

# “Tertiary sector–A Back bone of Indian Economy”

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## **ABSTRACT**

Tertiary sector play a central role in the economies of both developed and developing countries. They account for over half of the gross domestic product of all developed economies and constitute the single largest sector in most developing economies. Main reasons behind the growth of services include rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy. The successful growth of the primary and secondary activities in the economy, to a large extent, dependent on services offered by banking, insurance, trade, commerce, entertainment, maintenance of machinery and equipment and numerous other services categorized as tertiary activities. There has been a structural change in the Indian economy since Independence. The last decade of the twentieth century witnessed major policy changes in the Indian economy and its constituent sub-national economies. The emergence of India as one of the fastest growing economies in the world during the 1990s is attributable to a significant extent to the rapid growth of its services sector. During the last decade, the Indian service sector grew at an average annual rate of nine per cent, contributing to nearly sixty per cent of the overall growth rate of the economy (World Bank, 2004). Most of the growth in services has been in information technology (IT), business process outsourcing (BPO) services and knowledge based activities; other sectors like telecommunications, financial services, community services and hotels and restaurants, have also grown considerably. Access to external markets and domestic reforms have played an important role in creating a dynamic Tertiary sector in India

## **1. INTRODUCTION**

Earlier to WTO regime, in India and other developing countries economies are agro based where Agricultural and industrial sector were the major contributors to nations GDP. The tertiary sector, now called service sector contributed little to nations GDP and was not given importance. But after globalization world economies are more vibrant and competitive. In this vibrant and competitive world economies service sector played and is playing predominant role in the economic development of a nation and Indian economy in particular.

In the light of this the assertion of the paper is that service sector slowly but surely is emerging as back bone of all economies world over in general and emerging economies and other less developed economies in particular. It is needed to maintain the tempo of services sector growth. Service sector is an important source of revenue to modern states. Service sector is the lifeline for the social economic growth

of a country. Today it is the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. Availability of quality services is vital for the well being of the economy. Not only in advanced economies but also in other economies the growth in the primary and secondary sectors is directly dependent on the growth of service sector.

In this context, the present study is an effort to analyze the significance of service sector in India.

## 2. Objectives of the study

1. To study the sectoral contribution to India's GDP
2. To study the sector wise contribution to employment
3. To study the trends in Indian service sector
4. To understand the importance of service sector in India

## 3. Methodology

In this study analytical method is followed to examine the importance of service sector in India. This study is based on secondary data collected from books, journals, working papers, reports, seminar proceedings and website sources. The collected information is used to analyze the role of service sector in employment creation, improving GDP level and economic development of the nation. These constitute the bases of conclusions.

## 4. Indian Service Sector – an overview

The growth of India's service sector has drawn global attention. Unlike other countries, where economic growth has led to a shift from agriculture to industries, in India there has been a shift from agriculture to the service sector. In this respect, India has been considered as an outlier among South Asia and other emerging countries (Ansari 1995). Gordan and Gupta (2003) and Jain and Ninan (2010) have, however, pointed out that with the rise in per capita income, the share of services in GDP increases. Kochhar et al. (2006) argued that India was a negative outlier in 1981 compared to other emerging markets as the share of services in value added and employment was below that of other countries. After the 1990s, the service sector grew, and in 2000 India became a positive outlier in terms of the share of services in value added but continued to be a negative outlier in terms of its share in employment.

Service sector in India include Trade, Banking, Insurance, Transportation, Communication, Hotels and Restaurants, Education, Personal services, Dwellings, Real Estate, Business Services, Public Administration, Defense, Business Process Outsourcing & other services.

## 5. Analysis and interpretation of role of Service sector

The service sector's role is explained by analyzing the data relating to Sector wise contribution to India's GDP, sector wise Growth in percentage contribution to GDP and percentage contribution to Nation's overall employment.

## Objective -1

To study the sectoral contribution to India's GDP

## Objective -4

To understand the importance of service sector in India

Table: 1 Sector wise contribution to India's GDP during the last 6 Quinquennial [percentages]

Sector	1985	1990	1995	2000	2005	2010
Agriculture	32.21	30.0	26.8	23.2	18.9	14.5
Industry	25.57	22.3	23.2	20.7	21.0	22.2
Service	41.83	47.7	50.0	56.1	60.0	63.3

Source: Central Statistical Organization [CSO]

The growth of the service sector accelerated in the late 1980s and in the late 1990s it surpassed the growth of industries to become the fastest growing sector of the Indian economy. In FY 2009, the service sector grown at 9.96% compared to 8.81% growth in the industry sector and 1.57% in agriculture. The compound annual growth rates (CAGR) of services in India from 2001 to 2010 was 9.4%. This implies that the share of services will be higher in the country's GDP in the future as it is growing at a faster rate.

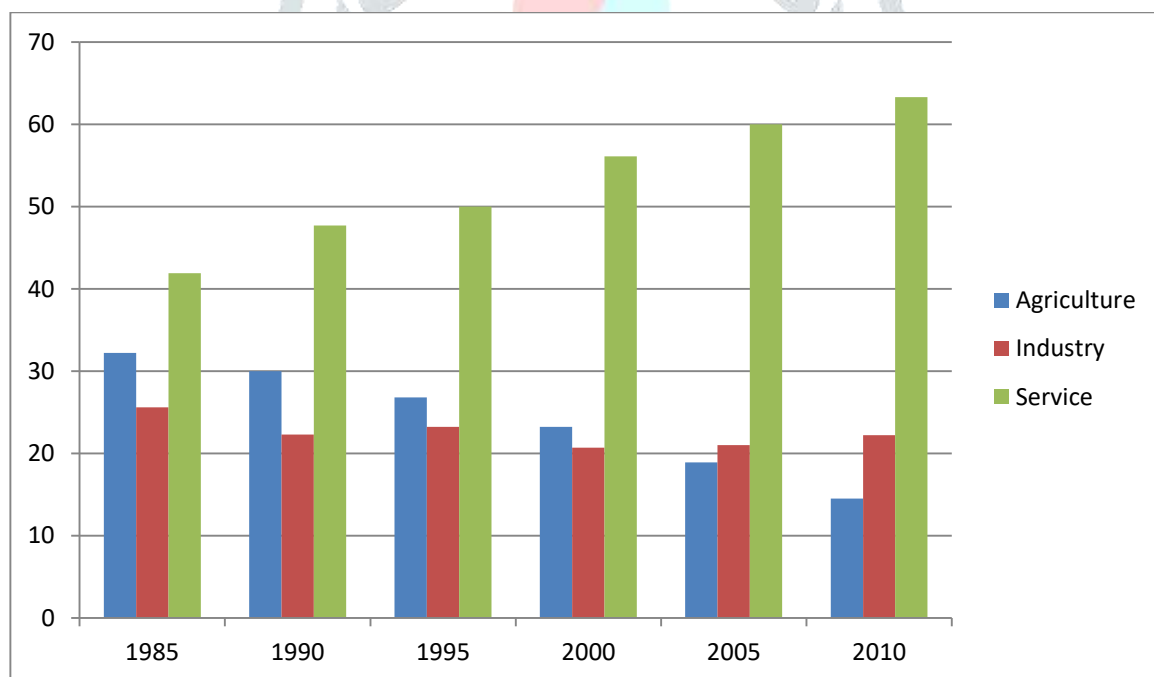


Fig -1: Sector wise contribution to India's GDP [percentages] at Factor Cost

Analysis: At present except China all developed and emerging economies development is service sector dominated development. Today service sector take a lead in country's development process. Service based economies are more advanced than agriculture and industry based economies. It is evidenced by the survey reports.

Table-2 showing growth in different sectors and growth in GDP in India during last 10 years

(Percentage) Factor Cost at 2004-05 Prices

Sector	Percentage increase in Agriculture	Percentage increase in Industry	Percentage increase in Services	Percentage increase GDP
2000-01	1.17	10.98	9.18	7.67
2001-02	8.25	4.89	10.89	8.72
2002-03	-2.72	12.42	10.11	7.75
2003-04	12.28	11.34	12.27	12.03
2004-05	3.81	21.50	12.74	13.16
2005-06	12.79	14.95	14.12	14.10
2006-07	13.36	19.53	16.19	16.60
2007-08	15.70	16.67	15.56	15.91
2008-09	12.75	12.78	18.42	15.75
2009-10	14.88	13.03	16.41	15.18

Source: Central Statistical Organization [CSO]

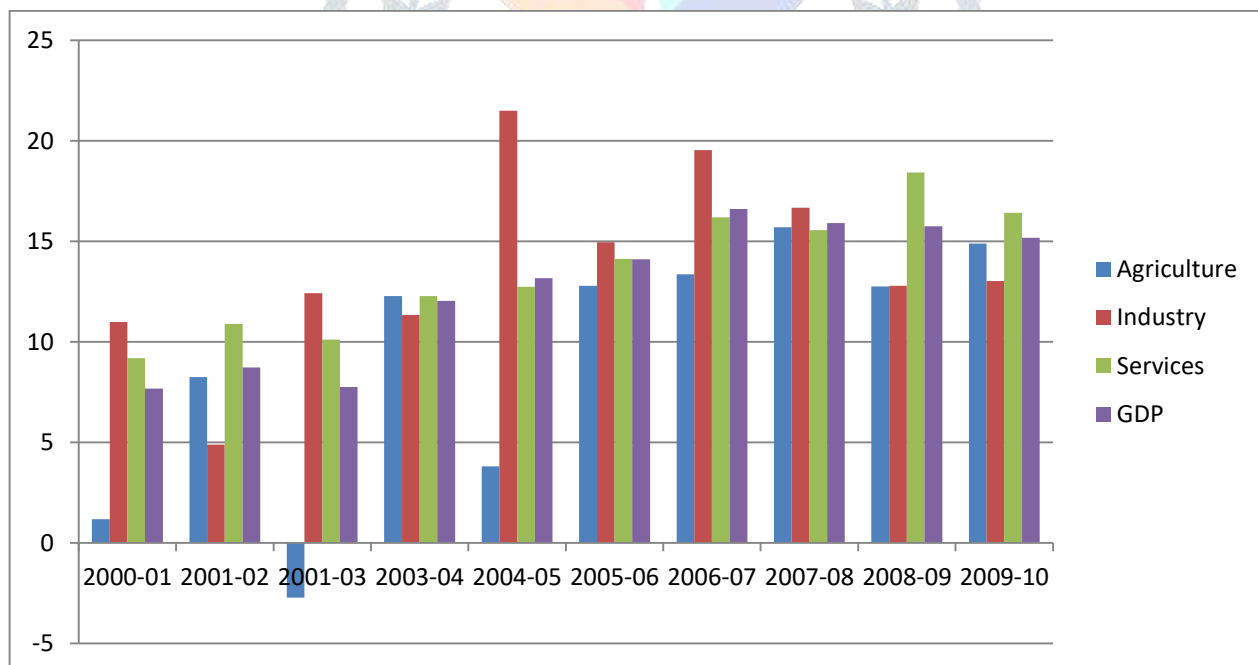


Fig-2: Showing growth in different sectors and growth in GDP in India during last 10 years (Percentage) Factor Cost at 2004-05 prices

Analysis – the percentage increase in contribution of services sector to India's GDP is marginally high compared to agriculture sector. The industrial sector is also contributing significantly to GDP.

## Objective -2

To study the sector wise contribution to employment

Table -3: Showing Sector wise Contribution to employment opportunities in India during last 3 Quinquennial (Percentage)

Sectors	Agriculture	Industry	Services
1999-2000	61.7	15.9	22.4
2004-05	58.5	18.1	23.4
2009-10	53.2	21.5	25.3

Source: NSS Office reports on employment and unemployment in India

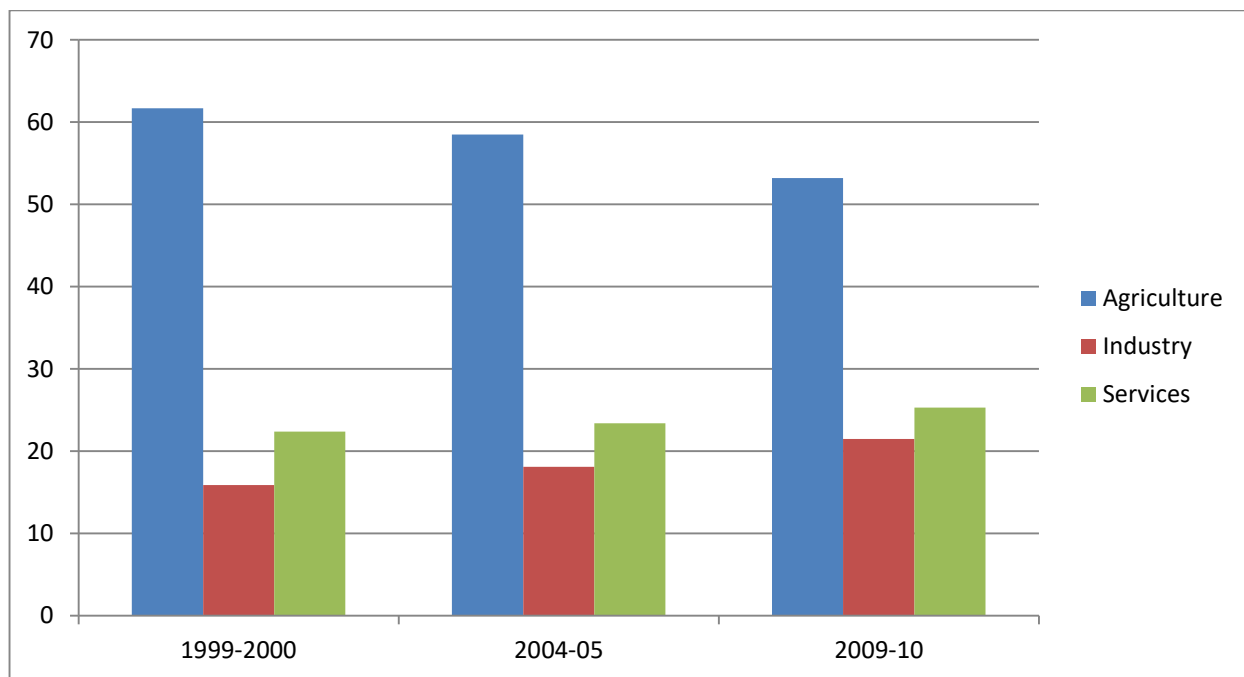


Fig: 3 Sector wise Contribution to employment opportunities in India during last 3 Quinquennial (Percentage)

Analysis: In FY2009, services accounted for around 22.4 % of total employment, it was 23.4% and 25.3% during 2004-05 and 2009-10 showing increasing trend where as in sector there is decline in percentage contribution to overall employment.

Overall, employment in the service sector in India is lower than its share in GDP, but it is growing. The sector has the largest share of organized employment, but within services, the organized share is small with the public sector dominating. The private sector has not been very successful in creating organized service sector employment.

## 6. Findings and Future Expectations

- Globally outsourcing industry would continue to grow.
- Following the success of US and UK, more countries in the European Union would outsource their business.
- Technological power shift from the West to the East as India and China emerge as major players.

- Political backlash over outsourcing would come down as companies reap the benefit of outsourcing.

## CONCLUSION:

In the post LGP knowledge based economic scene service sector has vast potentiality to grow and prosper. In India with demographic dividend, service sector has greater role to play in the economic growth of the country. The share of services in India's total trade is higher than the global average. In India number policies and schemes, numerous governing bodies are there for inclusive growth but, there is lack of coordination among them which adversely affect the growth of the economy. There are some services which are not governed by the existing regulation or even if they are covered the regulations are outdated. The Government should provide necessary infrastructure facilities and create conducive legal environment for private players in the service sector to operate.

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