

NOTES FOR THE TEACHER

CHAPTER 2: SECTORS OF THE INDIAN ECONOMY

An economy is best understood when we study its components or sectors. Sectoral classification can be done on the basis of several criteria. In this chapter, three types of classifications are discussed: primary/secondary/tertiary; organised/unorganised; and public/private. You can create a discussion about these types by taking examples familiar to the students and relate them to their daily life. It is important to emphasise the changing roles of sectors. This can be highlighted further by drawing attention of the students to the rapid growth of service sector. While elaborating the ideas provided in the chapter, the students may need to be familiarised with a few fundamental concepts such as Gross Domestic Product, Employment etc. Since the students may find this difficult to understand, it is necessary to explain to them through examples. Several activities and exercises are suggested in the chapter to help the students understand how a person's activity could be placed — whether in the primary, secondary or tertiary, organised or unorganised, and public or private sector. You may encourage the students to talk to various working people around them (such as shop owners, casual workers, vegetable vendors, workshop mechanics, domestic workers etc.) to know more about how they live and work. Based on such information, the students can be encouraged to develop their own classification of economic activities.

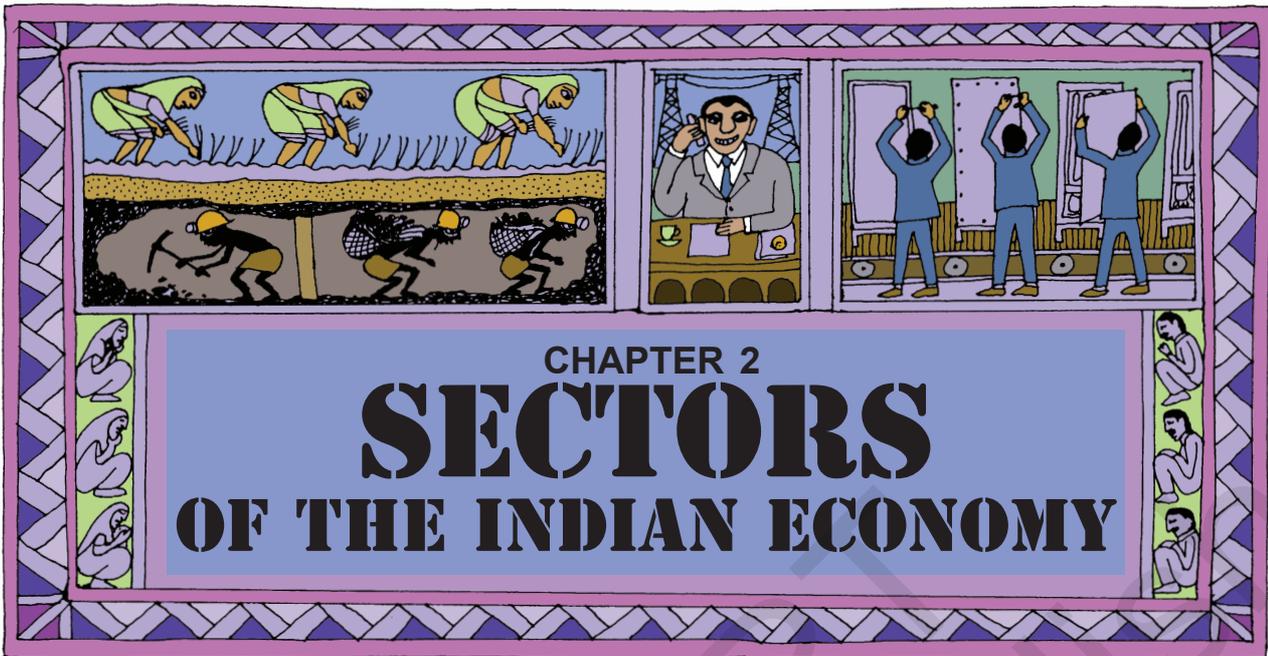
Another important issue to be highlighted is about the problems caused by the changes in the roles of sectors. The chapter has taken the example of unemployment and what the government can do to solve it. The declining importance

of agriculture and growing importance of industry and services should be related to the experience of the children by taking more examples that they may observe in their day-to-day life. Information derived from the media could be used for this purpose. You may encourage the students to bring important cuttings and stories from newspapers, which could be prominently displayed in storyboards, and encourage the class to discuss these issues. While discussing the unorganised sector, the key issue of protecting the workers engaged in the sector should be highlighted. You may also encourage the students to visit persons and enterprises in the unorganised sector and get a first hand experience from real life situation.

Sources for Information

The GDP data used in this chapter pertaining to Gross Domestic Product at Factor Cost by Industry of Origin at 2004-05 prices is taken from *Economic Survey 2011*. It is a valuable source of GDP and other information relating to the Indian economy. For evaluation purposes, particularly to develop the analytical ability of learners, teachers can refer to *Economic Survey* to get data for different years.

The employment figures are based on data taken from the five-yearly surveys on employment and unemployment conducted by the National Sample Survey Organisation (NSSO). NSSO is an organisation under the Ministry of Statistics, Planning and Programme Implementation, Government of India. The website you can log onto is: <http://mospi.nic.in>. Employment data is also available from other sources such as Census of India.



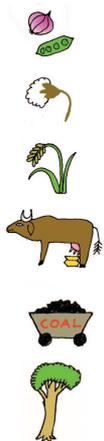
SECTORS OF ECONOMIC ACTIVITIES

Let us look at these pictures. You will find that people are engaged in various economic activities. Some of these are activities producing goods. Some others are producing services. These activities are happening around us every minute even as we speak. How do we understand these activities? One way of doing this is to group them (classify them) using some important criterion. These groups are also called sectors.



We begin by looking at different kind of economic activities.

**Primary
(Agriculture)
Sector**



produces natural goods

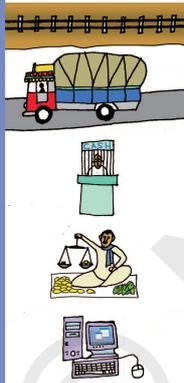


**Secondary
(Industrial)
Sector**



produces manufactured goods

**Tertiary
(Service)
Sector**



helps to develop other sectors

There are many activities that are undertaken by directly using natural resources. Take, for example, the cultivation of cotton. It takes place within a crop season. For the growth of the cotton plant, we depend **mainly, but not entirely**, on natural factors like rainfall, sunshine and climate. The product of this activity, cotton, is a natural product. Similarly, in the case of an activity like dairy, we are dependent on the biological process of the animals and availability of fodder etc. The product here, milk, also is a natural product. Similarly, minerals and ores are also natural products. When we produce a good by exploiting natural resources, it is an activity of the **primary sector**. Why primary? This is because it forms the base for all other products that we subsequently make. Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called **agriculture and related sector**.

The **secondary sector** covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity. It is the next step after primary. The product is not produced by nature but has to be made and therefore some process of manufacturing is essential. This could be in a factory, a workshop or at home. For example, using cotton fibre from the plant, we

spin yarn and weave cloth. Using sugarcane as a raw material, we make sugar or *gur*. We convert earth into bricks and use bricks to make houses and buildings. Since this sector gradually became associated with the different kinds of industries that came up, it is also called as **industrial sector**.

After primary and secondary, there is a third category of activities that falls under **tertiary sector** and is different from the above two. These are activities that help in the development of the primary and secondary sectors. These activities, by themselves, do not produce a good but they are an aid or a support for the production process. For example, goods that are produced in the primary or secondary sector would need to be transported by trucks or trains and then sold in wholesale and retail shops. At times, it may be necessary to store these in godowns. We also may need to talk to others over telephone or send letters (communication) or borrow money from banks (banking) to help production and trade. Transport, storage, communication, banking, trade are some examples of tertiary activities. Since these activities generate services rather than goods, the tertiary sector is also called the **service sector**.

Service sector also includes some essential services that may not directly help in the production of goods. For example, we require teachers, doctors, and those who provide personal services such as washermen, barbers, cobblers, lawyers, and people to do administrative and accounting works. In recent times, certain new services based on information technology such as internet cafe, ATM booths, call centres, software companies etc have become important.

Economic activities, though, are grouped into three different categories, are highly **interdependent**. Let us look at some examples.

TABLE 2.1 EXAMPLES OF ECONOMIC ACTIVITIES

EXAMPLE	WHAT DOES THIS SHOW?
Imagine what would happen if farmers refuse to sell sugarcane to a particular sugar mill. The mill will have to shut down.	This is an example of the secondary or industrial sector being dependent on the primary.
Imagine what would happen to cotton cultivation if companies decide not to buy from the Indian market and import all cotton they need from other countries. Indian cotton cultivation will become less profitable and the farmers may even go bankrupt, if they cannot quickly switch to other crops. Cotton prices will fall.	
Farmers buy many goods such as tractors, pumpsets, electricity, pesticides and fertilisers. Imagine what would happen if the price of fertilisers or pumpsets go up. Cost of cultivation of the farmers will rise and their profits will be reduced.	
People working in industrial and service sector need food. Imagine what would happen if there is a strike by transporters and lorries refuse to take vegetables, milk, etc. from rural areas. Food will become scarce in urban areas whereas farmers will be unable to sell their products.	

LET'S WORK THESE OUT

- Complete the above table to show how sectors are dependent on each other.
- Explain the difference between primary, secondary and tertiary sectors using examples other than those mentioned in the text.
- Classify the following list of occupations under primary, secondary and tertiary sectors:
 - Tailor
 - Basket weaver
 - Flower cultivator
 - Milk vendor
 - Fishermen
 - Priest
 - Courier
 - Workers in match factory
 - Money lender
 - Gardener
 - Potter
 - Bee-keeper
 - Astronaut
 - Call centre employee
- Students in a school are often classified into primary and secondary or junior and senior. What is the criterion that is used? Do you think this is a useful classification? Discuss.

COMPARING THE THREE SECTORS

The various production activities in the primary, secondary and tertiary sectors produce a very large number of goods and services. Also, the three sectors have a large number of people working in them to produce these goods and services. The next step, therefore, is to see how much goods and services are produced and how many people work in each sector. In an economy there could be one or more sectors which are dominant in terms of total production and employment, while other sectors are relatively small in size.

How do we count the various goods and services and know the total production in each sector?

With so many thousands of goods and services produced, you might think this is an impossible task! Not only would the task be enormous, you might also wonder how we can add up cars and computers and nails and furniture. It won't make sense!!!

You are right in thinking so. To get around this problem, economists suggest that the values of goods and services should be used rather than adding up the actual numbers. For example, if 10,000 kgs of wheat is sold at Rs 8 per kg, the value of wheat will be Rs 80,000. The value of 5000 coconuts at Rs 10 per coconut will be Rs 50,000. Similarly, the value of goods and services in the three sectors are calculated, and then added up.

Remember, there is one precaution one has to take. Not every good (or service) that is produced and sold needs to be counted. It makes sense only to include the **final goods and services**. Take, for instance, a farmer who sells wheat to a flour mill for Rs 8 per kg. The mill grinds the wheat and sells the flour to a biscuit company for Rs 10 per kg. The biscuit company uses the flour and things such as sugar and oil to make four packets of biscuits. It sells biscuits in the market to the consumers for Rs 60 (Rs 15 per packet). Biscuits are the final goods, i.e., goods that reach the consumers.

Why are only 'final goods and services' counted? In contrast to final goods, goods such as wheat and the wheat flour in this example are intermediate goods. Intermediate goods are used up in producing final goods and services. The value of final goods **already includes** the value of all the intermediate goods that are used in making the final good. Hence, the value of Rs 60 for the biscuits (final good) already includes the value of flour (Rs 10). Similarly, the



...BUT I SHOULD BE PAID THE FULL VALUE OF THE WHEAT THAT I PRODUCE !

value of all other intermediate goods would have been included. To count the value of the flour and wheat separately is therefore not correct because then we would be counting the value of the same things a number of times. First as wheat, then as flour and finally as biscuits.

The value of final goods and services produced in each sector during a particular year provides the total production of the sector for that year. And the sum of production in the three sectors gives what is called the **Gross Domestic Product (GDP)** of a country. It is the value of all final goods and services produced **within a country** during a particular year. GDP shows how big the economy is.

In India, the mammoth task of measuring GDP is undertaken by a central government ministry. This Ministry, with the help of various government departments of all the Indian states and union territories, collects information relating to total volume of goods and services and their prices and then estimates the GDP.

Historical Change in Sectors

Generally, it has been noted from the histories of many, now developed, countries that at initial stages of development, primary sector was the most important sector of economic activity.

As the methods of farming changed and agriculture sector began to prosper, it produced much more food than before. Many people could now take up other activities. There were increasing number of craft-persons and traders. Buying and selling activities increased many times. Besides, there were also transporters,

administrators, army etc. However, at this stage, most of the goods produced were natural products from the primary sector and most people were also employed in this sector.

Over a long time (more than hundred years), and especially because new methods of manufacturing were introduced, factories came up and started expanding. Those people who had earlier worked on farms now began to work in factories in large numbers. People began to use many more goods that were produced in factories at cheap rates. Secondary sector gradually became the most important in total production and employment. Hence, over time, a shift had taken place. This means that the importance of the sectors had changed.

In the past 100 years, there has been a further shift from secondary to tertiary sector in developed countries. The service sector has become the most important in terms of total production. Most of the working people are also employed in the service sector. This is the general pattern observed in developed countries.

What is the total production and employment in the three sectors in India? Over the years have there been changes similar to the pattern observed for the developed countries? We shall see in the next section.

LET'S WORK THESE OUT

1. What does the history of developed countries indicate about the shifts that have taken place between sectors?
2. Correct and arrange the important aspects for calculating GDP from this Jumble.

To count goods and services we add the numbers that are produced. We count all those that were produced in the last five years. Since we shouldn't leave out anything we add up all these goods and services.

PRIMARY, SECONDARY AND TERTIARY SECTORS IN INDIA

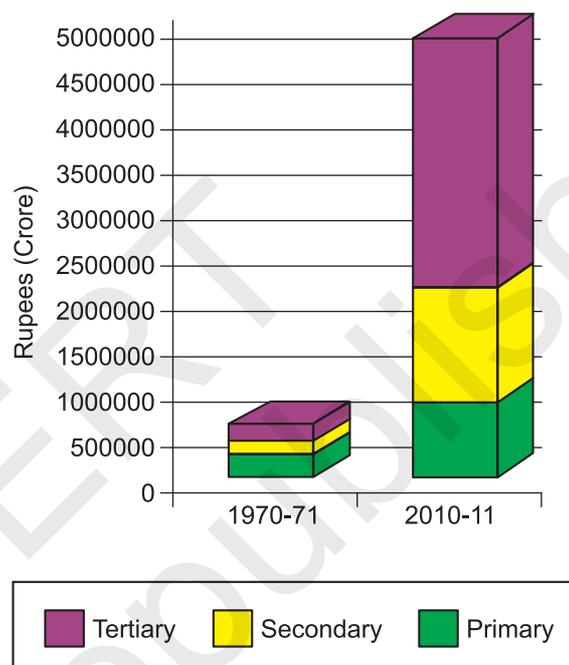
Graph 1 shows the production of goods and services in the three sectors. This is shown for two years, 1970-71 and 2010-11. You can see how the total production has grown over the forty years.

LET'S WORK THESE OUT

Answer the following questions by looking at the graph:

1. Which was the largest producing sector in 1970-71?
2. Which is the largest producing sector in 2010-11?
3. Can you say which sector has grown the most over forty years?
4. What was the GDP of India in 2011?

Graph 1 : GDP by Primary, Secondary and Tertiary Sectors



What does the comparison between 1970-71 and 2010-11 show? What conclusions can we draw from the comparison? Let's find out.

Rising Importance of the Tertiary Sector in Production

Over the forty years between 1970-71 and 2010-11, while production in all the three sectors has increased, it has increased the most in the tertiary sector. As a result, in the year 2010-11, the tertiary sector has emerged as the largest producing sector in India replacing the primary sector.

Why is the tertiary sector becoming so important in India? There could be several reasons.

First, in any country several services such as hospitals, educational institutions, post and telegraph services, police stations, courts, village administrative offices, municipal corporations, defence, transport, banks, insurance companies, etc. are required. These can be considered as *basic services*. In a developing country the government has to take responsibility for the provision of these services.

Second, the development of agriculture and industry leads to the development of services such as

