

IMPLICATION OF THE TERTIARY SECTOR IN THE INDIAN ECONOMY – BIRD’S EYE SCRUTINY OF TAMILNADU’S TERTIARY SECTOR AND THE OVERALL CONTRIBUTION TO GDP

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Abstract: The transition of an economy from the primary and the secondary sectors towards the tertiary sector paves way for the development of a country. The predominance of the service sector not only contributes towards increasing the GDP but also enables to achieve the Millennium development goals put forth by the UN. The tertiary sector plays an invincible role in accelerating the developmental process of an economy by contributing nearly 50% towards the GDP. The service sector in India accounted for a colossal 60.7% of FDI equity inflows during 2016-17 as cited by IBEF. This makes it evident that international trade and investment flourishes with the growth of the service sector. The tertiary sector is a paramount provider of employment opportunities. In India as well as in the global landscape the service sector has widely influenced the economic, political and social scenario. Tamil Nadu being the fourth largest state of India has also seen a manifold increase in the number of services and their growth prospects. Growth of IT and IT Enabled Services (ITES) in Tamil Nadu has created a conducive climate for the service sector. Unpropitious governmental policies and red tapism in Least Developed Countries (LDCs) and Land Locked Developing Countries (LLDCs) pose challenges for the service sector. In the Indian context, the ever growing population and lack of vital data makes the implementation and evaluation of government policies in the service sector a Herculean task. This paper strives to emphasize on the gargantuan potential of the service industry and the impediments faced by it.

Keywords: GDP, Tertiary Sector, Growth.

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I. Introduction

India, being an agrarian economy witnessed a paradigm shift directly from the agricultural sector to the tertiary sector. Following the foreign exchange crisis in 1980's the Indian service sector slumped. Majority of the service industries were government owned and the contribution of the service sector was negligible. The introduction of Liberalisation Privatisation Globalisation (LPG) reforms was a beacon of hope for the Indian service sector. Opening up of the Indian economy and integrating the country's economy to the world market acted as a catalyst for the growth of the service sector. Trade barriers were removed, licensing regulations were relaxed and government monopolies were drastically reduced, handing over more power to the private sectors. These policies encouraged export of services and goods and filled the coffers of the government with foreign exchange. The LPG reforms bailed India out of a severe bankruptcy crisis. The Indian service sector from then witnessed a gradual and steady advancement. Provision of knowledge based has been India's forte. According to Deloitte India's service sector is one amongst the fastest growing in the world at 9.2% in 2015-16. Though the share of GDP is high the share of services employment has remained at just 28% in 2014. Efforts have been taken by the government in order to increase the commercial service exports. Nearly 34% of the manufacturing jobs are service related functions. The Confederation of Indian Industries (CII) states that the Indian service industry has the potential of becoming a multi-trillion dollar industry. IT, telecom, media and entertainment, health care, banking and financial services, retail, railways, environment, energy, logistics, exhibition and events, facility, education, space, skills, start-ups, and sports are a few service sectors where India has huge scope for growth. The worldwide IT service market is expected to reach \$938 billion in 2017 and the global IT spending is expected to reach \$3.5 trillion as stated by CII. There has also been a steep increase in the demand for cost effective IT services in the ASEAN countries. Environmental, space, sports, tourism, facility management, event and exhibition services are some non-conventional sectors that have a lucrative future. Apart from providing a plethora of services, the Indian industry has also met high standards of sophistication in certain key service areas making it globally competitive and sought after.

II. Need Of The Study

This study will acknowledge that the service sector is the life blood of any economy and the contribution of the sector towards a country’s holistic development. The future prospects of the sector and the major issues faced by the sector are elucidated in the Indian context with regard to Tamil Nadu.

III. Review Of Literature

The significance of LPG reforms was highlighted by Chanda 2002, Gordan and Gupta 2003. Lack of an comprehensive service sector policy was pointed out by Banga 2005 .

Mukherjee Arpita, (2012) cited the issues, future prospects and suggested policy reforms for developing the service sector in her paper. Prasad and Satish (2010) emphasised on the importance of time bound implementation of suitable policies. Bosworth, Collins and Virmani (2007) studied the role of services in contributing towards economic progress.

Basu and Maertens 2007, Kochhar, Kalpana, Ioannis 2006, Joshi 2008 elaborated on barriers such as lack of decent employment opportunities, lack of skilled workforce , poor business environment respectively in their papers. A paper by Barry and Gupta (2012) described the structural changes in the service sector using national as well as trans- national statistical figures.

A study conducted by Deloitte in partnership with CII traces the current trends in the Indian tertiary sector; problems faced and suggest suitable policy alternatives.

Objectives Of The Study:

- To study the importance of the service sector in the Indian economy and contribution of the sector towards the SGDP of Tamil Nadu.
- To identify the barriers to the development of the service sector and propagate appropriate suggestions.

IV. Research Methodology

The study is based on secondary data that has been obtained from journals, newspapers, government websites and articles. The study is descriptive in nature.

Analysis

India’s service sector contribution towards the GDP can be analysed with the help of the following table:

Table No.1: Annual GVA and GDP Growth (%)

Gva At Basic Prices From	2014-15	2015-16	2016-17	2017-18(1 st Ae)
Agriculture, Forest & Fishing	-0.2	0.7	4.9	2.1
Industry	7.5	8.8	5.6	4.4
Mining & Quarrying	11.7	10.5	1.8	2.9
Manufacturing	8.3	10.8	7.9	4.6
Electricity, Gas, Water Supply & Other Utility Services	7.1	5.0	7.2	7.5
Construction	4.7	5.0	1.7	3.6
Services	9.7	9.7	7.7	8.3
Trade, Hotel, Transport, Storage, Communication & Services Relating To Broadcasting	9.0	10.5	7.8	8.7
Financial, Real Estate & Professional Services	11.1	10.8	5.7	7.3
Public Administration, Defence & Other Services	8.1	6.9	11.3	9.4
Gva At Basic Price	7.2	7.9	6.6	7.1
Gva At Market Price	7.5	8.0	7.1	6.5

Source: Cso Based Data.

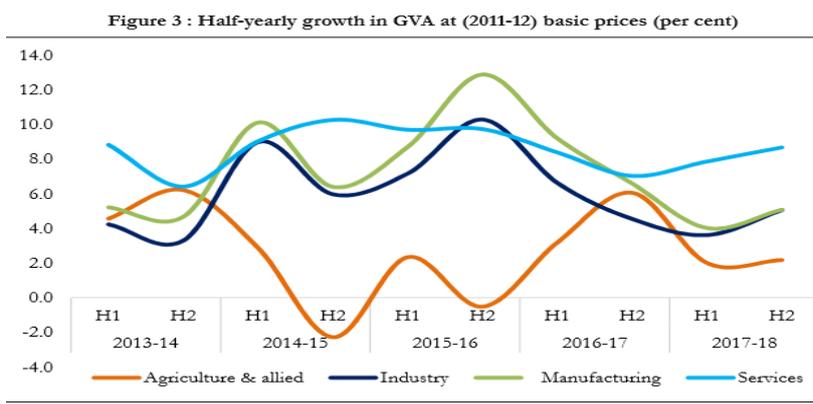
This table precisely elaborates on how there is a dip in contribution of the agricultural and industrial sector towards the GDP and an increase in the service sector’s contribution.

CSO’s Advance Estimates predict the Gross Value Added (GVA) to be 6.1% in 2017-18 when compared to 6.6% in 2016-17 (both calculated at constant basic prices).

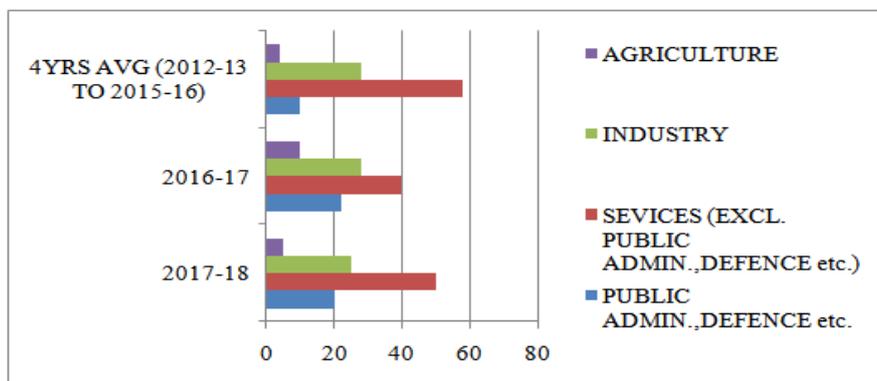
This reduction can be attributed to the relatively lower growth in Agriculture & Allied and Industry sectors. The Agriculture sector is expected to grow at 2.1% and the industrial sector is expected to grow at 4.4%. The Indian service sector’s growth is estimated at 8.3% which is 0.6% higher when compared to 2016-17. However the growth of Public administration, defence and other services is expected to decline. Starting from a very low standard of 5.5% in 2012-13, India has progressed towards achieving a nominal GDP and GVA growth of 9.4% and 8.6% respectively in Q2 of 2017-18.

Gva Growth Of Major Sectors

India being a country that is heavily dependent on the monsoons for the agricultural sector to thrive has registered a significantly higher growth owing to the normal monsoons in 2016-17. The industrial sector was however hit and the growth rate fell by 3% points in the last financial year. Trade, transport, hotel, storage and communication services are likely to decline in H2 vis-à-vis H1 of 2017-18. Public administration, defence and other services is expected to grow at twice the rate in 2016-17. This is primarily due to the revision of the Seventh Pay Commission and a higher pay out of salaries and arrears. Close to 57% of the GVA growth was due to the growth in services excluding Public administration, defence etc. between 2012-2016. Due to stagnation in the growth of the Public administration and defence sector the contribution towards GVA growth in 2017 has also. Contraction in credit growth and increasing NPAs has resulted in abatement in the growth of industries.



Source: Based on data from CSO
 Note: H2 of 2017-18 is calculated based on 1st AE and quarterly estimates upto Q2 of 2017-18.



A 17% growth in Public administration, defence and other services lead to the recovery of the service sector in Q4 of 2016-17. There has been a slight recovery in the service sector growth in H1 of 2017-18 as against H2 of 2016-17. This is majorly because of an accession in the growth rate of financial services, real estate and professional services & Trade, hotel, transport, communication and broadcasting services. The Public administration and defence services have been recording a lower growth in the first two quarters of 2017-18.

Table No.2: Quarter Wise GVA And GDP Growth (%)

Sector	2016-17				2017-18	
	Q1	Q2	Q3	Q4	Q1	Q2
Gva At Basic Price	7.6	6.8	6.7	5.6	5.6	6.1
Agriculture & Allied	2.5	4.1	6.9	5.2	2.3	1.7
Industry	7.4	5.9	6.2	3.1	1.6	5.8
Of Which, Manufacturing	10.7	7.7	8.2	5.3	1.2	7.0
Services	9.0	7.8	6.9	7.2	8.7	7.1
Gdp At Market Price	7.9	7.5	7.0	6.1	5.7	6.3

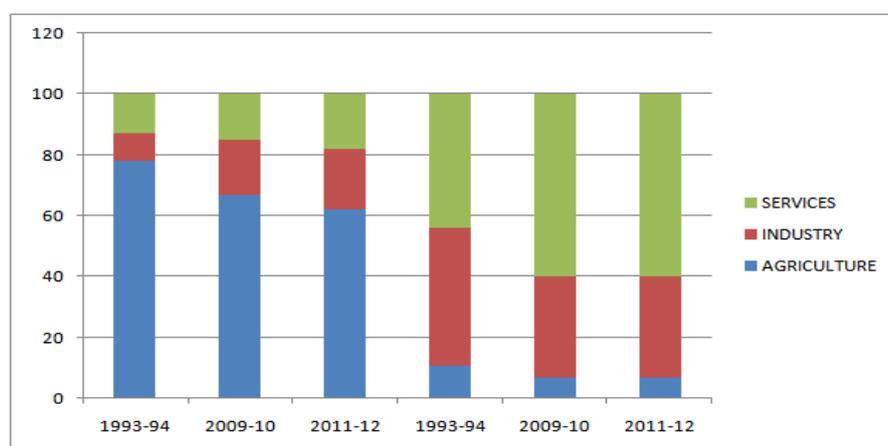
Source: Cso Based Data.

The growth in service exports and net services is expected to be 16.2% and 14.6% in H1 of 2017-18. India was the eighth largest exporter of commercial services in the world in 2016 (as per WTO) with a share of 3.4 per cent, which is twice the share of India’s merchandise exports in the world. 49% of the current account

deficit and trade deficit of H1 of 2017-18 was adjusted with the aid of the net surplus in the service sector. In India, the tourism sector has been performing incredibly well with Foreign Tourist Arrivals (FTAs) attaining a growth of 8.8 million in 2016. Foreign Exchange Earnings (FEEs) from tourism grew at 8.8 per cent to US\$ 22.9 billion in 2016. As per NASSCOM data, India's Information Technology –Business Process Management (ITBPM) industry recorded an 8.1 per cent in 2016-17 (excluding e-commerce and hardware). 19.1 per cent growth in 2016-17 is expected in the E-commerce market which is valued at US\$ 33 billion. Software exports contracted by 0.7 per cent in 2016-17. The share of real estate sector which includes ownership of dwellings accounted for 7.7 per cent in India's overall GVA in 2015-16. The growth of this sector decelerated in the last three years from 7.5 per cent in 2013-14 to 4.4 per cent in 2015-16. This was mainly due to reduction in the growth of ownership of dwellings.

Despite India's expenditure on R&D being just 1% of the GDP, the professional scientific & technical activities, which include R&D services, grew by 17.5 per cent and 41.1 per cent in 2014-15 and 2015-16 respectively. Satellite launch services have increased foreign exchange earnings.

Sectoral Employment Shares:

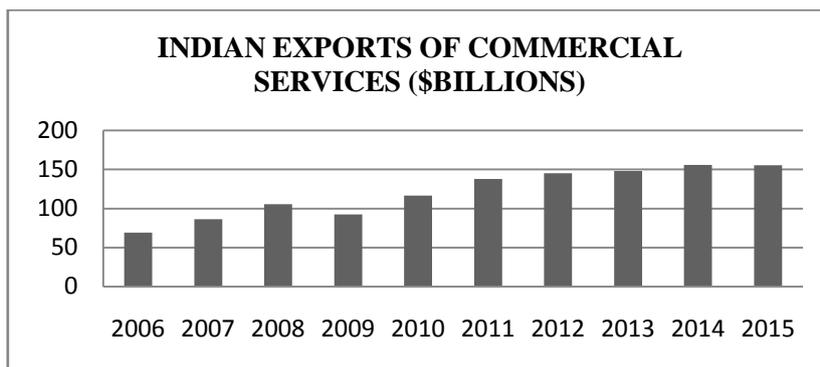


Rural non-farm employment increased considerably from 1999-00 to 2011-12 (12 per cent, as per the usual principal status definition). Jammu and Kashmir grew at 33 per cent, Goa (21 per cent) and Punjab (20 per cent). Agriculture dependant household incomes reduced from 63% to 58 % during 2002-03 to 2012-13.

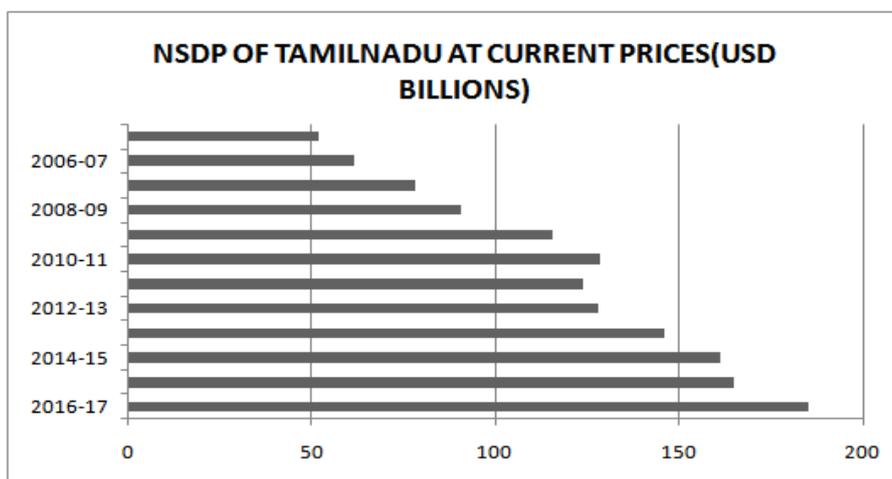
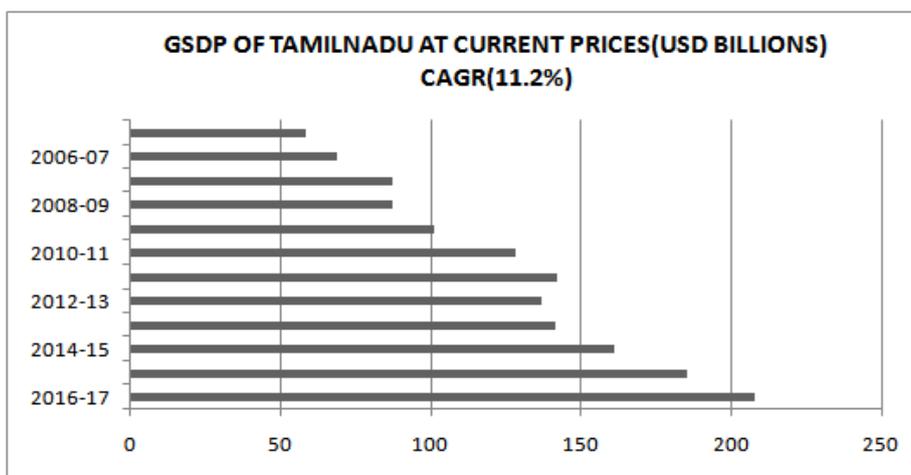
The construction sector a non-agricultural sector, accounted for 15.7% increase in share of employment in rural areas (2011-12). This was accompanied with a shift in the employment status i.e. an increase in casual labourers and reduction in self-employment.. The Indian economy is dominated by the services sector, which accounted for 53.7 per cent of GVA in 2016-17. The Employment share of the services sector in urban areas was 58.7 per cent (2011-12), as against 16.1 per cent in rural regions.

Fdi And Service Exports:

The service sector has been the backbone of Indian exports. The relaxation of norms during the LPG reforms and the advancement in Information Technology made India a knowledge capital and a primary exporter of IT services. Over the past decade India's service exports has grown by more than 10 times and the export of services is twice the export of goods. From a meagre 1.2 % share in global commercial service exports, India's share increased to 3.2% in 2013. India was one amongst the top 15 economies whose service sector grew at 20.1% from 2001-2013. India is the eight leading exporter of services. Foreign Direct Investment has fuelled the growth of the service sector. Over last twenty years there has been a substantial inflow of FDI. FDI inflows were around 70.4% for the service sector. Core services accounted for \$5.3 billion in 2017. Based on a study conducted by World Bank in 2004 it has been proved that globalisation and growth of the service sector in India are directly related.



State Of Tamilnadu’s Economy:



Tamil Nadu is the fourth largest state of India. Between 2005-06 and 2016-17, Gross State Domestic Product (GSDP) expanded at a Compound Annual Growth Rate (CAGR) of 11.80 per cent to US\$ 207.79 billion whereas the Net State Domestic Product (NSDP) expanded at a CAGR of 11.20 per cent to US\$ 185.26 billion. Economic development and investment in social infrastructure has been at the heart of Tamil Nadu’s policies. The tertiary sector and primary sector contributed 9.31% and 7.24% towards the GSDP during 2013-14. 12.65% growth of banking and insurance; 14.99% growth in real estate ownership of dwelling and business services served as a catalyst to the growth of the tertiary sector. Tamil Nadu’s service sector accounts for more than 15% of the GSVA according to the economic survey report presented in 2018. The state occupies the 13th place in GSVA contribution to the service sector. Despite being the nerve centre for the manufacturing sector, growth in Information Technology has resulted in the service sector taking centre stage in Tamil Nadu. However

with the introduction of Real Estate Regulation and Development Act (RERA) and dwindling public spending the construction sector has been badly hit. This coupled with the poor performance of the manufacturing sector has taken a toll on the overall growth of the state. Tourism, aviation, and telecom sectors have performed reasonably well. In order to revive the growth the government is continuously working on developing strong IT infrastructure. In the 2017-18 budgets, US\$ 18 million was allocated for the Information Technology Department.

V. Conclusion

The tertiary sector is a major catalyst for driving the economic growth of a nation. Over the last three years the IT sector which had a lion's share of the service sector's growth has badly been hit due to a global economic slowdown. Revival of the IT sector is the need of the hour to pump up the exports of services from India. Off-shore business models need to be re-built. With a lot of countries adopting de-globalisation policies it is vital that the Indian government focuses more on protecting the domestic trade and economy. Incredible India is an initiative that was taken by India in order to promote the travel and tourism industry and which has proved to be quite effective. Building of human capital is also dependant on the service sector's performance. A higher investment in Research & Development services will pave way for increasing the intellectual capital of India. Tertiary sector growth will supplement the growth of infrastructure and social welfare of the country. Though India has a long way to go in terms of competing with the developed nations, several initiatives like Make in India, incentivised Service export schemes, DARPAN - "Digital Advancement of Rural Post Office for A New India" and 'DigiYatra' show the concrete efforts taken by the government. Therefore the public sector and several associations like CII, Department of Industrial Policy and Promotion (DIPP), etc. have to work in conjunction with the private enterprises to lead the road ahead of growth for the service sector.

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