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Tertiary Sector And Economical Growth – Indian Experience

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1. INTRODUCTION: Capital is the engine of economic development and this statement is gaining importance in recent times. Traditionally, the various sources of capital for developing countries were either the demand of their output by industrial countries or foreign aid or loans from foreign banks. Today, foreign direct Investment is considered to be the major source of funds which may contribute in increasing the growth of service sector in developing countries. FDI is playing a growing role in the service sector development. In India, FDI played a limited role before 1991 in service sector. However, the globalisation of services has taken place with substantial expansion in trade and FDI in services.

Globalization in India started in the early 1990's and it has opened up a plethora of new business challenges and opportunities. Globalization and liberalization principles widened the horizon of country's economical growth. Presently, India is regarded as an economy dominated country rather than politics driven. According to the estimates by the *Ministry of Statistics and Programme Implementation (MSPI)*, the Indian economy has registered a growth of 7.4 per cent in 2009-10, with 8.6 percent year-on-year (y-o-y) growth in its fourth quarter. The growth is driven by robust performance of the manufacturing sector on the back of government and consumer spending. GDP growth rate of 7.4 per cent in 2009-10 has exceeded the government forecast of 7.2 per cent for the full year. According to government data, the manufacturing sector witnessed a growth of 16.3 per cent in January-March 2010, from a year earlier.

Economic activities which showed significant growth rates in 2009-10 over the corresponding period last year were mining and quarrying (10.6 per cent), manufacturing (10.8 per cent), electricity, gas and water supply (6.5 per cent), construction (6.5 per cent), trade, hotels, transport and communications (9.3 per cent), financing, insurance, real estate and business services (9.7 per cent), community, social and personal services (5.6 per cent). The Gross National Income is estimated to rise by 7.3 per cent in 2009-10 as compared to 6.8 per cent in 2008-09. The per capita income is estimated to grow at 5.6 per cent in 2009-10.

The number of registered foreign institutional investors (FIIs) was 1710 as on May 31, 2010 and the total FII inflow in equity during January to May 2010 was US$ 4606.50 million while it was US$ 5931.80 million in debt. Net investment made by FIIs in equity between June 1, 2010 and June 14, 2010 was US$ 530.05 million while it was US$ 875.73 million in debt. As on June 4, 2010, India's foreign exchange reserves totaled US$ 271.09 billion, an increase of US$ 9.88 billion over the same period last year, according to the Reserve Bank of India's (RBI) Weekly Statistical Supplement.

Moreover, India received foreign direct investment (FDI) worth US$ 25,888 million during April-March, 2009-10, taking the cumulative amount of FDI inflows during August 1991 - March 2010 to US$ 1, 32,428 million, according to the Department of Industrial Policy and Promotion (DIPP).

3. TERTIARY SECTOR AND ECONOMIC GROWTH: Among fast growing developing countries, India is distinctive for the role of the service sector. India stands out for the size and dynamism of its service sector. Service Sector in India today accounts for more than half of India's GDP. The fact that the service sector now accounts for more than half the GDP marks, a watershed in the evolution of the Indian economy and takes it closer to the fundamentals of a developed economy.

There was marked acceleration in services sector growth in the eighties and nineties, especially in the nineties. While the share of services in India's GDP increased by 21 per cent points in the 50 years between 1950 and 2000, nearly 40 per cent of that increase was concentrated in the nineties. While almost all service sectors participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden growth in the services sector in India in the nineties was the liberalisation in the regulatory framework that gave rise to innovation and higher exports from the services sector.

The boom in the services sector has been relatively "jobless". The rise in services share in GDP has not accompanied by proportionate increase in the sector's share of national employment. Some economists have also cautioned that service sector growth must be supported by proportionate growth of the industrial sector. If it does not happen so, the service sector growth will not be sustainable. In the current economic scenario it looks that the boom in the services sector is here to stay as India is fast emerging as global services hub.

The Services Sector contributes the most to the Indian GDP. The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that 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. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP.

The Tertiary Sector in India has the biggest share in the country's GDP for it accounts for around 53.8% in 2005. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further, the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990- 1991 to around 51.16% in 1998-1999. The services sector has maintained a steady growth pattern since 1996-97, except for the fall in 2000-01. Trade hotels, transport & communications have witnessed growth, followed by financial services. The services sector accounted for 62.6% of India's total GDP in 2009.

According to the information released by *Ministry of Statistics and Programme Implementation*, the service sector scenario in connection with the Indian economy has been summarized as follows.

- The services sector comprising financial and non-financial services attracted 21 per cent of the total FDI equity inflow into India, with FDI worth US$ 4,392 million during April-March 2009-10, while construction activities including roadways and highways attracted second largest amount of FDI worth US$ 2,868 million during the same period. Housing and real estate was the third highest sector attracting FDI worth US$ 2,844 million followed by telecommunications which garnered US$ 2,554 million during the financial year 2009-10.
- Foreign tourist arrivals in India during the month of May 2010 were 345,000, an increase of 15.5 per cent over May 2009. Foreign tourist arrivals during January-May 2010 were 2.263 million, an increase of 11.3 per cent over the corresponding period last year. Foreign exchange earnings during May 2010 were US$ 951 million, an increase of 42.2 per cent over May 2009. Foreign exchange earnings during January-May 2010 were US$ 5822 million, an increase of 38.3 per cent over the corresponding period last year, according to data released by the Ministry of Tourism.
- The total telephone subscriber base in the country reached 638.05 million in April 2010, taking the overall tele-density to 54.10, according to the figures released by the Telecom Regulatory Authority of India (TRAI). Also the wireless subscriber base increased to 601.22 million.
- According to the Ministry of Civil Aviation, domestic airlines carried 211,380 passengers between January-May 2010, an increase of 21.95 per cent over 173,340 passengers carried in the same period last year.
- The HSBC Market Business Activity Index, which measures business activity among Indian services companies, based on a survey of 400 firms, rose to 62.1 in April 2010, its highest since July 2008, and compared with 58.1 in March 2010.

Growth of Tertiary Sector: The service sector in India has been growing year by year. Table 1 provides information about the service components of Indian GDP from 2004-05 to 2009-10. The table consists of three major groups of service sector. They are: Trade, Hotel, Transport and Communications in the first group, Finance, Insurance, Real Estate and Business Services in the second group and all other services including construction in the third group. The values given in the table are at factor cost taking 2004-05 as the base year.

TABLE - 1: Service Components of Gross Domestic Product (At factor cost)

Base Year:2004-05 (Rupees crore)

Year	Services (Including Construction)		Trade, Hotel, Transport and Communications		Finance, Insurance, Real Estate & Business Services	
	Constant Prices	Current Prices	Constant Prices	Current Prices	Constant Prices	Current Prices
2004-05	1807207	1807207	727897	727897	435784	435784
2005-06	2010826	2078027	815710	845496	491574	494513
2006-07	2216287	2408669	910822	990187	562878	586159
2007-08	2447719	2785720	1008603	1129387	637223	695861
2008-09	2674266	3295337	1084764	1286380	701338	839232
2009-10	2895824	3694362	1185190	1436650	769390	952309

Note : Data for 2007-08 are Provisional, 2008-09 are based on Quick Estimates and data for 2009-10 are based on Revised Estimates.

Source: Central Statistical Organisation.

It can be noticed from the above table that the contribution of service components to the Indian GDP has been increased gradually from 2004-05 to 2009-10. Similarly, the average growth in service sector in connection with its various activities has been given in the table 3.

Table 2: Growth Rates and Sectorial Shares of Different Services in India

Sector Activities Included	Avg. Growth Rate in			
	1950–79 (Share in 1980)	1980–89 (Share in 1990)	1990–99 (Share in 2000)	2000-08 (Share in 2008)
Trade (distribution services): Wholesale and retail trade in commodities both produced at home and imported, purchase and selling agents, brokers and auctioneers	4.8 (10.6)	5.7 (11.2)	7.0 (13.1)	7.7 (13.9)
Hotels & Restaurants: Services rendered by hotels and other lodging places, restaurants, cafes and other eating and drinking places	4.8 (0.81)	5.9 (0.89)	9.1 (1.3)	9.2 (1.5)
Railways	4.2 (1.6)	4.1 (1.5)	3.3 (1.2)	6.7 (1.2)
Transport by other means: Road, water, air transport, services incidental to transport	6.3 (3.6)	6.7 (4.0)	6.9 (4.6)	8.7 (5.3)
Storage	5.5 (0.14)	2.6 (0.11)	2 (0.1)	3.1 (0.1)
Communication: Postal, money orders, telegrams, telephones, overseas communication services, miscellaneous	6.7 (0.66)	5.8 (0.7)	13.8 (2.0)	22.8 (4.9)
Banking: Banks, banking department of RBI, post office saving bank, non-bank financial institution, co-operative	7.2 (1.9)	10.0 (3.3)	10.6 (5.0)	7.6 (5.6)

credit societies, employees provident fund				
Insurance Life, postal life, non-life	7.1 (0.55)	9.6 (0.62)	2.2 (0.61)	14.3 (1.1)
Dwellings, real estate	2.6 (4.5)	7.2 (5.8)	4.8 (5.2)	2.5 (3.9)
Business services: Renting of machinery, computer related services, accounting, research etc.	4.2 (0.42)	9.1 (0.7)	15.9 (2.1)	17.3 (3.6)
Legal services	2.6 (0.13)	8.1 (0.2)	5.6 (0.2)	3.6 (0.14)
Public administration, defence	6.1 (5.7)	6.7 (6.4)	5.9 (6.7)	4.0 (5.6)
Personal and Other services: Domestic, laundry, barber, beauty shops, tailoring, recreation, entertainment, radio, TV, broadcast, sanitary services	1.4 (2.4)	2.5 (1.9)	4.7 (1.8)	5.9 (1.7)
Community services Education, research, scientific, medical, health, religious and other community	4.8 (4.6)	7.5 (5.1)	7.5 (6.3)	6.9 (6.2)

Source: Central Statistical Organisation

The above table discloses the average growth rate of various activities including Trade, Hotels & Restaurants, Railway, Transport, Storage, Communication, Banking, Insurance, Real estate, Legal services, Personal and Other services and Community services during the period of 1950-79, 1980-89, 1990-99 and 2000-2008.

Table 3: Inflow of Foreign Investment

Year	Gross inflows/ Gross Investments		Repatriation/ Disinvestment		Direct Investment to India	
	Billion	US $ Million	Billion	US $ Million	Billion	US $ Million
1	2	3	4	5	6	7
2000-01	184.04	4029	0.00	0	184.04	4029
2001-02	292.69	6130	0.24	5	292.45	6125
2002-03	246.81	5035	2.84	59	243.97	4976
2003-04	198.30	4322	0.00	0	198.30	4322
2004-05	272.34	6051	2.87	65	269.47	5986
2005-06	397.30	8961	2.73	61	394.57	8900
2006-07	1030.37	22826	3.85	87	1026.52	22739
2007-08	1398.85	34843	4.65	116	1394.20	34727
2008-09	1914.00	41873	8.00	166	1906.00	41707
2009-10	1796.00	37745	218.00	4637	1578.00	33108
2010-11	1500.00	34847	319.00	7018	1181.00	27829

2011-12	2200.00	46553	650.00	13598	1550.00	32955

Source: Reserve Bank of India

Note : 1. Data for 2009-10, 2010-11 and 2011-12 are provisional.

2. Data from 1995-96 onwards include acquisition of shares of Indian companies by non-residents under Section 6 of FEMA, 1999. Data on such acquisitions are included as part of FDI since January 1996.

3. Data on FDI have been revised since 2000-01 with expanded coverage to approach international best practices.

4. Negative (-) sign indicates outflow.

5. Direct Investment data for 2006-07 include swap of shares of 3.1 billion.

4. CONCLUSION: India's services sector has witnessed tremendous growth in the last ten years. But this growth has not been accompanied by a corresponding growth in employment in the service sector. India is distinctive for the rapid growth of its service sector – high-tech information technology, communication and business services in particular. However, whether the service sector provides a route out of poverty for the masses and thus a path to economic development is disputed. Some say that the high skill and education requirements of modern service sector jobs make them an impractical destination for the rural masses. Others counter that as more skilled and educated workers "graduate" from manufacturing and traditional services, they open up economic space there for less educated workers capable of upgrading their skills. They argue that the skilled unskilled mix of the manufacturing and service sectors, each taken as a whole, is not as different as commonly supposed. Some say that much non-traditional service sector employment is little more than the outsourcing (re-labelling) of activities previously undertaken in-house by manufacturing firms. Others counter that much of the growth of service sector employment represents job creation as opposed to outsourcing.

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