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Chief Editor

Dr. M. SELVAM, M.Com., Ph.D.,
Bharathidasan University,
India



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THE IMPORTANCE OF THE TERTIARY SECTOR IN THE ECONOMIC DEVELOPMENT OF KERALA

R. Rakesh

Research Scholar, Dr.M.G.R Deemed University, Chennai, Tamil Nadu, India

Abstract

Among the three sectors of economy, the tertiary sector of Kerala has played a crucial role so far in generating revenue and employment opportunities. Though the State Government and State agencies are responsible for promoting and developing the main segment of manufacturing industries sector, the progress has been tardy or dismal in the recent years. The primary/agriculture sector has been stagnating for years together. The IT sector is likely to put up a greater show than hitherto, with the expansion and development programmes now envisaged. But there is considerable scope for developing the tertiary sector, particularly trade, commerce, and tourism-related activities to promote employment generation and to improve the general economy of the State.

Introduction

More than 50 years have passed since the formation of the present Kerala State after amalgamating the erstwhile, relatively developed Travancore and Cochin states with the undeveloped Malabar region, which was part of the earlier Madras State. Sandwiched between the Arabian Sea in the West and the Western Ghats in the East, this beautiful piece of land is endowed with potential natural resources and vast reservoir of skilled, educated and intelligent labor force. All the necessary prerequisites for industrializing the State at a rapid pace was available, but in the absence of an entrepreneurial class, capable of risking certain amount of capital and having necessary business acumen, the traditional agrarian economy of the State could not be transformed into an industrial economy as the advocates of industrialization dreamt of.

The agrarian economy also did not pick up as envisaged. But the tertiary or services sector continued to show commendable performance all through, though not consistently. The tertiary sector offers considerable scope for further expansion and development, if certain concerted efforts are made by all concerned, without belittling the importance of the other two sectors, viz. primary and secondary sectors. The growth and development of agricultural and industrial

sectors will give an additional leverage for the progress of the tertiary sector due to chain reaction or linkage effects.

The contribution of the total tertiary sector comprising transport, communications and storage; wholesale & retail trade and hotels & restaurants; banking and insurance; real estate ownership, business and legal services; and administration and other services (like education, health and tourism) to the State's Gross Domestic Product (GDP) and towards generating employment opportunities has continued to remain at a high level as compared to the other two sectors. The main reason for this situation is that within the broad framework of the National Plans, Kerala State followed for years a path of development giving greater emphasis to the spread of education and health services, to infrastructural facilities (to a certain extent) and on welfare measures than to the productive sectors of agriculture and industry. Though governments continued to change very frequently at times, the pattern of development did not undergo basic change as the existing state of affairs seemed to have been determined by historical, cultural and social factors. As a consequence of the pattern of development thus followed and continued, Kerala achieved a pre-eminent position among the states in the Indian Union in matters like literacy, spread of medical and health facilities, life expectancy, etc.

The Problem

At least during the first two Five Year Plan periods, scant attention was paid to the agricultural and the industrial sectors. The agricultural sector tended to stagnate but some attention was paid to developing the industrial sector by promoting some medium and large scale industries from the Third Five Year Plan (1961-66) onwards. But the investment in the total industrial sector in the State, comprising traditional and cottage industries, small scale, medium scale and large scale industries, has tended to be inadequate, judging from any standard. But the tertiary sector, which did not receive much attention from Government so far (excepting education, health and tourism), has put up a big show in spite of the several problems it is forced to confront in the recent years.

The contribution of the tertiary sector to the State's GDP has hovered around 60 percent during the recent years. Again, the total employment in the private and public establishments in this sector has maintained a level of about 66 percent of the total employment in all the sectors put together.

Analysis of Secondary Data and Findings

The sectoral growth of the GDP of the State at constant 1999-2000 prices, from 2000-01 to 2006-07 is presented in **Table-1**.

The contribution of the primary sector to the State's GDP continued to decline from 22.0 percent in 2000-01 to 17.8 percent in 2006-07. It was 20.1 percent in 2002-03 and 18.6 percent in 2004-05. The Table further reveals that the contribution of the main component of agriculture and allied activities of the tertiary sector continued to decline from 18.4 percent of the total GDP in 2000-01 to 14.5 percent in 2006-07. Conversion of agricultural land for other purposes, migration of agricultural labor to other sectors of the economy, and lack of interest of agriculturists in their traditional avocation as a result of increasing labor cost in the recent years seem to be the main reasons

for this situation. At the same time, there has never been a concerted effort from all concerned to increase agriculture productivity.

The contribution of the secondary sector to the State's GDP fell marginally from 20.8 percent in 2000-01 to 20.7 percent in 2002-03 to rise continuously to 21.2 percent in 2004-05 to 21.6 percent in 2006-07. The increase was mainly due to the construction boom in the past several years. In particular, the contribution of this component to the State's GDP continued to increase from 9.0 percent to 12.0 percent during the six year period cited. On the other hand, the contribution of the manufacturing (industries) sector continued to decline from 9.5 percent in 2000-01 to 7.9 percent in 2006-07. Similarly, the contribution of 'electricity, gas, and water' also declined steeply from 2.3 percent to 1.7 percent during this period. The reasons for the dismal performance of the industries sector are many and varied. The local entrepreneurs, who are capable of investing in industries, have found real estate business and construction lucrative and less risky activities, particularly in the context of globalization of the Indian economy when some of the existing industries have gone out of gear due to stiff competition. Outside industrialists or business groups have not shown much interest in investing in Kerala because of their apprehension about Kerala labor, high overhead cost (whether it is true or not), etc.

The IT sector is a possible exception, but here also, the State seems to have missed the bus. There is a general feeling among all investors that there is considerable delay at all levels in getting things done. The State Government by itself could not promote major industries due to the paucity of finance. Whatever finance was available with Government was utilized for providing risk capital to industries promoted by private entrepreneurs and to tone up the operations of the ailing State public sector units, besides protecting the traditional industries like coir, cashew and handloom.

The tertiary sector contributed as much as 57.2 percent of the GDP in 2000-01, which further increased to 59.2 percent in 2002-03, 60.2 percent in 2004-05 and 60.6 percent in 2006-07. Component-wise, the contribution of transport, communications and storage increased steadily from 9.4 percent in 2000-01 to 13.7 percent in 2006-07 while that of trade and hotels and restaurants decreased from 20.7 percent to 18.5 percent. The contribution of real estate business and legal services continued to increase from 8.5 percent to 9.1 percent and of banking and insurance from 4.8 percent to 5.9 percent during this period. On the other hand, the share of public administration and other services in the total GDP declined marginally from 13.8 percent to 13.4 percent during this six year period. The three components viz. 'transport', 'trade' and 'hotels and restaurants', contributed bulk of the share of the tertiary sector to the total GDP, which was 43.9 percent in 2000-01 and further increased to 45.6 percent in 2006-07. These three components cover most of the tourism and related activities as well and this segment has continued to put up commendable performance over a period of years. The total revenue, which accrues from Tourism (both direct and indirect), increased from Rs.4500 crores in 2001 to Rs.11433 crores in 2007, and the increase during the six year period was by about 154 percent. The foreign exchange earning itself increased from Rs.535 crores to about Rs.2641 crores during this period, the increase being to the extent of 394 percent.

The agencies responsible for promoting tourism and tourism-related activities in Kerala introduced new tourism products after Government of India gave "tourism" the industrial status.

In the matter of creating more employment opportunities also, the tertiary / social services sector continues to play a very important role. The total employment figures in public and private establishments in the State, furnished in the **Table-2**, speak for themselves.

The tertiary sector accounted for 60.8 percent (7.55 lakhs) of the total employment in all the sectors (12.42 lakhs) in 2001, which increased to 64.9 percent in 2005, to 66.7 percent in 2006, and further to 66.1 percent in 2007. In real terms, the total employment in the tertiary sector declined to 7.40 lakhs in 2005, to 7.35 lakhs in 2006, and further to 7.34 lakhs in 2007. It is seen that the aggregate employment in all the sectors put together had declined from 12.42 lakhs in 2001 to 11.11 lacks in 2007. The social, community and personal services segments accounted for a major contribution of as much as 43.4 percent in 2001 which steadily increased to 46.3 percent in 2007. Trade, hotels and restaurants segment's contribution increased from 2.1 percent to 2.9 percent, and of transport, communication and storage from 8.4 percent to 9.1 percent and of banking, insurance, real estate, etc from 6.9 percent to 7.8 percent during the six year period. The obvious inference is that if greater attention had been paid to the social services sector, it is possible to create more employment opportunities and hence reduce the gravity of employment problem of the educated, unemployed youth in the State.

The primary and secondary sectors of the State's economy have almost failed to absorb a sizeable number of unemployed people under all categories-educated, skilled or unskilled. The share of employment in the secondary sector declined from 30.1 percent in 2001 to 26.3 percent in 2007. Electricity, gas, water, etc accounted for 2.2 percent in 2001 which increased to 2.3 percent in 2007.

On the other hand, the contribution of the construction segment continued to decline from 2.0 percent to 1.9 percent during the period cited. But this segment, which accounted for 2.3 percent in 2005, increased to 2.5 percent in 2006 and declined to the level indicated above in 2007. The boom in construction activities till 2006 suffered a reverse trend thereafter due to acute shortage of sand and high price of steel, cement, etc.

Conclusion and Suggestions

The primary sector, mainly agricultural operations, in Kerala has continued to exhibit poor performance for many years in the past. In recent years, the capacity of employment generation of this sector has persistently declined from 1.23 lakhs in 2001 to about 85 thousand in 2007. In other words, this sector, which accounted for 9.1 percent of the total employment in 2001, continued to display a declining trend, with the result that the corresponding proportion declined to 8.5 percent in 2005 to rise to 9.5 percent in 2006, but to fall steeply again to 7.6 percent in 2007. The reasons for the declining trend of the agriculture and allied activities segment are many and varied, which also include high cost of labor and other inputs, migration of agricultural labor and agriculturists to other areas, conversion of agricultural land to residential buildings, etc.

Though the area under cultivation has dwindled, there is scope for improving productivity, adopting scientific method of cultivation, crop-rotation, and conversion of barren lands for agricultural purposes, etc. If a well-conceived plan for bringing about an agricultural revolution in the State is launched, even the waste lands will become suitable for undertaking agricultural operations.

In the secondary sector, the manufacturing industries segment which has been languishing in the past, is likely to receive a boost, with the programmes envisioned by the Kerala Government and State agencies like the Kerala State Industrial Development Corporation, the premier agency in the State, responsible for promoting, financing and developing medium and major industries. The schemes envisaged in the IT sector are likely to solve the unemployment problem faced by the technically qualified youth in the State, besides improving the general economy of Kerala. It is possible to attract private promoters/ investors to the IT field.

Private parties, including NRIs of Kerala origin, are expected to show keen interest in trading and commercial activities than in industries because of the bad reputation the trade unions and head load workers have created. Frequent 'hartals', 'bandhs' and the like have also tended to create a crisis of confidence among the likely investors about the prospects of starting manufacturing industries. Globalization and its aftermath do not enlighten entrepreneurs to start industrial ventures. It is for the Government to show the political will and for all political parties to show their collective wisdom, to correct all negative factors inhibiting prospective investors to invest in the State in a big way.

The traditional services sector offers considerable scope for improving the economy of the State as well as for creating job opportunities for a sizeable number of unemployed youth. Since the quality of life index is much better in Kerala, literacy very high, health care facilities well-expanded, per capita consumption of people high, per capita GDP higher than that of All India (Table 2), and standard of living of people relatively better, the services sector should further dominate the economic scene if certain corrective measures are deliberately taken. There are wide spread complaints about the entire gamut of VAT (Value Added Tax) operations in the State. Such complaints have to be effectively attended to. Irresponsible trade unionism and unchecked activities of the head load workers have also tarnished the image of Kerala labor. Thus, it is the fundamental responsibility of all concerned to work for improving the investment climate in the State. There is a feeling among the people involved in trade or commerce that their problems are not properly addressed by the State Government. The Industrial and Commercial Policy, 2007, of Kerala Government has indicated Government's intention to develop trade and commerce. What Government proposes to do to improve matters is yet to be seen.

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Table -1

Gross Domestic Product of Kerala at Factor Cost by Industry/ Activity of origin for the years 2000-01 to 2006-07 (at constant prices with base year 1999-2000)

(Amt. Rs. in Lakhs)

Years		2000-01		2002-03		2004-05(P)		2006-07(Q)	
Sl. No.	Sector	Amt.	%	Amt.	%	Amt.	%	Amt.	%
1	Agriculture	1284895	18.4	1313190	16.4	1376212	15.0	1553872	14.5
2	Forestry & logging , Fishing , Mining & Quarrying (Total)	281111	4.0	299815	3.7	335417	3.6	350121	3.3
I	Sub Total : Primary Sector	1566006	22.0	1613005	20.1	1711629	18.6	1903993	17.8
3	Manufacturing	680170	9.5	680869	8.5	753166	8.2	839670	7.9
4	Electricity , Gas & Water Supply (Total)	161964	2.3	171289	2.1	178698	1.9	181089	1.7
5	Construction	639143	9.0	808142	10.1	1022426	11.1	1284143	12.0
II	Sub Total : Secondary Sector	1481277	20.8	1660300	20.7	1954290	21.2	2304902	21.6
6	Transport (Railways & other means), Communications and Storage (Total)	669350	9.4	817355	10.2	1095177	11.9	1467124	13.7
7	Trade, Hotels & Restaurants	1477374	20.7	1669706	20.8	1860388	20.2	1975710	18.5
8	Real Estate ownership, Business and Legal Services	604623	8.5	741778	9.2	817478	8.9	965741	9.1
9	Banking and Insurance	341660	4.8	478646	6.0	520741	5.6	633073	5.9
10	Public Administration & other services	983931	13.8	1046549	13.0	1247795	13.6	1432730	13.4
III	Sub Total : Tertiary Sector	4076938	57.2	4754034	59.2	5541579	60.2	6474378	60.6
	Gross Domestic Product (State)	7124221	100.0	8027339	100.0	9207498	100.0	10683273	100.0
1	Per capita Income: Kerala (Rs.)	22475		24809		27841		31642	
2	Per capita Income: All India (Rs.)	18134		19278		21722		25217	

Notes : P : Provisional Q: Quick estimates

Source : The basic figures are from the Economic Review, 2007, of Kerala State Planning Board

Table 2 :
Employment in Public and Private Establishments in Kerala as on 31st March
Number of Persons Employed

Years		2001		2005		2006		2007	
Sl.No.	Sector	No.	%	No.	%	No.	%	No.	%
I	Primary Sector : Agriculture and allied activities, Mining & Quarrying (Total)	112537	9.1	96823	8.5	104341	9.5	84845	7.6
II	Secondary Sector	373671	30.1	302727	26.6	262517	23.8	291681	26.3
a)	Manufacturing	321903	25.9	254498	22.3	213661	19.4	244796	22.1
b)	Electricity , Gas, Water and Sanitary Services	26526	2.2	22148	2.0	21490	1.9	25723	2.3
c)	Construction	25242	2.0	26081	2.3	27366	2.5	21162	1.9
III	Tertiary Sector	755486	60.8	740223	64.9	734672	66.7	734454	66.1
a)	Trade ,Hotels and Restaurants	25580	2.1	31263	2.7	27452	2.5	31923	2.9
b)	Transport , Communication and Storage	104596	8.4	102584	9.0	101644	9.2	101060	9.1
c)	Banking , Insurance , Real Estate and Business Services	86320	6.9	96531	8.5	82201	7.5	86901	7.8
d)	Social , Community and Personal Services	538990	43.4	509845	44.7	523375	47.5	514570	46.3
	TOTAL	1241694	100.0	1139773	100.0	101530	100.0	1110980	100.0

Note : The basic figures are from the Economic Review, 2007, of Kerala State Planning Board.