Sectors of Indian Economy

Basis for division of sectors

- 1) On basis of occupation:
- Primary - agriculture
- Secondary- industrial
- Tertiary- services that include transport, banking, insurance,

(2) On basis of location : (a) Urban (b) Rural

(3) On basis of ownership

(a) Private Sector

(b)

Public Sector

- Private sector in agriculture is individual family based. 60 % population .
- Private sector in industry from 1907 till date. In manufacturing , gas, and industry , 80% GDP is from this private sector
- Private sector in Trade and Services: has a dominant position.

In saving, capital formation, and gross nation output, private sector has made important contributions.

Poor performance of private sector due to industrial sickness , resulting in high Non-performing assets in Banks due to loans not returned.

- 99% of sick units are in private sector. Many of these are Small Scale Industrial units.
- Causes include limits in supply of raw material; power cuts for long hours; low productivity; government policies that hinder more than encourage, corrupt practices under license raj.

Demerits of private sector include

(a) investment is made in areas that are not a priority for national development.

(b) It facilitates concentration of economic power in the hands of a few

- Industrial relations are unhealthy and exploitation of labour exists.
- Unfair business practices are adopted for competitive advantage.

Low Productivity in Agriculture

Measured in terms of yield per hectare, output is low

Lack of investment, skills, technology and equipment, labour, small holdings per family, dependency of monsoon, lack of rural infrastructure

Large percentage of population, dependent on agriculture. Excessive use of fertilizers and pesticides for last sixty years, has damaged the land.

Inadequate non-farming services of banking, finance, storage, marketing , and dependency money lenders for loans on very high interest rates.

Inadequate irrigational facilities as only 35 % of cropped land is irrigated. Traditional means of wooden plough, bullock power, and traditional variety of seeds continue to be used.

Public Sector

Railways, Ports, Airports, Postal service, Ordinance factories

Public Sector given a predominant position in national economy, through the Industrial Policy, 1956.

PSU are either Departments , or established by an Act of Parliament, or registered under Companies Act, 1956.

Departmental Enterprises : Postal service, Radio and TV (up to 1992)

Statutory Companies :All Hydel and Thermal Power Corporations; LIC;

Government Companies

Contribution of Public Sector

Has created a strong industrial base in steel, coal, minerals, heavy industries, and has developed backward regions where private sector would not invest.

Percentage to GDP increased from 7.5% (1951) to 24 % in 1991.

Capital formation share increased from 3.5% to 11% (1980-85) decreased to 8% in 1992-97 to 6.3 % in 2003-04

Employment: in Central government administration, defence, and State government ; maximum in transport , storage, communications sectors

Exports and Foreign exchange : Rs 35 crore in 1965 to Rs. 15,211 crore in 1951-1996 .

Also acted as a check against concentration of wealth in the Private Sector. Contributed 38,817 crore to national exchequer in 2000-01.

Comparison of Private and Public sectors on basis of:

Ownership and management: PSU is government owned and Private is individual owned

Constituent parts: (a) Departmental, Statutory , or Registered companies;

(b) Private are sole businesses; Partnerships; Joint Stock companies

Goods and Services supplied: Defence, Social benefit services of health; public transportation rural education, Infrastructure , regional developmental activities

Motive: (a) Public sector's motive is maximisation of social welfare and national development (b) Private sector's is maximisation of personal gains and private profits.

Economic decision basis: Government takes all investment decisions (b) Private enterprise takes all such decisions

Reasons for decline of Public Sector in India from 1990

1	As a consequence, of the following reasons, PSU became an increasing burden on the public exchequer. The single party Rule under which it had flourished ended after 1989. The Indian economy became a part of Globalization process.
2	Cost over-run and low return on capital
3	High capital – output ratio
4	Improper price policy
5	Excessive manpower and over staffing
6	Improper management and lack of accountability
7	Lack of functional autonomy -Political interference and bureaucratic entanglements
8	Absence of committed work culture and competition in the market
9	Inappropriate techniques of production
10	Obsolete technology bought mainly from the erstwhile USSR

Role and importance of Agricultural Sector

For GDP its contribution decreased from 59 % t(1951) to 48% (1970) to 21 % (2003)

A large number of unskilled and skilled persons are supplied to the industrial and other sectors by the agricultural sector. Labour is one of the three factors of production

Indian agricultural sector in the globalized world has a competitive advantage of low cost , that enables higher exports of products such as cashew, coffee, tea, spices.

Employment: From 69 % of population in 1951, to 2/3rd today. Rural industries have not grown to provide employment

Trade and commerce: Service sector has expanded due to agricultural markets, credit, internal transport services for agricultural goods .

Agriculture is important for Government budgets at the Centre and the States levels, due to large allocations under the development plans.

Per capita availability of food in 1951 was 395 grams per day. In 1997 to 503 grams, to 463 grams in 2004

Raw material to agro-based industries : Cotton, sugar, tea, jute are cash crops and the industries depend on agricultural raw material for its production.

Railway budget is also impacted as freight charges for agricultural goods determine other charges.

Salient Features of present industrial structure of India

Growth of heavy and capital goods industries

- Coal, Steel, Cement, petroleum Automobile, machine tools, railway wagons
- Nitrogenous fertilizers
- Defence heavy industries, Thermal power plants,

Growth of infrastructure industries

- Shipyards, Defence Aircraft design and manufacture.
- Electricity , Power generation and transmission, Cold Storages.
- Railways, Roads, Ports, Air ports, Roadways, Goods transport services.

Growth of Consumer Goods Industries

- Durable consumer goods, Fridge, Television, Washing machines , various kitchen gadgets , Telephones, Cell phones.
- Non-durable goods industries.

Role of industrialisation in the Indian Economy

Self sustaining development is one of India's major objective. Proper management of mineral resources, forests, and water resources, and balanced regional development. 286 districts out of 650 , are backward in India as they have no infrastructure and no industry.

Improvement in economic infrastructure: transport and communications, power generation, large scale industries.

Making the growth process self sustaining.

Creation of strong industrial base, needed for sustained growth at higher rates. Increase in national and per capita output.

Increase in export earnings and higher Foreign Reserves.

Improvements in factors of productivity: Land productivity improved through Green Revolution, Labour productivity through updating of skills. Reduction in population pressure on agriculture, and fostered agricultural development.

Generation of employment and income opportunities through Forward linkages and Backward Linkage Effect. Under this, investment is made in successive stages of production , to own them or outsource them , for reducing costs and improving profit margins.

Role of Transport and Communications services

Helps in large scale production, division of labour, and modernisation

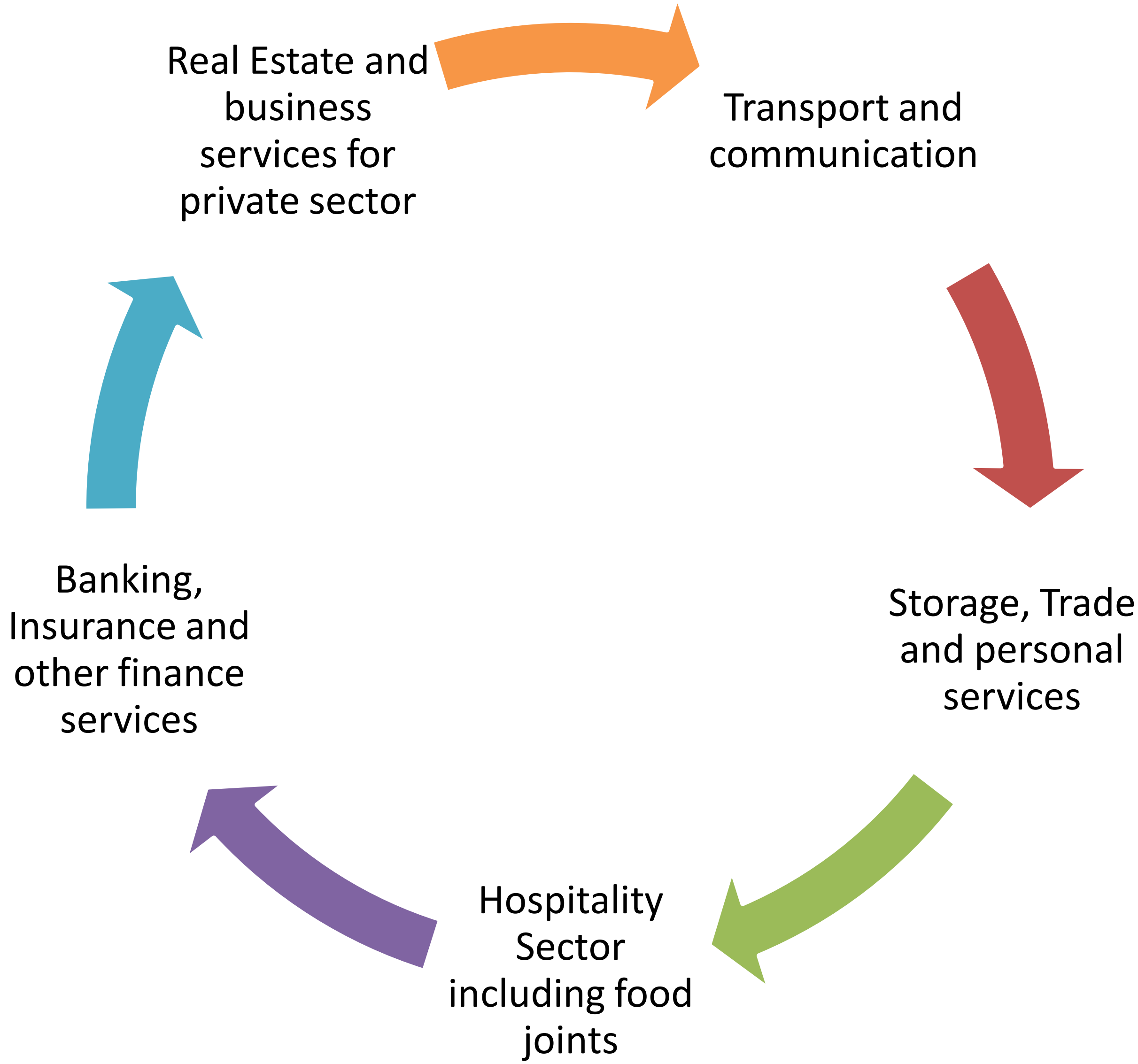
Helps industries and determines their location

Reduces regional disparities through establishing connectivity

Contributes in market expansion, raising consumption and standard of living

Facilitates in the growth of agriculture and agro based industries

Scope of Service Sector in India



Importance of banking and insurance for Growth

Deposit mobilisation and investment of small savings

Supply of institutional credit for agricultural development

Fulfilment of short, medium, and long term credit needs of industrial sector

Creation of employment and income opportunities

Improving social security and creation of a strong organised money market.

Interdependence of various sectors

(1) Public and Private for infrastructure, employment generation, forward linkage effect and revenue earning

(2) Agriculture, Industry, and service sectors for Inter- sector flow of goods, production and marketing, supply of labour.

(2.1) Supply of raw materials and Labour services, transportation, banking insurance, trade and business,

(2.2) Supply of water for drinking and irrigation, electricity and power, education and technical services, Health and other community services , rural housing, and self employment avenues.

(3)Rural and Urban Sectors have two sets of economies – Rural economy with high dependence on agriculture , and Urban economy with dependence on secondary and tertiary sectors. Urban centres have a higher density of population and better service facilities