8.3	1.4	52.5
30	Ramanagara	8.6	1.2	51.4
	Karnataka	9.2	100.0	68.8

Source: Economic Survey of Karnataka -2020-21, Department of Planning, Programme Monitoring and Statistics, Govt. of Karnataka

As may be expected, Bengaluru Urban district is most prominent by the presence of services sector. Districts of Bengaluru Urban (83.4%), Dharwad (74.7%), Hassan (70.9%), Uttara Kannada (69.1%) and Shivamogga (68.9%) are the top five districts where major contribution to the district value added comes from service sector. Dakshina Kannada, Kodagu, Bengaluru Rural, Kolar and Ramanagara districts are in the bottom where service sector contribution is less than 55%.

**Figure 1: Average Share of Service Sector in Total Value Added across Districts of Karnataka (2011-12 to 2018-19, VA in 2011-12 prices) in %**



Bengaluru Urban is the major contributor to the State's Service sector value added as well. Bengaluru Urban district alone contributes 42% of the State's service GVA. However, Bengaluru Urban also has the highest share of 15 per cent state's population. In the year 2018-19, 56.9% of the Bengaluru Urban district's value added is from the sector Real estate, Ownership of dwelling and professional services. Bengaluru Urban being the IT hub, it is also the main contributor to the State's value added. Even with respect to the State's total value added across all sectors, Bengaluru Urban contributes 35%. Growth in the services sector is more or less uniform across districts with the highest being 10.6% (Bengaluru Urban) and lowest being 7.6% in Davanagere over the period 2011-12 to 2018-19. The pattern suggests that while services remain dominant part of the economy across most districts, growth in services is spurred by the overall momentum of economic growth in the state. The geographic spread of economic activities are strengthened by efficient infrastructure services, supporting movement of people and goods and access to basic inputs such as energy and communications are expected to improve distribution of economic activities across the state.

To understand the pattern of growth of services across districts further, we juxtapose district's per capita income with the share of service sector in Table-5. The districts in the last row and last column of the table have

either low per capita GVA or low level of services sector share in their economies. In these two categories, except for the two districts of Bidar and Bagalkot, other districts are either industrially developed or have dominant agricultural sector. In all the districts with high per capita income (value added) but with low share of service sector the industrial sector contributes more than 30 per cent of the GVA. In some of the districts with relatively low per capita income, services account more than 60 per cent of district level value added. But in the districts where agriculture is dominant they have medium or lower per capita income.

**Table-5**  
**Classification of Districts based on Per capita income (2011-12 prices) and share of services sector: average of 2011-12 to 2018-19**

Share of services in the district economy	Per capita income groups		
	High Per capita Income (Rs. 108695 & above)	Medium Per capita Income (Rs. 79101 to Rs. 108694)	Low Per capita Income (Upto Rs. 79100)
High Share of Service sector (63.4% & above)	Bengaluru Urban Shivamogga, Mandya	Gadag, Mysuru Uttara Kannada, Hassan, Dharwad	Bidar, Raichur (A)
Medium Share of Service Sector (57.5%-63.3%)	Bellari, Udupi	Chikkaballapura, Chamarajanagara	Kalburgi (A) Yadgir (A) Vijayapura (A) Belagavi (A) Chitradurga (A) Haveri (A)
Low Share of Service Sector (upto 57.4%)	Tumakuru (D) Ramanagara (D) Bengaluru Rural (D) Chikkamagaluru (D) Dakshina Kannada (D)	Kolar (A) Kodagu (A) Bagalkot	Koppal (A) Davangere (A)
Source: Economic Survey of Karnataka -2020-21, Department of Planning, Programme Monitoring and Statistics, Govt. of Karnataka			
Note: 1. Income categories: Low: Upto Rs. 79100; Medium: Rs 79101 to 108694; High: Rs 108695 and above 2. Service sector shares: Low: upto 57.4%; Medium: 57.5 – 63.3% and High: 63.4% and above 3. 'A' in parentheses indicates dominant agriculture & allied sector in the district and 'D' indicates the dominance of industry.			

## V. Conclusion

The state economy has transformed its output structure to reflect much larger share of services compared to agriculture and industry. This transformation reflects the pattern that has emerged at the national level but points to a faster pace of change in Karnataka as compared to the change in the national economy. A notable feature of the services sector in Karnataka is the prominence of computer and computer related sub-sector in its output share. While global demand has been a driving force behind the growth of the sector, expansion of applications of digital technology on the one hand and information processing in all sectors of the domestic economy on the other, are pointers to the potential for further growth of the sector in the future. The future scenarios will require technology enabled operations, be it communications, transportation, finance or manufacturing, to be competitive to meet the consumer needs in the domestic or global markets. The state policies will need to provide the framework for supporting the growth of the sectors to maintain the pace of the economic growth in the state. Besides, the growth of output, the share of services in employment is also rising but at a much slower rate than the output. While services enable productivity improvements in the other sectors, improved employment opportunities in the 'modern services' sub-sectors need to be accompanied by productivity improvements in the 'traditional services' as well. Forward looking policy initiatives relating to civil aviation, Tourism, IT and Biotechnology, construction need comprehensive approaches to support the growth of the sectors. The perspective of growth patterns across regions within the state also requires continued recognition in the policy approaches.

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