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Driving Force of Indian Economy: Tertiary Sector

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Introduction:

Role of tertiary sector contribution in Indian Economy is gradually increasing over last two decade. Services are economic activities-intangible such as banking, tourism, insurance, in contrast to tangible goods. The service sector has become the driving force for the Indianeconomy. The contribution of the services sector to the Indian economy has been manifold about 59 percent share in gross domestic product (GDP), growing by 10 percent annually, contributing to about a quarter of total employment, according for a high share in foreign direct investment (FDI) inflows and over one-third of total exports and recording very fast export growth (27.4 percent) through the first half of 2010-11. The deregulation of services, growing competition, fluctuation in demand and application of new technology has presented a considerable challenge to the service sector.

The economy of India is the eleventh largest in the world by nominal GDP and the third largest by purchasing power parity (International Monetary Fund). The country is one amongst the G-20 major economies. In 2011, the country's per capita income stood at $ 3,694 IMF, 129th in the world, thus making a lower middle-income economy.

The contribution of the service sector to the Indian economy has been very vital. This Sector contributed 55.2 percent share in Gross Domestic Product (GDP) and has been growing by 10 percent annually. Contributing to about a quarter of total employment, accounting for a high share in Foreign Direct Investment (FDI)inflows and over 1/3 of total exports and recording very fast export growth (27.4 percent) through the first half of 2010-11. It covers a wide range of activities, such as trading, transportation and communication, financial, real estate, and business services as well as community, social and personal services.

I. Service Sector after Post Liberalization

Employment Structure- There are four types of job. These are primary, secondary, tertiary, and quaternary jobs. Primary jobs involve getting raw material from the natural environment e.g., mining, farming, and fishing. Secondary jobs involve making things (manufacturing) e.g., making cars and steel. Tertiary jobs do not produce anything but involve providing a service e.g., teaching and nursing. Quaternary jobs involve research and development e.g., I.T.

Employment structure means

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how the work force is divided up between the three main employment sectors primary, secondary and tertiary. Employment structure changes over time.

Countries in the early stage of development usually have a high percentage of population in primary employment. This is because most people employed in agricultural activities. As a country begins to develop an industrial base there is an increase in the secondary sector. An increase in machinery on farms means fewer people are needed, people tend to migrate to urban areasto get jobs in factories. When a country becomes more economically developed, there is a greater demand for services such as education, health care and tourism. Therefore, the tertiary sector undergoes growth.

Service Sector after the Post-Liberalization Era

Services are the largest sector in the world, accounting for more than 70 percent of global output. The service revolution has altered the characteristic of services. Services now can be produced and exported at lower cost (Bhagwati, 1984). The old idea of services being non-transportable, non-tradable and non-scalable no longer holds for a range of modern impersonal services. Developing countries can sustain service-led growth as there is a huge room for catch up and convergence.

The globalization of services, however, provides alternative opportunities for developing countries to find niches, beyond manufacturing, where they can specialize, scale up and achieve explosive growth, just like the industrializes. As the services produced and traded across the world expand with globalization, the possibilities for all countries to develop based on their comparative advantage expand. That comparative advantage can just as easily be in services as in manufacturing or agriculture. The promise of the service revolution is that countries do not have to wait to get on the path to rapid development (Ghani, Ejaz 2010). There is a new way ahead.

An important aspect of the 'service-revolution' is that geography and levels of industrialization are no longer the primary determinants of the location of facilities for production of services. As a result, the traditional role of developing countries is also changing from mere recipients to important providers of long distance and high value services.

From India's point of view, these developments provide opportunities for substantial growth. For example, i) the fastest growing segment of the services is the rapid expansion of knowledge-based services, such as professional and technical services; India has a tremendous advantage in the supply of such services because of a developed structure of technical and educational institutions, such as this one, and lower labour costs.ii) Unlike most other prices, world prices of transport and communication services have fallen dramatically. Moreover, the cost of communication is also becoming independent of distance. The most dramatic example in this area is, of course, provided by the 'Internet' - India's geographical distance from several important industrial markets (for instance, North America) is no longer and important element in the cost structure of skill-based services.

According to the opinion of former RBI Governor Bimal Jalan"the death of distance, the services revolution and the mobility of capital" which characterise globalisation- present unprecedented opportunities for India. The primary sources of comparative advantages today are skills are ability to adopt and change. And India has the advantage- of skills, of entrepreneurship and of managerial competence in taking advantage of these changes.

The importance of the service sector can be gauged by looking at its contribution to different aspects of the economy.

II.Services GDP

India's gross domestic product (GDP) means the total value of all the services and goods that are manufactured within the territory of the nation during the specific period. Economic survey 2011-12 depicts rate of growth of India estimated to be 6.9%. Agriculture and services sector continue to perform well. The service sector continues to be a star performer as its share in GDP has climbed from 58 percent in 2010-11 to 59 percent in 2011-12 with a growth rate of 9.4 percent. Agriculture sector contributed 17.2 percent in GDP, whereas the Industrial sector contributes nearly 26 percent to the GDP. However, maintaining the growth momentum the service sector recorded expected growth rate to bottom out the industrial slow down across the globe.

Table-1: Sectoral Growth Performance of Indian Economy: 1999-2000 to 2011-12 (as on April, 2012)

Indicators

Years	Agriculturegrowth (%)	Industrygrowth (%)	Servicesgrowth (%)	India s Real GDP Growth Rates (Factor Cost)
1999-2K	0.5	4.6	9.5	6.04
2000-01	-0.2	6.4	5.7	4.35
2001-02	6.3	2.7	7.2	5.81
2002-03	-7.2	7.1	7.5	3.84
2003-04	10.0	7.4	8.5	8.52
2004-05	1.6	9.4	9.4	7.60
2005-06	5.1	9.7	10.9	9.49
2006-07	4.2	12.2	10.1	9.60
2007-08	5.8	9.7	10.3	9.30
2008-09	0.1	4.4	10.0	6.70
2009-10	1.0	8.4	10.5	8.40
2010-11	7.0	7.2	9.3	8.39
2011-12(AE)	2.5	3.9	9.4	6.88

Source: C.S.O. (Data book for DCH; 10 April2012)

The service sector along with the agriculture sector placed India in the top fastest growing economies of the world despite Euro zone crises and North American Economic instabilities.The economy has successfully navigated the turbulent years of the recent global economic crisis because of the vitality of this sector in the domestic economy and its prominent role in India's external economic interactions.

The Indian economy is the second fastest major growing economy in the whole world with the growth rate of GDP at 6.9 percent (table1) in 2012 financial year. The economy of India is the twelfth biggest in world for it has the GDP of US $ 1.676 trillion in 2011.

The economic survey 2011-12 reveals that the share of services in India GDP at factor cost (at current prices) increased from 33.5 percent in 1950-51 to 55.1 percent in 2010-11 and to 56.3 percent in 2011-12 as per Advance Estimates (AE). If construction is also included, the services sector's share increased to 63.3 percent in 2010-11 and 64.4 percent in 2011-12. This shows that the services sector in India accounts for over half of the county's GDP and probably a watershed in the evolution of the Indian economy.

The Reasons for Growth of Service Sector- The contribution of the services sector has increased very rapidly in the India GDP because many foreign consumers have shown interest in the country's service exports. This is since India has a large pool of highly skilled, low cost and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. So, they have started outsourcing their work to India especially in the field of business services which includes business process outsourcing and information technology services. Thus, both demand and supply factors have led to this growth. Economic affluence, changing role of women, IT revolution, development of markets, increased rate of consumerism, conservation of natural resources are the other important reasons for growth of service sector in India.

III. Services Employment in India- Although the primary sector (agriculture mainly) is the dominant employer followed by the services sector, the share of services has been increasing over the years while that of primary sector has been decreasing. There was a sharp fall in the share of primary sector employment between 1993-94 to 2004-05. The consequent rise in share of employment of the other two sectors was almost equally divided between the secondary and tertiary sectors. In 2007-08 compared to 2004-05, though the trend was similar, the fall in employment in primary sector was less (at -1.1 percent) with a small commensurate rise in employment in the other two sectors, which was again almost equally divided between the other two sectors (Table-2).

Table-2: Share of Broad Sectors in Employment (UPSS)

Sectors	Shares			Changes in Shares		
	1993-94	2004-05	2007-08	2004-05 over 1993-94	2007-08 over 2004-05	2007-08 over 1993-94
Primary	64.5	57.0	55.9	-7.5	-1.1	-8.6
Secondary	14.3	18.2	18.7	3.9	0.5	4.4
Tertiary	21.2	24.8	25.8	3.6	0.6	4.2

Source: Economic Survey 2010-11, pg. 238 (website: http://indiabudget.nic.in)

As per the National Sample Survey's Organization's (NSSO) report on Employment and Unemployment situation in India 2009-10, based onusually working persons in the principal status and subsidiary status, for every 1000 people employed in rural and urban India, 679 and 75 people are employed in the agriculture sector, 241 and 683 in services sector (including construction) and 80 and 242 in the industrial sector, respectively.

An upward trend in employment has been continuously observed since July 2009. At the sectoral level, the maximum increase of 2.04 lakh in employment during the period September 2011 over June 2010 was in IT/BPO sector.

Due to the globalization and the growth of the consumer market, several segments in various sectors of the industry have grown over the years such as information technology, personal and beauty care, and health care etc. With more and more segments coming up, there has been a high demand for quality work force. In the unorganised sector as well, there has been an increase in various sectors which has improved the rate of employment in the country. The pay package in all these unorganised sectors have also increased to a great extent.

The favourable economic growth has led to the development of infrastructure, health care facilities and services, per capita income and other factors which have really led to the high growth rate.

IV. Services in Global Market- Importance of the service sector has increased dramatically over the last decade nationally as well as globally. The year 2004 marked a turning point in the history of global trade in services, with growing acceptance of IT based global delivery modal. In the wake of changing global service landscape, Indian Information Technology (IT)and IT enabled Services (ITeS) continue to chart remarkable growth3. This growth has encouraged FDI into services sector.

Services Export

India is also moving towards a service-led export growth. During 2004-05 to 2008-09 as per the Balance of Payments data, merchandise and services export grew by 22.2 and 25.3 percent respectively. Services growth slowed in 2009-10 because of global recession, but the decline was less pronounced than the slowdown in merchandise export growth and has recovered rapidly in the first half of 2010-11 with a growth of 27.4 percent. The overall openness of the economy reflected by total trade including services a percentage of GDP shows a remarkable increase from 29.2 percent in 2000-01 to 53.9 percent in 2008-09 and 59 percent in 2011-12, though it dipped to 46.1 percent in 2009-10 due to the global crisis.

V. Important Services for India- Some Services have been particularly important for this improving performance in India. Software is one sector in which India has achieved a remarkable global brand identity. Tourism and travel related services and Transport services are major items in India's services. Besides these, the potential and growing services including many Professional Services, Infrastructure related services and financial services.

CSO's classification of the services sector falls under four broad categories, namely (a) trade, hotels, and restaurants; (b) transport, storage, and communication; (c) financing, insurance, real estate and business services; and (d) community, social and personal services. Among these, financing, insurance, real estate, and business services; and trade, hotels and restaurants are the largest group according for 16.7 percent and 16.3 percent respectively of the national GDP in 2009-10 (table4). The community, social and personal services category accounts for a 14.4 percent share, while transport, storage, and communication accounts for a 7.8 percent share construction, which is a borderline, service inclusion, has a share of 8.2 percent.

VI. Challenges and Policies- The service sector of Indian economy has been the most-high-powered sector in India's economy. Given the myriad activities in services, supporting its growth will requirecareful and differentiated strategies. The opportunities in this fast growing, employment oriented, FDI attracting sector; with vast export potential are striking. However, the challenges are also many.

One of the challenges in this area is to retain India's competitiveness in those sectors where it has already made a mark such as IT and ITeS and Telecommunications. Their deeper and broader use in the domestic sectors would also have a dramatic potential to increase the efficiencyand productivity of other goods and services.

The second challenge lies in making roads into some traditional areas such as tourism and shipping where other countries have already established themselves, but where the potential for India is nevertheless very high.

The third challenge is in making forays into globally traded services in still niche areas for India, such as financial services, health care, education, accountancy,and other business services where India has a large domestic market and has also shown recent signs of making a dent in the international market, but only a very small part of the full potential has been trapped (Economic Survey, 2011-12).

There are also challenges related to collecting better data and developing better co-ordinated strategies to pull together all the dispersed information.

While stating that India has begun to be a more open economy over the years and has moved up the ranks, the Economic Survey 2011-12 observes that it is still poorest among the G-20.While the country has an advantageous demographic dividend, its low spend on Research and Development and Innovation, low energy intensity of GDP,80 percent dependence on import for food security and a need for sustained investment are some of the areas which will have to be addressed for the country to emerge as a strong global player.

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