PG EC/SW/SO S3-04 (DSE)

TWO YEAR MASTER'S DEGREE COURSE

(CBCS in Accordance with NEP 2020)

SEMESTER - III

ISSUES IN INDIAN ECONOMY

ECONOMICS

Surya Kumar Bhuyan School of Social Sciences

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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COURSE INTRODUCTION

This course entitled *'Issues in Indian Economy'* is one of the DSE (elective) courses in teh third semester courses of MA in Economics programme offered by this University. The course deals with certain issues relating to the Indian economy. This course comprises 14 units and has been divided into two blocks. The first block consists of seven units from Units 1 to 7, while the second block consists of the rest of the units from Units 8 to 14.

The first unit of the course introduces India as a global emerging economy. Here, trends in national income and per capita income, sectoral composition of national income has been discussed. Finally, the role of India in the current global economy has been discussed. In the second unit, issues relaing to growth and policy of India's populaiton has been discussed. Unit 3 deliberates on issues relating to human resource development in India. The next unit is on the Agricultural Sector of India. Here, the role of agricultural sector and the various issues the secor faces has been discussed. The fifth Unit is on the changing dynamics in the agricultural sector. In this unit, recent issues like diversification of agriculture, contract farming as well as the subsidy issue relating to agriculture have been discussed. The sixth unit is on Indian industry. Here, the growth pattern of Indian industry, as well as some of the issues the sector is facing, have been discussed. The seventh unit is on social sector. Here, the performance of different social sectors, social infrastructure have been discussed. In the next unit, i.e., in Unit 8, we have discussed the Service Sector in Indian Economy. Here, the growth trend of the service sector as well as the major issues faced by this sector have been discussed. In the next unit, we shall discuss infrastructure in the Indian economy. Here, basically we shall discuss commercial energy, transport system as well as other communication systems like postal, telegraph and telecommunication. In Unit 10, we shall discuss urbanisation in India. Here, the concept of urbanisation, growth and composition of urban working population, nature of urban working population, growth of urban inrastructure and the major problems of urbannisation in India have been discussed. The eleventh unit has been deliberated on the topic inclusive growth. Here, the concept and rationale of inclusive growth,the issues of inter-regional and inter-community exclusion in India as well as the inclusive growth strategies adopted in the Five Year Plans of India have been discussed. The twelfth and thirteenth units of the course have been devoted in discussing economic reforms in India. They have been titled as Economic Reforms- I and Economic Reforms-II. In these two units, an overview macroeconomic management since 1991, as well as various related issues of the economic reform environment have been discussed. The last unit of the course in on External Sector of India. Here, the direction and

composition of India's trade, India's foreign trade policy, the issue of current and capital account convertibility as well as impact of WTO on the Indian economy have been discussed.

While going through a unit, you will notice some along-sode boxes, which have been included to help you know some of the difficult, unseen terms. Some 'ACTIVITY' (s) has been included to help you apply your own thoughts. Again, we have included some relevant concepts in 'LET US KNOW' along with the text. At the end of sections, you will get 'CHECK YOUR PROGRESS' questions. These have been designed to self-check your progress of study. It will be better if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with 'ANSWERS TO CHECK YOUR PROGRESS' given at the end of each unit.

UNIT- I : INDIA AS AN EMERGING GLOBAL ECONOMY

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- 1.3.3 Current and Constant Prices
- 1.3.4 World Ranking of India in terms GDP
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- 1.4.2 Concept of Structural Transformation
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1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- identify the trends in national income and per capita income
- examine the sectoral composition and growth of the national income
- assess the position of India in the current global economy

1.2 INTRODUCTION

Dear learners, as this is the very first unit of your Course on Issues in Indian economy, the basic foundation of this whole course starts with this present unit. As you know that the globalisation of Indian economy has opened up many new opportunities, but has also brought with it new challenges and responsibilities at the same time. Since the economic reforms of the early 1990s, when India abandoned the components of its closed economy and state controlled policies of the past, the Indian economy has seenrapid growth and progress. The country has come a long way from decades of stalled economic growth, exchange rate fluctuations, and a negative balance of payments.

The Indian economy today is more integrated than ever before. It has emerged as a large and important economy on the global stage. It enjoys the unique advantage of having many economic indicators to its advantage, particularly a large domestic market, robust investment-to-GDP ratio, and demographic advantage. Given its size of population and its portrait in the global economy, India will certainly need to play an active role at the global level.

At the same time, India needs to address its internal challenges as well which include the long-standing problem of poverty, unemployment, low per capita Income and the development of its basic infrastructure. India also needs to renew its commitment to reforms and better exploit the benefits of global integration. Despite its many challenges, India has enormous potential to unleash.

Against this backdrop, we will go further to explore the trends in national as well as per capita income of India. As sectors have an important role to play to determine the overall growth of an economy, we shall also discuss the sectoral composition of national income. Lastly, we will be examining the current position and importance of India in the global economy.

1.3 TRENDS IN NATIONAL INCOME AND PER CAPITA INCOME

1.3.1 National Income

According to Marshall: "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend."

In this definition, the word 'net' refers to deductions from the gross national income in respect of depreciation and wearing out of machines.

In the words of A.C. Pigou, "National income is that part of objective income of the community, including of course income derived from abroad which can be measured in money."

So after you read these two sets of definitions about the national income you will get to know that in a typical economy a large number of economic transactions occur. National income accounting is an attempt to classify these transactions in a way that is economically meaningful. National income is a measure over a period of time of the value of goods and services becoming available to the country, of the money incomes arising to residents and of the money expenditure on final goods. To avoid an erroneous impression of the size of the national income, we distinguish between intermediate goods which are used in the production process, and final goods which are sold to the public.

In simple words, National income of a country can be defined as the total market value of goods and services produced in the economy over a period of time, i.e. generally of a year. The three-important measure of calculating National Income of a country is:

- The sum of the value of all final goods and services produced.
- The sum of all incomes accruing to factors of production, i.e., Rent, Interest, Profit and Wages.

- The sum of consumer's expenditure, net investment, and government expenditure on various goods and services.

1.3.2 Per Capita Income

Per capita income counts each and every individual; let it be, man, woman, and child, even newborn babies, as a member of the population. It is a measure of the amount of money earned per person in a particular geographical area. Per capita income can be used to determine the average per-person income for an area and to evaluate the standard of living and quality of life of the population. Per capita income for a nation is calculated by dividing the country's national income by its population.

The rate of growth of national income when compared withthe rate of growth of population indicates whether the economy is declining,stagnant or developing. It is only when the national income grows at a ratefaster than the rate of growth of population that the per capita income depictsa rising trend; the community is able to improve its living standards and add to economic development of the country.

1.3.3 Current and Constant prices

It is very much essential to study the trend of the national income in India to attain a clear understanding about nature of the Indian economy. The trends in national income generally depict the standard of living of the people of India. Both the national income and per capita income are first collected at current prices and then expressed at constant prices for eliminating the effect of any change of price level during that period. Thus, the national income at current prices is influenced by both the increase in production of goods and services and the rise in prices. In order to make the national income figures comparable, these figures are deflated at constant prices just to adjust it for the price change during the period. To deflate the data, WPI (Wholesale Price Indices) and CPI (Consumer Price Indices) are used.



LET US KNOW

CPI: Itis a comprehensive measure used for estimation of price changes in a basket of goods and services, representative of consumption expenditure in an economy. The CPI is based on retail prices and this index is used to calculate the Dearness Allowance (DA) for government employees.The change in index over a period of time is called as CPI inflation. CPI figures are released by the Central Statistics Office (CSO), Ministry of Statistics and Program Implementation.

WPI: It is a price index representing the wholesale prices of a basket of goods. In several countries such as India it is used to measure the inflation, the general rise in the prices of goods. It is released on a weekly basis on every Thursday to measure the change in the wholesale prices of a set of goods. As the name suggests it does not take into account the price at which consumers buy goods but on the wholesale basis. The rationale of having WPI is to know the demand and supply condition of goods included in the economy.

1.3.4 World Ranking of India in terms of GDP

Before studying the trends in national income at aggregate and per capita level, you need to understand the position of India's national income at the global front. As per the latest report of World Economic Outlook, October 2019, India's economy has become the fifth largest in the world, measured using GDP at current US$ prices. The size of the economy is estimated at US$ 2.9 trillion in 2019 (Table1.1).

So, being at the fifth place in terms of GDP seems good, but, we would like to use a phrase here that as book in not judged by its cover similarly this table is not showing the sad scenario about the Indian economy. Despite its strong economic growth, the country still faces its share of challenges. According to the World Bank,

access to development and new opportunities has been uneven, varying by geographic location.This economic growth has actually come at the cost of rising income inequalities, unemployment and poverty levels. Furthermore, India remains home to one quarter of the world's poor. Just 39% of its rural residents can access sanitation facilities. About these problems pertaining to Indian economy you will be reading in your subsequent units.

Table 1.1: Top 10 Economies in the world in terms of GDP at current US$ trillion

Sl No.	Country	2017	2018	2019
1	United States	19.5	20.6	21.4
2	China	12.1	13.4	14.1
3	Japan	4.9	5	5.2
4	Germany	3.7	4	3.9
5	India	2.7	2.7	2.9
6	United Kingdom	2.6	2.8	2.7
7	France	2.6	2.8	2.7
8	Italy	2	2.1	2
9	Brazil	2.1	1.9	1.8
10	Korea	1.6	1.7	1.6

Sources: World Economic Outlook, October 2019

1.3.5 Estimates of National income in India

In India, the first attempt to estimate national income and per capita income was made in the year 1867-68 byDadabhaiNaoroji. This was followed by several intermittent efforts by individuals, officials as well as non-officials. Scholars attempting to estimate national income statistics for pre-independence India have confronted innumerable difficulties in finding reliable data. Whatever estimates they make, they were forced to rely on macro level data to make numerous assumptions. Only for the period after India became independent in 1947 was it possible to find reliable official statistics.

In 1949, soon after the independence, the National Income Committee (NIC) was formed to compile statistics and estimate national income. The committee was headed by P.C. Mahalanobis

and included D.R. Gadgil and V.K.R.V. Rao. Assisting the NIC was the National Income Unit (NIU), directed to prepare estimates of national income every year. The First Report of the Committee was published in 1951, and the Final Report in 1954. The NIU was under the jurisdiction of the Ministry of Finance, later changed to the Central Statistical Organisation.

Now the task of preparing national income estimates has been totally under the Central Statistical Organisation (CSO). The CSO has been producing annual official estimates of national income of India since 1955 and publishing the same in its annual report *National Accounts Statistics*. It is with the help of these data that we shall examine the trends in national and per capita income.

Let us now look into the trends in the national income figures and per capita income figures of India both at current prices and at constant prices obtained through C.S.O.'s new series with 2011-12 as base year.

Table 1.2: Trends in National Income and Per Capita Income at Current Prices

Year	Gross Domestic Product (GDP)	Gross National Income (GNI)	Per Capita GDP	Per Capita GNI
2019-20	20339849	20118353	151677	150025
2018-19	18971237	18768912	142963	141439
2017-18	17098304	16913491	130124	128718
2016-17	15391669	15215269	118489	117131
2015-16	13771874	13612095	107341	106096
2014-15	12467959	12320529	98405	97242
2013-14	11233522	11093638	89796	88678
2012-13	9944013	9827250	80518	79573
2011-12	8736329	8659505	71609	70980
2010-11	7634472	7552665	64372	63682
2009-10	6366407	6328407	54414	54089
2008-09	5514152	5481229	47783	47498
2007-08	4898662	4878150	43046	42866
2006-07	4254629	4221395	37920	37624
2005-06	3632125	3606009	32840	32604
2004-05	3186332	3163957	29259	29054

Source: Latest Central Statistical Office estimates

Table1.3:Trends in National Income and Per Capita Income at Constant Prices

Year	Gross Domestic Product (GDP)	Gross National Income (GNI)	Per Capita GDP	Per Capita GNI
2019-20	14565951	14405339	108620	107422
2018-19	13981426	13829068	105361	104213
2017-18	13175160	13029307	100268	99158
2016-17	12308193	12163619	95106	94751
2015-16	11369493	11234571	88616	87565
2014-15	10527674	10402987	83091	82107
2013-14	9801370	9679027	78348	77370
2012-13	9213017	9104662	74599	73722
2011-12	8736329	8659505	71609	70980
2010-11	8301235	8211816	69994	63682
2009-10	7651078	7606319	65394	54089
2008-09	7093403	7052191	61468	47498
2007-08	6881007	6852740	60466	42866
2006-07	6391375	6342389	56964	37624
2005-06	5914614	5872936	53478	32604
2004-05	5480380	5442938	50325	29054

Source: Latest Central Statistical Office estimates

It would be seen from Table 2 and Table 3 that India's GDP and GNI (both at current prices and constant prices)have got multiplied during the period beginning with 2004-05 to 2011-12. During the same period, per capita GDP and Per capita GNI have also been increasing. The difference in the growth between the national income and the per capita income is accounted for by the growth in population. However, the fact that the per capita income in the economy has been increasing proves that the rate of growth of national income has been more than the rate of growth of population.



CHECK YOUR PROGRESS

Q 1: What are the three important measures of calculating national income?

.....

.....

Q 2: Differentiate between the current and constant prices?

.....

.....

Q 3: Which factor account for the difference between the national income and Per Capita income?

.....

.....

1.4 SECTORAL COMPOSITION OF NATIONAL INCOME

Let's move forward now to understand the concept of national income from sectoral point of view. Broadly speaking, the gross national income comes from the three sectors viz. primary sector, secondary sector and tertiary sector.

1.4.1 Brief Description of Three Broad Sectors

Primary sector: In this sector, activities are undertaken by directly using natural resources. Agriculture, Mining, Fishing, Forestry, Dairy etc. are some examples of this sector. It forms the base for all other products. Since most of the natural products we get are from agriculture, dairy, forestry, fishing, it is also called Agriculture and allied sector. People engaged in primary activities are called red-collar workers due to the outdoor nature of their work.

Secondary Sector: It includes the industries where finished products are made from natural materials produced in the primary sector. Industrial production, cotton fabric, sugar cane production etc. activities comes under this sector.So it's the part of a country's economy that manufactures goods, rather than producing raw materials. Since this sector is associated with different kinds of industries, it is also called industrial sector. People engaged in secondary activities are called blue collar workers.

Tertiary/Service Sector: This sector's activities help in the development of the primary and secondary sectors. By itself,

economic activities in tertiary sector do not produce goods but they are an aid or a support for the production.Goods transported by trucks or trains, banking, insurance, finance etc. come under this sector. It provides the value addition to a product same as the secondary sector.This sector jobs are called white collar jobs.



LET US KNOW

Sub-Sectors of Indian Economy

CSO has classified Indian economy into the following 13 sub-sectors divided into 9 groups. The sectors are grouped as follows:

1) **Agriculture, forestry and fishing**
   a) *Agriculture*
   b) *Forestry and logging*
   c) *Fishing*
2) **Mining and quarrying**
3) **Manufacturing**
   a) *Registered*
   b) *Unregistered*
4) **Electricity, gas and water supply**
5) **Construction**
6) **Trade, hotels and restaurants**
   a) *Trade*
   b) *Hotels and restaurants*
7) **Transport, storage and communication**
   a) *Railways*
   b) *Transport by other means*
   c) *Storage*
   d) *Communication*
8) **Financing, insurance, real estate and business services**
   a) *Banking and insurance*
   b) *Real estate, ownership of dwellings and business services*

9) Community, social and personal services

a) *Public administration and defence*

b) Other services

1.4.2 Concept of Structural Transformation

The sectoral composition of an economy is the proportionate contribution of different sectors to the total Gross Domestic Product (GDP) of an economy during a year. It gives the share of agricultural sector, industrial sector and service sector in GDP. When an economy grows, a process occurs which is called structural transformation. As development proceeds, the proportionate contribution of primary sector tends to decrease while that of the secondary and tertiary sector tends to increase. Thus, the level of productive activity tends to improve in the secondary and tertiary sectors of the economy in relation to the primary sector.

This implies that the economy's dependence on the agricultural sector will tend to decrease gradually and the share of the industrial and service sectors in the total GDP will increase over the years. This structural transformation together with the economic growth is also termed as economic development.It implies that the proportional contributions of different sectors tend to change with the process of growth. In the developing countries, the bulk of income is generated in the primary sector of the economy. On the other hand, the growth in the performance of the service sector with higher contribution to the total GDP is considered as an indication of economic development.

The introduction of economic reforms in 1991 has marked a significant change in the India's growth story. The growth of service sector has started playing a crucial role in the overall economic growth scenario in the country. The service sector led growth has given Indian economy the status of 'one of the fastest growing economies' of the world. However, this has also given rise to the challenge of sustaining the economic growth for a longer period of time.

1.4.3 Sectoral Composition of GDP/GVA

Now it is time to go through the empirical data which will let you understand more about the sectoral composition of national income. Different sectors of the economy usually grow at different rates. A high growth of GDP does not attract much attention to sectoral contribution to growth as much as low growth of GDP does. Yet, at all levels of growth, structural change is imminent and it is the pace of change that becomes a matter of interest (Table 1.4).

Share of agriculture and allied sectors in the total Gross Value Added (GVA) i.e. the total contribution to GDP by a sector or an industryin a given year has declined from 2009-14 to 2014-19 mainly on account of relatively higher growth performance of tertiary sectors. This is a natural outcome of the development process. That leads to faster growth of non-agricultural sectors.

The contribution of industrial activities to GVA has also declined from 2009-14 to 2014-19. Manufacturing sector, which contributes more than 50 per cent of industrial GVA, has driven the decline while the share of construction sector has also moderated.

Services sector has moved ahead faster, distancing itself further from agriculture and industry. Financial, real estate and professional services has driven the increase in the contribution of service sector followed by public administration. Even globally, the services sector has supported global growth partly offsetting the decline in manufacturing activity.

Table 1.4 : Sectoral shares in GVA (per cent)

	2009-10 to 2013-14	2014-15 to 2018-19	2018-19	First half: 2019-20
Agriculture, forestry & fishing	18.3	17.4	16.1	13.9
Industry	32.3	29.6	29.6	28.3
Mining & Quarrying	3.2	2.4	2.4	2.1
Manufacturing	17.5	16.6	16.4	15.4
Electricity, Gas, Water supply & other utility services	2.4	2.6	2.8	2.9
Construction	9.2	8.0	8.0	8.0
Services	49.4	52.9	54.3	57.8
Trade, Hotel, Transport, Storage, Communication and services related to broadcasting	17.5	18.3	18.3	18.1
Financial, Real estate & Professional services	19.2	20.9	21.3	24.5
Public Administration, Defence and other services	12.7	13.7	14.7	15.2

Source: CSO estimates



LET US KNOW

Difference between Gross Value Added and Gross Domestic Product

GROSS VALUE ADDED: It is a measure of total output and income in the economy. It provides the rupee value for the amount of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production of those goods and services. It also gives sector-specific picture like what is the growth in an area, industry or sector of an economy.

GROSS DOMESTIC PRODUCT: It gives the economic output from the consumers' side. It is the sum of private consumption, gross investment in the economy, government investment,

government spending and net foreign trade (difference between exports and imports).

DIFFERNCE: While GVA gives a picture of the state of economic activity from the producers' side or supply side, the GDP gives the picture from the consumers' side or demand perspective. Both measures need not match because of the difference in treatment of net taxes.

1.4.4 Sectoral Growth of GDP/GVA

In the last subsection, we analysed the composition(in per cent) of different sub sectors of the economy. Here in this section we will be examining the growth of GVA and GDP in recent period (Table: 1.5)

The year 2019 was a difficult year for the global economy with world output growthestimated to grow at its slowest pace of 2.9 per cent since the global financial crisisof 2008-09. Amidst a weakenvironment for global manufacturing, trade and demand, the Indian economywas also down with GDP figures. The National Statistical Office (NSO) has estimated India's GDP to have grown at 4.8 per cent [(5+4.5)/2]in the first half (H1) (April- September) of 2019-20, lower than 6.2 per cent recorded in the second half (H2) (October-March) of 2018-19.

Table 1.5: Quarter wise growth of real Gross Value Added (GVA) and GDP (per cent)

	2018-19				2019-20	
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
GVA	7.7	6.9	6.3	5.7	4.9	4.3
Agriculture	5.1	4.9	2.8	–0.1	2	2.1
Industry	9.8	6.7	7	4.2	2.7	0.5
Services	7.1	7.3	7.2	8.4	6.9	6.8
GDP	8	7	6.6	5.8	5	4.5

Source: Adapted from Economic Survey 2019-20



CHECK YOUR PROGRESS

Q 4: What do you understand by the term Structural Transformation?

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.....

Q.5: Explain the change that you noticed in the sectoral shares in Gross Value Added from 2013-14 to 2019-20.

.....

.....

Q 6: The economic growth of Indian economy is service led growth – Comment on this.

.....

.....

1.5 ROLE OF INDIA IN CURRENT GLOBAL ECONOMY

The fast growth rate that India has experienced since the mid1990s was introduced through policy of first generation economic reforms. These reforms implemented in the early 1990s denoted India's appearance on the global economic map and made India a favourite destination for foreign investors and companies. India has gained huge ground over the recent decades and is presently tallied among the world's emerging developing markets. This development has led to a rise in India's worldwide standing and has fundamentally improved the country's socio-economic indicators. This development has also raised expectations for government and policy makers for Indian economy to usher more at the global front. The burgeoning middle class also expects more growth from the economy and is eager to see even more improvement particularly in socio economic indicators. So, for India, this is a daunting challenge, especially at a time when it has yet to realize its full capacity in order to lead the global economy.

1.5.1 Rising India : A Bright Global Spot

The Indian economy today is progressively incorporated and more reliant on the worldwide economy than any other time in recent memory. The nation has made considerable progress from many years of slower economic growth, prolonged negative balance of payments, and frequent fluctuations in exchange rate and intermittent crises. India needs to recharge its pledge to become a leader at global level and utilise the advantages of global integration.

The increase of the Indian white collar class and fall in poverty levels in the course of the most recent decade is a result of these changes and their orderly development. To spike more economic growth, India increased focus on exports, IT sector and other related services. The share of merchandise trade has risen since 1991 and a dramatic transformation of services trade has happened. This resulted into increased capital inflows and foreign direct investment (FDI). As per the World Investment Report 2020 by theUNCTAD (United Nations Conference On Trade And Development), India is the 9th largest recipient of FDI in 2019, with 51 billion dollars of inflows during the year, an increase from the 42 billion dollars of FDI received in 2018, when India ranked 12 among the top 20 host economies in the world. India rose as one of the most appealing goals for FDI, as well as an important source of FDI outflows. Presently it is the favourite destination for FDI because of higher return compared with other developing countries. There is still a great deal of potential for expansion in the economy and various opportunities are yet to be completely tapped. The nation was acknowledged globally for its reduction and rationalization of tariffs and removal of non-tariff barriers. With all these developments Indian economy became deeply integrated with the global economy.

The economic reforms initiated in the year 1991 led to many years of above average growth rate of around 8-10 percent. As India's economy prospered, financial specialists, policymakers, and people

of India started to take it for granted that such high paces of development would be the norm. But the slowing down of reforms resulted in loss of this momentum. In the wake of being scrutinised by financial analysts for low development, India has at last earned a spot among the world's driving developing markets. Further opening up could lead India to achieve further success among the BRICS– Brazil, Russia, India, China, and South Africa and even beyond.

1.5.2 The Outlook Ahead for India

India has the second largest population in the world with more than 1.3 billion people. Of India's 29 states and 7 union territories, 18 are home to more people than Australia. By 2035, the United Nations projects that India's population will reach almost 1.6 billion, on its way to a peak of almost 1.7 billion by the early 2060s.

India's economy is of worldwide significance. It has a large and young population and an open and democratic political system. It is as of now the third biggest economy and supporter of worldwide financial development, yet there is massive undiscovered potential. With more than a sixth of the world's population, India produces only 7 per cent of the world's output. India's economic progress will not be linear. It will be subject to many structural shifts and will be shaped by technological and environmental disruptions.

It is, therefore, imperative to pause for a minute to help ourselves to remember of this country's extraordinary achievements. Some are notable in the emergence of a world class IT industry, the quick development of exports, and the development of a sophisticated financial sector. India has a solid voice in the global discussion of many key issues, including trade and climate change.

Recently, due the Covid-19 pandemic, a report by Goldman Sachs expect global economy to sink into recession in 2020 it is also expected that world gross domestic product could turn into negative 1.8 per cent in the year 2020. For India the same research agency has lowered its real GDP forecast to 1.6 per cent in financial

year 2020-21 from 3.3 per cent predicted earlier. This, however, is still higher than United States, which it now sees contracting to -6.2 per cent in 2020. India's development will be driven by how viably it tackles and rewards the endeavours of its most noteworthy resources – its people.



CHECK YOUR PROGRESS

Q 7: What does the middle class expect from the growing and progressing Indian economy?

.....

.....

Q 8: How much of the total world output is produced in India?

.....

.....

Q 9: Comment on the changes at FDI front that Indian economy witnessed recently.

.....

.....



1.6 LET US SUM UP

- National income estimates are the most reliable macroeconomic indicators ofan economy.
- Changes in national income measure the rate of growth of the economy
- In India national income, as also per capita income, has been continuously increasing.
- Changes in the structure of national income of aneconomy reflect the changing significance of different sectors.
- In more recent years, the rate of growth of national income hasaccelerated. It indicates that the economy has been growing at a faster rate inrecent years than in the past

- The structure of national incomehas also undergone a change; the tertiary sector has emerged as the dominantsector of the economy.



1.7 FURTHER READING

1. Datt, G. & Mahajan, A. (2020). *Datt & Sundharam's Indian Economy*. New Delhi: S. Chand & Co. Ltd.
2. Kapila, U. (Ed.) (2020). *Indian Economy: Performance and Policies*. New Delhi: Academic Foundation
3. Mishra, P. K. & Puri, V. K. (2020). *Indian Economy*. New Delhi: Himalaya Publishing House.



1.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The three-important measure of calculating National Income of a country are

(i) The sum of the value of all final goods and services produced.

(ii) The sum of all incomes accruing to factors of production

(iii) The sum of consumer's expenditure, net investment, and government expenditure on various goods and services.

Ans to Q No 2: The national income at current prices is influenced by both the increase in production of goods and services and the rise in prices. In order to make the national income figures comparable, these figures are deflated at constant prices just for adjusting it for a price change during the period.

Ans to Q No 3: The growth of service sector has started playing a crucial role in the overall economic growth scenario. The service-sector-led growth has given the status to Indian economy as 'one of the fast growing economies', but it would give rise to challenges related to retaining the growth rates attained.

Ans to Q No 4: As development proceeds, the proportionate contribution of primary sector tends to decrease while that of the secondary and

tertiary sector tends to increase. This is termed as structural transformation.

Ans to Q No 5: Share of agriculture and allied sectors in the total GVA of the country has declined from 2009-14 to 2014-19 The contribution of industrial activities to GVA has also declined from 2009-14 to 2014-19. Manufacturing sector, which contributes more than 50 per cent of industrial GVA, has driven the decline while the share of construction sector has also moderated. Services sector has moved ahead faster, distancing itself further from agriculture and industry.

Ans to Q No 6: The growth of service sector has started playing a crucial role in the overall economic growth scenario. The service-sector-led growth has given the status to Indian economy as 'one of the fast growing economies', but it would give rise to challenges related to retaining the growth rates attained.

Ans to Q No 7: The burgeoning middle class also expects more growth from the economy and is eager to see even more improvement particularly at socio economic indicators level.

Ans to Q No 8: India produces only 7 per cent of the world's output.

Ans to Q No 9: India is the 9th largest recipient of FDI in 2019, with 51 billion dollars of inflows during the year, an increase from the 42 billion dollars of FDI received in 2018, when India ranked 12 among the top 20 host economies in the world.



1.9 MODEL QUESTIONS

Q.1: Suggest measures to accelerate the rate of growth in the Indian economy.

Q.2: The rate of growth in the Indian economy hasbeen relatively slow.Do you agree? Give arguments to justify your views on this statement.

Q.3: Write a detailed note on the sectoral composition of national Income.

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UNIT 2: INDIA'S POPULATION: GROWTH AND POLICY

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Population Growth

- 2.3.1 Population Growth in India
- 2.3.2 Birth Rate and Death Rate
- 2.3.3 Infant Mortality Rate
- 2.3.4 Total Fertility Rate

2.4 Age and Sex Composition of Population

- 2.4.1 Age Composition
- 2.4.2 Sex Composition

2.5 Population Policy

- 2.5.1 National Population Policy, 2000

2.6 Let Us Sum Up

2.7 Further Reading

2.8 Answers to Check Your Progress

2.9 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the concept of population growth
- comprehend the trend of population growth in India
- figure out the age and sex composition of population in India
- appreciate theNational Population Policy, 2000

2.2 INTRODUCTION

This unit discusses the concept of population growth in India. Besides, the factors affecting population growth and the age-sex composition of populationin India have also been discussed. The unit further

describes the National Population Policy, 2000 andhighlights its salient features.

2.3 POPULATION GROWTH

The ever-increasingglobal populationhas been a major concern over the past several decades.Population growth, simply defined as an increase innumber of individuals in a population at a specific time and space, had been slower until the occurrence of industrial revolution.After that the world population jumped from a million to billions in a much less time.With the incredible healthcare advancement in the recent hundred years, a worldwide fall in mortality rate, increased rate of fertility and higher life expectancy are among the reported factorsof rapidgrowth of population in many countries. Migration, both inward and outward (immigration and emigration) too affects the growth rate of population to a great extent. The highest population growth in the world occurred during the 20th century, which resulted in the increase of total population from 1.65 billion to6 billion.During the years 1955 and 1975, the world population recorded a significant burst with 1.8 percent growth rate per year, peaking at 2.1 percent between 1965 and 1970. The current global population, as per the United Nations' (UN) recentestimates stands at 7.8 billion in December 2020. Asia alone occupies 4.7 billion people ranking top in the list followed by Africa with 1.3 billion populations along with the highest growth rate. India is projected to surpass China as the world's most populous country around 2027; China's population is expected to decrease by 2.2 percent until 2050. The Department of Economic and Social Affairs of the UN confirms the population growth is still being continued in an upward graph though in a slower pace.

2.3.1 Population Growth in India

India shares 2.4 percent of world's total land area. But, it is the second most populous country in the world with 16.9percent of total global population. This discouraging land-man ratio with a minimal national income (amounting to 1.2 percent of total world income) has significantlydistressed India's economy and development.The

UN population prospects 2019 reveals that population count in India shows a continuous increase till today.

In India, the first modern census was held during 1865 to 1872. However, the first synchronous census was conducted in1881. Census data of 1891 recorded 287,223,431persons in India with a growth rate of 13.1 percent, which composed one fifth of the total world population at that time. During the period 1891 to 1921, Indian population increased by 1.5 crore. The annual compound growth rate during these years was 0.19 percent per annum. The next thirty years experienced a huge expansion of 11 crores, from 25.1 crores in 1921 to 36.1 crores in 1951having 1.22 percent annual compound growth rate. In 1951, India's population grew by13.31percent more than the previous census data of 1941 having 42,427,510 persons. This number further increased to 838,583,988 in 1991and reached the 100 crores marks in 1998. The 2001 census marked an increase of 18.06crorespeople from 1991.In 2011, India's population count stood at 121crores with 17.70 percent decadal growth against 21.5 percent in the previous decade. According to the census data, more than 18.1 crore populations had increased during this decade. This has reached 136 crores in 2019 as per UN Projections. The yearly growth rate population in India increased continuously since 1951 (1.61 percent) reaching its peak in 1974 (2.36 percent). From 1975 onwards a declining growth rate has been recorded which stood at 1.02 percent in 2019 and 0.99 percent in the year 2020.

2.3.2 Birth Rate and Death Rate

Therate of population growth of a country depends on the birth rate and death rate. If the birth rate stands at replacement level with the death rate, the number of population remain constant. But as the birth rate exceeds the later, the population starts growing.

Birth Rate: The average number of births occurring per thousand populationsevery year implies the birth rate of that population. The rate of birth in a population depends on fertility i.e. the number of children born to women within the period of child

bearing age, which, in turn, is linked to the mean age at the marriage. In India the mean ages of marriage have been very much lower than other countries. However, it has been in a constant upward trend owing to factors likeimprovement in women'seducation, economic independence etc. In 1891 the mean age of marriage was as low as 12.5 years in females that increased to 15.6 years in 1951. Later, in 1981 it improved to 18.3 years, further reaching 21.2 years in 2011 as per the census. It has now been improved to 22.3 years as revealed by Sample Registration System (SRS) data, 2018**.** This increasing mean age of getting married reduces the span of fertility resulting in a lower birth rate and eventually,contributing to lower growth rate of population.According to National Sample Survey, live birth per educated women is less than that of women with minimal education.

Table 2.1 Annual average Birth and Death Rates in India

Decade /Years	Birth Rate (per thousand)	Death Rate (per thousand)
1891-1900	45.8	44.4
1901-1910	48.1	42.6
1911-1920	49.2	48.6
1921-1930	46.4	36.3
1931-1940	45.2	31.2
1941-1950	39.9	27.4
1951-1960	40.0	18.0
1961-1970	41.2	19.2
1971-1980	37.2	15.0
1985-1986	32.6	11.1
1989*	30.5	10.2
1991	28.9	10.0
1996*	27.4	9.0
2005*	23.8	7.6
2011*	21.8	7.1
2013*	21.4	7.0

Source: Census of India 1971, Census of India 1981; Series I, Paper I of 1984 and 2011.
Ministry of Health and Family Welfare GOI and Economic Survey, 2015-16.

*Office of the Registrar General, Vital Statistics Division.

From Table 2.1we can see that the birth rate in India was very high during the early years of the previous decades. The annual average rate of birth in 1911-1920 reached peak with 49.2 per 1000 and it gradually decreased to 21.4 per 1000 persons in 2013. Notwithstanding, the SRS data 2020 puts the birth rate of India at 20 (rural 21.6, urban 16.7) per 1000.

Death Rate: The average number of deaths per 1000 populations is termed as death rate. This demographic indicator has been significantly high during the pre-independent decades in India. The highest death rate was recorded as 48.6 per thousand during 1911-1920 which was 44.4 per thousand during 1891-1900. This rate further declined to 7.1 in 2011 and 7.0 in 2013. According to SRS data 2020, the death rate in India is 6.2 (rural 6.7 and urban 5.1) per thousand. This gradual decrease in death rate resulted from multiple factors like fall in infant mortality, fall in women mortality, immunisation in babies, improved medical facilities, better diet, pure drinking water, enhanced sanitation, eradication of epidemics etc.

From the discussion we can understand that birth and death rates in India are declining continuously. But the pace at which death rate is falling is not attained by birth rate resulting in huge population growth. Again the death rate in India has reached a point where no further sharp decrease can be attained. Therefore, until the fall in the rate of birthmatches the pace with the fall in death rate, it is not possible to stall the growth rate of the population.

2.3.3 Infant Mortality Rate

Infant mortality rate (IMR) is one of the major indicators of health. It is counted as the number of deaths of children in less than one year of ageper thousand live births. India is considered as a 'high infant mortality' region by the World Health Organisation. Various factors like poor health facilities, unhygienic environment etc contributes to higher mortality rate in infants which was as high as 218 infant deaths per thousand live births during the years 1916-20 in India. In 1981, a total of 110 infants died out of every 1000 live births. This number

came down to 80 in 1991 and 71 in 2001. A sharp fall in IMR has been recorded in the year2011 showing 44 infant deaths per 1000 live births. Infant mortality rate has always been higher in the rural areas in comparison to the urban areas. As per 2011 census, 48 infant deaths per 1000 live births in rural areas were recorded while it was 29 in the urban areas. As per SRS data 2020, the Infant Mortality Rate in India has further declined to 32, which is a significant achievement. The gap between rural and urban areas, though reduced considerably (IMR in rural areas is 36 and in urban areas 23), still continues to prevail as evident from the data.

2.3.4 Total Fertility Rate

Fertility rate or the average number of live births per thousand woman of reproductive age (15-49 years) is one of the major factorsresponsible for population growth. The Census of India 2011 shows that2.4 children were born to every thousand women aged 15-49 yearsat the national level. It was2.7 in urban areas and 1.9 in rural areas.Bihar and Uttar Pradesh showed higher rates of fertility compared to other Indian states, with total fertility rates of 3.6 and3.4 respectively.The total fertility rate has declined from 5.2 to 4.5 during 1971 to 1981 and further from 3.6 to 2.3 during 1991 to 2013 and remained stable up to 2016. The Sample Registration System of India's government conducted in 22 states yields a falling rate of fertility in 2017, recorded at 2.2.Oncethe downward fertility rate reaches the replacement level, i.e. the number of children required to substitute their parents, the population starts todecline.



CHECK YOUR PROGRESS

Q 1: What is meant by Birth Rate and Death Rate?

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.....

Q 2: Define IMR and TFR?

.....

.....

2.4 AGE AND SEX COMPOSITION OF POPULATION

2.4.1 Age Composition

The statistics on age distribution is another important factor while studying a population. Let us see why and how. If we look at the structure of age composition in a specific population, we can determine the ratio of labour force in the total population and also the dependency ratio. Dependency ratio is the ratio of net consumers to net producers.In India, child population within age group 0-14 years has increased from 37.4 percent in 1951 to 41.4 in 1971. It again started dropping to reach 30.7 in 2011. Higher birth rate compared to infant mortality rates is a key factor affecting the children population count in the country. The proportion of working age population which is calculated at 15-60 age groups shows a decline from 57.1 percent in 1951 to 53.4 percent in 1971. It then continued to move upwards and reached 60.3 percent in 2011. The other age group of persons aged above 60 years has been increasing since 1971. It was 5.2 in that year and stands at 8.6 in 2011 as per latest census data.

Table 2.2 Percentage Distribution of India's Population by Age Groups

Years	0-14 years	15-60 years	60 years and above
1911	38.8	60.2	1.0
1921	39.2	59.6	1.2
1931	38.3	60.2	1.5
1951	37.4	57.1	5.5
1961	41.0	53.3	5.7
1971	41.4	53.4	5.2
1981	39.5	54.1	6.4
1991	36.5	57.1	6.4
2001	35.6	58.2	6.3
2011	30.7	60.3	8.6

Source: IAMR, Fact Book on Manpower, Census of India 2011

Table 2.2 reveals that in 2001 and 2011, the percentage of population in the working age group is higher than the child and aged population. But, the work participation rate i.e. percentage of total workers in the population of India was 39.1 in 2001. This shows the scenario of dependency ratio in the last few years. If the number of unproductive consumers outnumbers the number of productive consumers, the population experiences a higher dependency ratio which adversely affects the economy of the country.

2.4.2 Sex Composition

Sex composition is another factor while studying a population.Sex ratio is calculated as the number of females per 1000 males. The overall sex ratio in a population is a composite outcome of several indicators viz. sex ratio at birth, sex differentials in mortality, sex selective migration, natural sex selective life expectancy etc.The world scenario regarding sex ratio indicates the existence of a greater number of female populations than the malesin many countries. But the average ratio, as estimated by the United Nations was 986 females per 1000 males in 2000. In addition, a little biased natural ratio towards male births is observed globally, estimated to be about 1.05 by World Health Organization.But this natural ratio changes with age owing to lower life expectancy of males than females. In countries like USA, Japan, Indonesia, Belarus, Ukraine Russia, Estonia etc. females outnumber males.But the Arabian, North African and Asian countries exhibit more males in relation to females. The difference of global sex ratio of the ten most populous countries in the world during 2001 and 2011 is providedin Table 2.3.

Table 2.3 Sex Ratio of Selected Countries

Serial number	Country	Sex Ratio (females per thousand males)	
		2001	2011
	World	**986**	**984**
1	China	944	926
2	India	933	940
3	USA	1029	1025
4	Indonesia	1004	988
5	Brazil	1025	1042
6	Pakistan	938	943
7	Russian Fed.	1140	1167
8	Bangladesh	953	978
9	Japan	1041	1055
10	Nigeria	1016	987

Source: 1. 2001 -World Population Prospects, 1998Revision, UN.

2. 2011- World Population Prospects, 2008 Revision, UN

From Table 2.3 we can see that India is also one among the countries having lesser number of females per thousand males. Lower and declining sex ratio has been a cause of concern in India for quite long time. It was 972 in 1901 and then declined gradually in the subsequent years.

Table 2.4 Sex Ratio in India 1901-2011

Serial Numbers	Census Years	Sex Ratio
1	1901	972
2	1911	964
3	1921	955
4	1931	950
5	1941	945
6	1951	946
7	1961	941
8	1971	930
9	1981	934
10	1991	927
11	2001	933
12	2011	940

Source: Census of India

In 1951 sex ratio in India was higher by one point than the previous year but again dropped by five points in 1961. In 1971 a shocking fall had been noticed by eleven points, from 941 in 1961 to 930. However, in 2011 the proportion of females rose up seven points higher than 2001 and reaching a 940 mark after hovering around 930 for several decades (Table 2.4).

During 1951, altogether 11 states had sex ratio of 1000 or more. But this number decreased to 9 in 1961, 3 in 1971, 2 in 1981 and 1 in 1991. Kerala and Puducherry reported a sex ratio of 1058 and 1001 respectively in 2001. Both further showed remarkable increase in 2011. Kerala reports a sex ratio of 1084 while Puducherry records 1038. The trend of sex ratio in Assam has been upward since 1951. In 2011 the ratio was reported to be 954, aremarkable increase from 935 in 2001.

The child sex ratio i.e. the sex ratio in the age group of 0-7 years was 927 in 2001. In 2011 this number decreased to 914. Sex ratio in the age group 7 and above was 934 females per 1000 males in 2001 and 944 in 2011. Punjab recorded a worryingly low child sex ratio of 798 in 2001. In 2011 this ratio became 846.As per Census 2011, 9 other states recorded sex ratios of less than 900. Mizoram and Meghalaya showed highest child sex ratios of 971 and 970 respectively. According to 2011, the highest sex ratio of 1000 in the population 7 years and above was recorded in Tamilnadu. Moreover, 2 UTs, Lakshadeep and Puducherry also recorded better sex ratios of 1099 and 1047 respectively.

The prevailing gender imbalance in sex composition of population in India, as observed above, is an age long concern. There are many factors contributing to male dominance in the population. In India, female births usuallydominate over male births – 108 female babies are born against every 100 male babies. But most female babies cannot survive the post-natal period owing to several factors such as insufficient care and attention, unhygienic environment, death of a higher proportion of girls during puberty and reproductive

age, early pregnancy in cases of early marriages within 11-19 age groups etc.Other reasons include sex selective abortion and infanticide in many places in India, practiced in spite of both being declared as illegal practices. This is mostly because people having an age old preference towards male heirs.

2.5 POPULATION POLICY

As we have discussed earlier, the population of India is growing at an alarming pace to occupy the position of the most populous country in the world by 2050 as per the UN projections and other recognised organisations. This exploding population is hampering the economic development of the country in many ways. That is why the government should adopt effective and visionary policies to collapse the explosive population growth as soon as possible. India was one of the countries that made early attempts at controlling its population. In 1952, India launched a population control program at the national level, first of its kind in the world. This program highlighted the necessity of family planning in order to reduce birth rates "to stabilise the population at a level consistent with the requirement of national economy. But the goal of 'stabilising the growth of population over a reasonable period' found actual importance during the Third Five Year Plan (1961-1966). Later in 1983, a Working Group on Population Policy recommended a National Health Policy which aimed to reduce Net Reproduction Rate (NRR) i.e. number of girl child per women. Though this policy was adopted as the demographic goal in the Sixth Plan, it was achievable practically only by the period 2006-2011.

In 1976, the National Population Policy was first formulated and announced on 16th April. The government of India stated while introducing this new policy that it is necessary to consider and act upon the problem of population growth as a 'national commitment' as it makes 'economic development slow and achievement difficult'. The policy stressed on different other areas in addition to family planning unlike previous efforts by government. Those were, raising age of marriage, raising the monetary compensation for individual acceptance of family planning, to introduce group

incentives, implementation of new multimedia national strategy for all media to move from urban to rural approach, to spread the knowledge of family planning and family limitation, to adopt small family norms for the government employees, special measures for female education and freezing the population base at the 1971 level for 25 years to determine central plan allocations to states, their representation in Lok Sabha and to earmark eight percent of central assistance to state plans on the performance of family planning. The policy was later modified in 1977 and came as Modified National Population Policy of India, 1977. But these policies could not deliver a satisfactory result in reducing both growth and birth rate in the population owing to lack of infrastructural facilities andabsence of broad-based approach in the policies; political, economic and cultural restrains; lack of sincerity and strong political will on the part of the engaged organisation; lack of cooperation of public etc.

2.5.1 National Population Policy, 2000

On February 15, 2000 the Government of India launched the National Population Policy 2000. This program promoted the two child norm and aimed to stabilise the population by 2045.The National Population Policy, 2000 (NPP 2000) affirmedthe 'commitment of government towardsvoluntary and informed choice and consent of citizens while availing of reproductive healthcare services, and continuation of the target free approach in administering family planningservices. The NPP 2000 provides a policy framework for advancing goals and prioritisingstrategies during the next decade, to meet the reproductive and child health needs of thepeople of the country, and to achieve net replacement levels (TFR) by 2010.'

Objectives

The objectives of the NPP,2000 as stated by the government read as follows:

- The immediate objective of the NPP 2000 is to address the unmet needs for contraception,healthcare infrastructure, and health personnel, and to provide integrated service delivery for basic reproductive and child health care.

- The medium-term objective is to bring the TFR toreplacement levels by 2010, through vigorous implementation of inter-sectoral operationalstrategies.
- The long-term objective is to achieve a stable population by 2045, at a levelconsistent with the requirements of sustainable economic growth, social development, and environmental protection.

The policy set 14 National Socio-Demographic Goals for 2010 in pursuance of the above mentioned objectives. These include,

- Address the unmet needs for basic reproductive and child health services, supplies and infrastructure.
- Make school education up to age 14 free and compulsory, and reduce drop outs at primary and secondary school levels to below 20 percent for both boys and girls.
- Reduce infant mortality rate to below 30 per 1000 live births.
- Reduce maternal mortality ratio to below 100 per 100,000 live births.
- Achieve universal immunisation of children against all vaccine preventable diseases.
- Promote delayed marriage for girls, not earlier than age 18 and preferably after 20 years of age.
- Achieve 80 percent institutional deliveries and 100 percent deliveries by trained persons.
- Achieve universal access to information/counselling, and services for fertility regulation and contraception with a wide basket of choices.
- Achieve 100 per cent registration of births, deaths, marriage and pregnancy.
- Contain the spread of Acquired Immunodeficiency Syndrome (AIDS), and promote greater integration between the management of reproductive tract infections (RTI) and sexually transmitted infections (STI) and the National AIDS Control Organisation.

- Prevent and control communicable diseases.
- Integrate Indian Systems of Medicine (ISM) in the provision of reproductive and child health services, and in reaching out to households.
- Promote vigorously the small family norm to achieve replacement levels of TFR.
- Bring about convergence in implementation of related social sector programs so that family welfare becomes a people centric program.

Strategic themes

In order to achieve these goals 12 strategic themes were identified. It was of utmost importance to shift the operational strategies with emphasis on decentralised planning and implementation of family welfare program,empowering women for improved health and nutrition, child healthand survival, under-served population groups (urban slums, tribal communities, hill area populations and displaced and migrant populations) etc.



CHECK YOUR PROGRESS

Q3. State whether the following statements are true or false:

a) Sex ratio of India is more than world's sex ratio.

b) In 2011, sex ratio of India was 995.

c) On February 15, 2000 the government launched the National Population Policy 2000.



2.6 LET US SUM UP

- The ever-increasing global population has been a major concern over the past several decades. Population growth, simply defined as an increase in number of individuals in a population at a specific time and space, had been slower until the occurrence of industrial revolution.

- With the incredible healthcare advancement in the recent hundred years, a worldwide fall in mortality rate, increased rate of fertility and higher life expectancy has been reported which is a key factor in the rapid growth of population in many countries.
- Migration, both inward and outward (immigration and emigration) also affects the growth rate of a population to a great extent. The highest population growth in the world occurred during the 20th century, steeping from 1.65 billion to 6 billion.
- India shares 2.4 percent of world's total land area. But, it is the second most populous countries in the world bearing 16.9 percent of total global population.
- In India, the first modern census was held during 1865 to 1872. However, the first synchronous census was conducted in1881.
- Census data of 1891 recorded 287,223,431 persons in India with a growth rate of 13.1 percent, which composed one fifth of the total world population at that time. During the period 1891 to 1921, Indian population increased by 1.5 crore.
- The rate of population growth of a country depends on the birth rate and death rate. If the birth rate stands at replacement level with the death rate, the number of population remain constant.
- Infant mortality rate (IMR) is one of the major indicators of health. It is counted as the number of deaths of children in less than one year of age per thousand live births.
- India is considered as a 'high mortality' region by the World Health Organization. Various factors like poor health facilities, unhygienic environment etc. contributes to higher mortality rate in infants which was as high as 218 infant deaths per thousand live births during the years 1916-20 in India.
- Fertility rate or the average number of live births per thousand woman of reproductive age (15-49 years) is largely responsible for population growth.
- The Census of India 2011 shows that 2.4 children were born to every thousand women aged 15-49 years at the national level.

- Higher birth rate compared to infant mortality rates is a key factor affecting the children population count in the country.
- Sex composition is another factor while studying a population. Sex ratio is calculated as the number of females per 1000 males.
- The prevailing gender imbalance in India, as we can note from the above discussion, is an age long concern. There are many factors contributing to male dominance in the number of population.
- In India, female births are dominant over male births. 108 female babies are against every 100 male babies. But most female babies cannot survive the post-natal period owing to negligence or insufficient care and attention, unhygienic environment, death of a higher proportion of girls during puberty and reproductive age, early pregnancy in cases of early marriages within 11-19 age groups etc.
- In 1976, the New National Population Policy was first formulated and announced on 16th April.
- On February 15, 2000 the government launched the National Population Policy 2000. This program promoted the two child norm and aimed to stabilize the population by 2045.



2.7 FURTHER READING

1. Datt, G and Mahajan,A. (2020). *Datt&Sundharam's Indian Economy.* New Delhi: S.Chand & Co.
2. Dhar, P.K. (2017). *Indian Economy: Its Growing Dimensions*. New Delhi: Kalyani Publishers



2.8. ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: The birth rate is the number of live births per thousand of population in a country during a given period of time. Again, death rate is the number of deaths per thousand of population in a country during a given period of time.

Ans to Q No 2: IMR is stands for Infant Mortality Rate. The number of deaths between birth and age one to the total number of live birth is calledInfant Mortality Rate (IMR).

TFR is stands for Total Fertility Rate. It is defined as number of births per thousand of female population (15-49 years) during a given period of time.

Ans to Q No 3: i) False ii) False iii) True



2.9 MODEL QUESTIONS

Answer the following questions in around 500 words each.

Q.1: Write an essay on Population Growth in India.

Q.2: Briefly discuss on Age and Sex Composition of Population of India.

Q.3: Write a short note on National Population Policy, 2000.

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UNIT 3 : ISSUES OF HUMAN RESOURCE DEVELOPMENT IN INDIA

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Human Resource Development: Problems and Progress

3.3.1 Progress of Human Resource Development in India

3.4 Poverty

3.4.1 Concept of Poverty Lines

3.4.2 Measurement of Poverty

3.4.3 Recent World Bank Estimates on Poverty in India

3.5 Inequality and Unemployment: Causes and Magnitude

3.5.1 Concept of Unemployment

3.5.2 Causes of Unemployment

3.5.3 Magnitude of Unemployment

3.6 Let Us Sum Up

3.7 Further Reading

3.8 Answers to Check Your Progress

3.9 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the problems and progress relating to human resource development in India
- discuss the problem of poverty of India
- discuss the issues of inequality in India
- discuss the problem of unemployment in India, particularly its causes and magnitude

3.2 INTRODUCTION

In the previous unit, we discussed some of the issues relating to population in India. In this unit, we shall discuss the issue of human resource development in India. The important issues deliberated in the Unit includes the problems and progress of human resource development in India, the issues of poverty, inequality and unemployment. Thus, this unit will be helpful for building some concepts in the area of human resource development in India.

3.3 HUMAN RESOURCE DEVELOPMENT: PROBLEMS AND PROGRESS

Human resource development may be identified as the process through which a society augments the skills, education, and productive abilities of its people. In essence, it means increases in human capital. The major problems faced by India relating to human resource development are as follows:

- **Increasing population:** An increase in population has adverse effect on the quality of human capital in under-developed and developing countries such as India. This leads to reduction in per head availability of existing services such as employment, education, health care, sanitation, housing, electricity, road and nutrition.
- **Lack of manpower planning:** There is lack of manpower planning and no effort has been made to maintain the demand and supply of technical labour force, to raise the standard of education in under-developed countries. As a result, there is the mis-match between demand for and supply of manpower in most of the sectors of the economy. While in certain areas, there is unemployment, in certain areas where we require specialized train people, there is dearth of manpower.
- **High poverty levels:** A majority of the people lives below the poverty line and they do not have access to basic health and educational facilities. In the next section, we shall discuss the problem of poverty in some detail.

- **Brain drain:** Migration of highly skilled labour termed as brain drain slow down the process of human capital formation in an economy.
- **Lower academic standards:** Privatisation of education in all levels as well as lack of proper monitoring of both public and private system of education has adversely affected the quality of education in India. As education is in the concurrent list of subjects, maintaining a proper standard in quality has become a problem.

3.3.1 Progress of Human Resource Development in India

Some of the progresses made by India in the area of human resource development are as follows:

- **Improvement in Literacy Rate:** Over the years, the literacy rate in India has increased. Literacy rate in India has increased from 18.3 percent in 1951 to 74.04 percent in 2011 (Census of India, 2011).
- **Improvement in Female Literacy Rate:** Not simply the literacy rate, but over these years, the female literacy rate in India also has marked noticeable progress. The female literacy rate in India has increased from 8.9 percent in 1951 to 65.5 percent in 2011 (Census figures).
- **Life Expectancy:** In India, life expectancy at birth was 41.2 years in 1961 (For male: 41.9 years, for female: 40.6 years). According to recent estimates, it has improved to 70.7 years for female and 68.2 years for male.
- **Improvement in Sex ratio:** Sex ratio is used to describe the number of females per 1000 ~~of~~ males. Sex ratio is the ratio of women to that of men in India. In the Population Census of 2011 it was revealed that the sex ratio in India 2011 is 940 females per 1000 of males. The Sex Ratio 2011 shows an upward trend from the census 2001 data. Census 2001 revealed that there were 933 females to that of 1000 males. Since decades, India has seen a decrease in the sex ratio, but since the last two of decades there has been in slight increase in the sex ratio. Since

the last five decades the sex ratio has been moving around 930 of females to that of 1000 of males.

- **Progress in Human Development Index:** Since 1990s, the United Nations Development Programme has been issuing the Human Development Report with the Human Development Index as a comprehensive measure of human development. The basic tenet of the Human Development Report is that a long and healthy life along with the basic educational skills of reading and writing and being capable of maintaining a decent standard of living are the essential components of human development.

As a result, the HDI has been used to measure human development through the following three indices:

- A long and healthy life, as measured by life expectancy at birth. Thus, it indicates the number of years a new born infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.
- Knowledge, as measured by the adult literacy rate (with two-third weight) and the combined gross enrolment ratio in primary, secondary and tertiary levels of education (with one-third weight), and
- A decent standard of living, as measured by Gross Domestic Product(GDP) per capita in purchasing power parity (PPP) in terms of US dollars

Now, let us consider India's achievements in different indicators of the Human Development Index in the recent years. We have taken the HDI of 2007/08 and 2019.

Table 3.1: India's Position in the Indices (HDR, 2007/08)

1	Life expectancy at birth (in years)	69.4
2	Adult literacy rate (in %)	61.0
3	Combined gross enrolment ratio (%)	63.8
4	GDP per capita (PPP US$)	3,452

Please note that some changes have been made in the methodologyof calculation of HDI from time to time. The HDR of 2019 placed India in 129th position and the different indicators recorded in case of India are as follows:

Table 3.2: India's Position in the Indices (HDR, 2019)

1	Life expectancy at birth (in years	63.7
2	Expected years of schooling	12.3
3	Mean years of schooling	6.5
4	GNI per capita (PPP US$)	6829

The above Table 3.2 indicates that there has been some progress in the HDI in India over the years.

3.4 POVERTY

Mahatma Gandhi said, "Poverty is the worst form of violence". Though much has been written about poverty, defining poverty is difficult as it has different interpretations. In general, poverty can be defined as pronounced deprivation in well-being. Here, wellbeing implies peoples' command over resources to obtain the things they want. Defined in this way, poverty is viewed as a lack of adequate monetary accessibility. However, this is too narrow approach to look into a complex concept like poverty. A much broader approach to the deprivation of well-being and hence poverty is found in the works of Amartya Sen. According to him, poverty arises when people lack key capabilities which imply inadequate income or education, poor health, insecurity, low self-confidence, a sense of powerlessness and absence of rights such as freedom of speech. Poverty in this approach is viewed as a multidimensional phenomenon.

3.4.1 Concept of Poverty Lines

Though measurement of poverty in a diverse world is a complex issue, its measurement is vital in order to design, monitor and implement appropriate anti-poverty policies, to analyse poverty profiles by regions, socio-economic groups etc., and to figure out

the determinants of poverty. International poverty line is a number decided upon by the World Bank during their study on poverty in 1985. The poverty line divides the poor from the non-poor. To get the number representing the international poverty line, each country's individual standards for poverty are converted into dollars. Two types of poverty lines are discussed; a) Absolute Poverty b) Relative Poverty

- **Absolute Poverty:** An absolute poverty is defined as the state of living under a certain, pre-determined amount of income or consumption. It is the poverty level defined in terms of the minimal standards of food, clothing, health and shelter. The absolute poverty line is the same in different countries. The latest international poverty line as calculated by the World Bank is fixed at $ 1.25 per day per person. Those failing to reach this minimum standard are considered to be absolutely poor. Measurement of poverty in absolute terms has the advantage of applying the same standard across different locations and time periods and thus makes comparison easier.
- **Relative Poverty:** Relative poverty refers to the standard that is defined in terms of the society in which an individual lives and therefore differs between countries and across time and space. This conception of poverty argues that people are poor when they are worse off than other people in the society. This implies that as living standards rise, the level at which people are said to be in poverty will also rise.

3.4.2 Measurement of Poverty

Various indicators are available to measure the extent of poverty are discussed below:

- **Head Count Index:** This is the most widely used measure of poverty which simply measures the proportion of the population that is counted as poor (P0) . Formally

$$P0 = \frac{Np}{N}$$

Where Np is the number of poor and N is the total population.

- **Poverty Gap Index:** This is an improvement over the head count index which simply counts poverty below the poverty line. The index measures the depth or intensity of poverty i.e. how far off are households from the poverty line. The index adds up the extent to which individuals on an average fall below the poverty line. The gap (Zi) is defined as the poverty line (Zi) less actual income for the poor.

  $Gi=(Z-y_i).\ I\ (y_i< z)$

  The poverty gap index then is defined as the ratio of the poverty gap to the poverty line and expressed as a percentage of the poverty line.

$$\mathrm{PGI} = \frac{1}{N}\sum_{j=1}^{q}\left(\frac{z-yj}{z}\right)$$

where N is the total population, q is the total population of poor who are living at or below the poverty line, z is the poverty line, and y_j is the income of the poor individual j.

By definition, the poverty gap index is a percentage between 0 and 100%. Sometimes it is reported as a fraction, between 0 and 1. A theoretical value of zero implies that no one in the population is below the poverty line. A theoretical value of 100% implies that everyone in the population has zero income. In some literature, poverty gap index is reported as P_1 while the head count ratio is reported as P_0.

- **Squared Poverty Gap Index:** The index measures the severity of poverty. It takes into account not only the distance separating the poor from the poverty line i.e. the poverty gap, but also the inequality among the poor. Defined as the average of the square relative poverty gap of the poor the index is expressed as

$$\mathrm{SPGi} = \frac{1}{N}\Sigma_{i=1}^{q}\left(\frac{z-yi}{z}\right)^2$$

- **Sen Index:** Amartya Sen proposed an index that seeks to combine the effects of the number of poor, the depth of their poverty and the distribution of poverty within the group. The index is given by

  Ps= P0 $\left\{1-(1-G^{p})\frac{\mu^{p}}{z}\right\}$,

  where P0 is the head count index, μp is the mean income (or expenditure) of the poor and Gp is the Gini coefficient of inequality (detail discussion in the next section).
- **The Sen-Shorrocks- Thon Index:** Also known as the modified Sen Index and proposed by Shorrocks is an extension of the 'Sen Index'. Now the index is considered as one of the widely used indicators of poverty in a society. The SST index measures poverty incidence, depth and inequality jointly and hence, is a comprehensive poverty measure. With an addition to this the index can be decomposed into its constituting parts transparently.
- **Human Poverty Index (HPI):** The United Nations Development Programme in its human development report in 1997 has introduced Human Poverty Index. According to this measure, poverty is measured in terms of three key deprivations, i.e., i) deprivation of life (ii) deprivation of basic education as measured by the percentage of adults who are illiterate; and iii) deprivation of overall economic provisioning measured by the percentage of people without access to health services and safe water and the percentage of children under age 5 who are under weight.
- **Multidimensional Poverty Index (MPI):** This index was developed in 2010 by the Oxford Poverty and Human Development Initiative and the United Nations Development Programme. Considering poverty as a multidimensional phenomenon, the index measures poverty that constitute poor people's experience of deprivation – such as poor health, lack

of education, inadequate living standard, lack of income, disempowerment, poor quality of work and threat from violence. These deprivations are captured by three dimensions of poverty viz., health, education and living standard. These three dimensions of poverty are captured by 10 indictors of poverty; two for health, two for education and six for living standards. These are:

- Two indicators for the health dimension are: i) at least one member of a family is malnourished ii) one or more children have died;
- Two indicators of education dimensions are: i) no one in the family have completed five years of schooling and ii) at least one child in the schooling age who has not enrolled in the school and
- The six indicators for the living dimensions are: i) no provision of electricity ii) no access to clean drinking water iii) no access to adequate sanitation iv) house has a dirty floor v) household uses dirty cooking fuel (dung, wood or charcoal) and vi) household has no car or similar motorised vehicle and owns at the most one of these assets – bicycle, motorcycle, radio, refrigerator, telephone or television.

3.4.3 Recent World Bank Estimates on Poverty in India

A recent World Bank study (Poverty & Equity Brief: South Asia; April, 2020) observes the following with respect to poverty in India:

- Since 2000s, India has made remarkable progress in reducing absolute poverty. Between 2011-12 and 2015, poverty declined from 21.6 percent to an estimated 13.4 percent at the International Poverty Line (2011: PPP US $ 1.90 per person per day), continuing the historical trend of robust reduction in poverty.

- Aided by robust economic growth, more than 90 million people escaped extreme poverty and improved their living standards during this period.
- Despite this success, poverty remains widespread in India. In 2015, 176 million Indians were living in extreme poverty. In this context, the outbreak of COVID 19 pandemic and containment measures adopted by the Government are expected to increase poverty in the country.
- Historically, gains from economic growth and poverty reduction has been uneven, with greater progress in states and social groups that were already better off. India faces the challenges of increasing poverty reduction's responsiveness to growth. This would aid in the areas like inclusion of women, STs and other excluded groups and also in human development outcomes related to health, nutrition, education, and gender.

3.5 INEQUALITY AND UNEMPLOYMENT: CAUSES AND MAGNITUDE

The concept of poverty is closely related to the concepts of inequality and unemployment. Inequality focuses on the distribution of income or consumption across the whole population. Distribution of resources in a country does affect the extent and depth of poverty. Generally, countries with high levels of distributive inequality are also likely to have high levels of poverty and vice versa. It shows that though there are basic differences in their concepts, the problem of poverty is fundamentally linked to the issues of how the resources are distributed in a country. Poverty has also been identified with unemployment. An adequate level of employment is important to provide the basic necessities of life to a family. Unemployment leads to financial crisis and reduces the purchasing power of the people. This in turn results in poverty. The relationship between poverty, unemployment and inequality is a complex one for a number of reasons such as how poverty and inequality are conceptualised and measured, how the nature of unemployment is defined in the phase of changing labour market etc.

Credit Suisse Global Wealth Report 2020: Recently, Credit Suisse has released the Global Wealth Report 2020.Credit Suisse is a financial services company based in Switzerland. The Credit Suisse Global Wealth Report provides the most comprehensive and up-to-date coverage of information on household wealth worldwide.

The report provides the following important points with respect to wealth inequality in India.

- There is considerable poverty reflected in the fact that 73% of the adult population had wealth below USD 10,000 at the end of 2019.
- At the other extreme, a small fraction of the population (2.3% of adults) had a net worth over USD 1,00,000.
- With 4,593 ultra-high-net-worth individuals in the country as of end-2019, India came in fourth after the USA, China and Germany.

Challenges Related to Wealth Inequality in India

- **Distinguishing Poor and Non-poor:** In developing countries such as India, despite having hundreds of pro-poor schemes, the biggest question is whether such benefit is reaching the poor.The real challenge is in distinguishing the poor from non-poor, particularly when such data are questionable.
- **Low Government Spending:** The government spending on health, education and social protection in the country is low and more often than not, subsidises the private sector.
- **Impact on Women:** The burden of inequality continues to be borne by India's women, they continue to be tasked with bearing the burden of care work, thus withholding their entry into the labour force.
- **Impact on Vulnerables:** While traditionally vulnerable communities, such as the Scheduled Castes and Scheduled Tribes, are catching up with the rest of society in primary education, they are falling further behind when it comes to advanced (12 years or more) education. Most now have access to mobiles but few have computers.
- Climate change will only exacerbate the inequality.

3.5.1 Concept of Unemployment

We all know that unemployment is a burning problem in India which directly impacts the economy. The term is used to refer to the workless or jobless environment against a good number of available working age populations. According to the National Sample Survey Organization (NSSO), employment and unemployment can be defined based on the activity statuses of an individual, which follows:

- Working (engaged in an economic activity) i.e. 'Employed'.
- Seeking or available for work i.e. 'Unemployed'.
- Neither seeking nor available for work.

The rate of unemployment hence can be outlined as the percent of unemployed workers against the available total labor force.

Unemployment rate = (Unemployed Workers / Total labor force) × 100

- We all know that India is a country with mixed economy. Both private and government sectors provide employment opportunities to the people. In spite of this, various causes contribute to enlarge the issue to a greater extent. Following are the types of unemployment in India.

- **Structural Unemployment:** The mismatch between the available jobs and skills of the available working population causes this type of unemployment. Poor education and absence of necessary skills required for many jobs makes it difficult to get a job for most people.
- **Disguised Unemployment:** It refers to a situation where more than the required number of people get engaged in a particular job or work, which is largely seen in agricultural and unorganized sectors of India.
- **Seasonal Unemployment:** Agricultural workers generally do not have a work the year round. After the harvest of a season completed, the whole community has to wait for work until the next season. This phenomenon is termed as seasonal unemployment.

- **Cyclical Unemployment:** This category of unemployment is an outcome of the cyclical trends in an industry or a business cycle. It has direct connection with the macro-economic situation in the country. As a result of the recession in a business cycle, unemployment rises and with the rising economic growth unemployment also falls. Cyclical unemployment is mostly existent in capitalist economies, where it shows a negligible mark in India.
- **Technological Unemployment:** The loss of jobs resulting out of changes in technology leads to technological unemployment. The introduction of new technology displaces workers in large numbers. We can cite examples from the agricultural sector, railroad construction etc.
- **Vulnerable Employment:** The number of employees who do not have proper job contracts with the employers without any legal protections towards their jobs. This makes them to be considered as unemployed. It is called the vulnerable employment and is one of the main forms of unemployment existent in India.

3.5.2 Causes of Unemployment

- **Overpopulation:** As the second most populous country, India has experienced a population growth of 361 million populations in 1951 to 121 billion in 2011. This exploding number of population has adversely affected the economic growth of the country by increasing the number of unproductive consumers through increasing many other serious issues including unemployment.
- **Lacking or inadequate educational and vocational skills:** A good number of people in the working population age group (15-60) do not get access to proper education and vocational skill training due to different reasons like poverty, illiteracy, and inadequate support from the state etc. Though the government

has initiated several schemes to train the unemployed youths in the rural areas, but it has not peaked up. In addition, the starving parents prefer their children to get engaged in income generation through any possible ways from a very early age.

- **Improper and inadequate strategy for small industries:** Insufficient state support, legal complexities and low infrastructural, financial and market linkages to small/ cottage industries or small businesses, making such enterprises unviable with cost and compliance overruns.
- **Lacking attention towards informal workforce:** A giant mass of uneducated, unskilled people are associated with the informal sector like domestic helpers, construction workers etc. They are neglected and are not counted in any employment data.
- **The mismatch of knowledge to opportunity:** The educational system in India is not pertinent to the demands of the fast growing tech-based job industry. A huge number of educated unemployed youths have been produced by the system of conventional education year after year being the main reason behind increasing structural unemployment.
- **Inadequate attention towards the secondary sector:** Slow growth of infrastructure and small investments in manufacturing sector by the concerned body of the government has limited the employment prospective in secondary sectors.
- **Low productivity in agriculture sector:** India's economy is primarily agrarian. But decreasing productivity in agriculture owing to numerous causes like squeezing agricultural land due to expansion of cities, urban-oriented youth mentality, depleting ground water, natural disasters like floods, soil erosions in many states, large scale locust attack have left many farmers to give up the practice. In 2017, around 40 lakh hactares of agricultural land was affected because of water woes. Lacking substitute opportunities for agricultural worker which makes it difficult to move from primary to secondary and tertiary sectors etc has contributed towards the growing unemployment problem.

- **Regressive social norms:** Many Indian women are compelled to discontinue employment because of the prevalent regressive social norms meant for women. Many women are barred to even get engaged in any work outside home.

3.5.3 Magnitude of Unemployment

Thegovernment did not take the unemployment issue seriously during the initial years of planning and development. But as the economic growth proceeded at a slower rate, the labour force increased more rapidly than the rate of increase in employment. As a result, the unemployment rate doubled during 1956 to 1972. The NSSO Quinquennial Survey records of 1972-73 compelled the government to change the official approach to employment in mid 1970s that combating unemployment alone cannot boost the economic growth. As an outcome of this the government came up with a number of unemployment and poverty alleviation programs since the fifth five year plan (1974-79). The Committee of Experts on Unemployment under the chairmanship of B. Bhagawati submitted its report to the Government in May 1973. The report shows around 18.7 million people as unemployed in 1971. Out of these, 9 million people were without any job and the rest 9.7 million people work for less than 14 hours per week, who were also treated as unemployed. 86 percent of people comprising 16.1 million were reportedfrom rural areas and 2.6 million in the urban areas. The percentage of unemployed out of total labor force of the country was 10.4 percent. In rural areas it was higher than the national rate, standing at 10.9 percent while in urban areas it was 8.1 percent.

Table 3.3: Unemployment rates (per 100 persons in labor force)

NSS Round (year)	Unemployment Rate							
	Male				Female			
	Usual status (ps)	Usual status (adj)	CWS	CDS	Usual status (ps)	Usual status (adj)	CWS	CDS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Rural								
68th (2011-12)	21	17	33	55	29	17	35	62
66th (2009-10)	19	16	32	64	24	16	37	80
61st (2004-05)	21	16	38	80	31	18	42	87
55th (1999-00)	21	17	39	72	15	10	37	70
50th (1993-94)	20	14	31	56	13	9	29	56
43rd (1987-88)	28	18	42	46	35	24	44	67
38th (1983)	21	14	37	75	14	7	43	90
32nd (1977-78)	22	13	36	71	55	20	41	92
27th (1972-73)	-	12	30	68	-	5	55	112
Urban								
68th (2011-12)	32	30	38	49	66	52	67	80
66th (2009-10)	30	28	36	51	70	57	72	91
61st (2004-05)	44	38	52	75	91	69	90	116
55th (1999-00)	48	45	56	73	71	57	73	94
50th (1993-94)	54	41	52	67	83	61	79	104
43rd (1987-88)	61	52	66	88	85	62	92	120
38th (1983)	59	51	67	92	69	49	75	110
32nd (1977-78)	65	54	71	94	178	124	109	145
27th (1972-73)	-	48	60	80	-	60	92	137

Source: Census of India.2011

In India, the 11.3 million people were unemployed during 2004-05. It fell down to 9.8 million in 2009-10 but again scaled up to 10.8 million in 2011-12 under usual status. However the current daily status (CDS) of unemployed population has seen a steep reduction from 34.3 million in 2004-05 (8.2 percent) to 24.7 million in 2011-12 (5.6 per cent).

As per the Census data, 10 million people with the highest levels of education, comprising 15 percent of total population were recorded to be job-seekers in 2011. Kerala had 30 percent graduate unemployed, being the nation's highest. According to a report by The Hindu, a national daily, the 2011 census data reveals that out of 116 million unemployed people in the country, 84 millions were literate that needs to be concerned seriously. Again, 32 millions illiterate people were also available for work. The rate of illiterate unemployed people grew faster than the literate unemployed as mentioned by the newspaper based on government data. The census data shows an increase in unemployment rate from 6.8 per cent in 2001 to 9.6 per cent in 2011.

If we look at the World Bank data, the unemployment rate in India, a declining trend can be noticed from 2015 to 2018. It was 5.51 percent in 2016, 0.05 per cent decline from 2015. Then in 2017, the rate of unemployed recorded as 5.42 percent and in 2018 it was 5.33 per cent with 0.09 per cent decline each year. In 2019 the rate increased by 0.03 per cent standing at 5.36 per cent unemployed people nationwide. A government job survey report published in 2019 revealed that the country's unemployment recorded at 6.1 per cent in 2017-18, a four-decade high rate that is quite alarming. It also indicated a higher unemployment rate in urban areas than the rural areas.

The Centre for Monitoring Indian Economy released data on average unemployment ratewhich reached a record rise up to 27.1 per cent in April, 2020 resulting out of complete lockdown practiced to tackle the Covid-19 pandemic. The sharp increase was a result of the sudden and steep reduction of jobs in the informal sector, 'the largest source of salaried employment in the country'.

The Economic Survey 2021 reports Bihar as the state with highest unemployment rate (9.8%) followed by Haryana (9.3%), Kerala (9%), Uttarakhand (8.9%) and Punjab (7.4%) for the year 2018-19. The national rate was 5.8 per cent.

Rural-Urban unemployment: The rate of unemployment on CDS basis was higher in urban areas than in rural areas. In 1977-78, urban unemployment was 10.3 per cent while it was 7.7 percent in rural areas. A significant fall was noticed in rural unemployment during 1987-88 to 5.3 percent. Urban rate of unemployment at that time was remarkably higher, reported as 9.4 percent. Rural unemployment rate again lifted up to 8.28 per cent during 1993-94. Simultaneously the urban rate of unemployment also increased marginally to 8.28 per cent during 1993-94 to 2004-05. In 2011-12 the rural-urban difference of unemployment rate on CDS basis has narrowed down recording as 5.7 and 5.5 respectively. The reason behind high urban unemployment may be assigned to the larger proportion of organized sector of unemployment forcing people to remain employed or unemployed as low productivity sectors do not attract most of them. Disguised unemployment is the main form noticed in the rural areas.

Table 3.4: Unemployment among Rural and Urban

(as per cent of labor force)

Survey period	Rural areas	Urban areas
1977-78	7.7	10.3
1983	7.9	9.5
1987-88	5.3	9.4
1993-94	5.6	7.4
1999-2000	7.2	7.7
2004-05	8.28	8.28
2009-10	6.8	5.8
2011-12	5.7	5.5

*Unemployment rate on current daily status (CDS) basis

Source: NSSO Surveys.

Youth unemployment: Youth unemployment rate indicates to the workforce aged between 15-29 age group. The proportion of unemployed youths was 12.1 per cent in India in 1999-2000,

comprising 15.5 per cent in urban and 11.0 per cent in rural areas. In 2011-12 unemployment in the youth was estimated to be 2.7 per cent on the basis of usual principal status (UPS).According to a joint report by Asian Development Bank (ADB) and International Labour Organization (ILO), in 2020 the youth unemployment rate is estimated to be 32.5 per cent owing to the circumstances caused by the Covid-19 pandemic. In 2019, the rate was reported to be 23.3 per cent. It is noticed that youth unemployment is considerably higher than the national unemployment rate.

A number of schemes have been implemented by the Central and different State governments to tackle the problem of unemployment from time to time. Programs like Employment Guarantee Scheme of Maharashtra (EGS), National Rural Employment Program (NREP), Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rojgar Yojana (JRY) etc are some of the initiatives taken by the government at different times. But the problem needs more attention packed with proper time and space specific strategies.



CHECK YOUR PROGRESS

Q 1: State whether the following statements are true or false:

(i) Regressive social norm is a cause of growing unemployment.

(ii) In 2011 the rate of unemployment was 9.4.

(iii) Haryana tops as the state with highest unemployment rate in 2018-19.

Q 2: Write short answers:

(i) State five reasons of unemployment in India.

(ii) Which five year plan first emphasized the need to consider unemployment as a major issue through implementation of several schemes?

(iii) What is technological unemployment?

(iv) Mention few schemes initiated by the government to tackle the unemployment program.



3.6 LET US SUM UP

- Human resource development may be identified as the process through which a society augments the skills, education, and productive abilities of its people. In essence, it means increases in human capital.
- In general, poverty can be defined as pronounced deprivation in well-being. Here, wellbeing implies peoples' command over resources to obtain the things they want.
- International poverty line is a number decided upon by the World Bank during their study on poverty in 1985. The poverty line divides the poor from the non poor.
- An absolute poverty is defined as the state of living under a certain, pre determined amount of income or consumption. It is the poverty level defined in terms of the minimal standards of food, clothing, health and shelter.
- Relative poverty refers to the standard that is defined in terms of the society in which an individual lives and therefore differs between countries and across time and space.
- The concept of poverty is closely related to the concepts of inequality and unemployment. Inequality focuses on the distribution of income or consumption across the whole population. Distribution of resources in a country does affect the extent and depth of poverty.
- We all know that unemployment is a burning problem in India which directly impacts the economy. The term is used to refer to the workless or jobless environment against a good number of available working age populations.
- The term unemployment is used to refer to the workless or jobless environment against a good number of available working age populations.

- The rate of unemployment can be outlined as the percent of unemployed workers against the available total labor force.
- Overpopulation, lacking or inadequate educational and vocational skills, the mismatch of knowledge to opportunity, inadequate attention towards the secondary sector, regressive social norms etc are some causes of unemployment in India.
- As an outcome of the changing approach towards the unemployment issue the government initiated a number of unemployment and poverty alleviation programs since the fifth five year plan (1974-79).
- The rate of unemployment on CDS basis was higher in urban areas than in rural areas.
- The reason behind high rate of urban unemployment may be assigned to the larger proportion of organized sector of unemployment forcing people to remain employed or unemployed as low productivity sectors do not attract most of them. Disguised unemployment is the main form noticed in the rural areas.
- Youth unemployment rate indicates to the workforce aged between 15-29 age group. It is noticed that youth unemployment is considerably higher than the national unemployment rate.
- Programs like Employment Guarantee Scheme of Maharashtra (EGS), National Rural Employment Program (NREP), Rural Landless Employment Guarantee Programme (RLEGP), JawaharRojgarYojana (JRY) etc are some of the initiatives taken by the government at different times.



3.7 FURTHER READING

1. Datt, G and Mahajan,A. (2020). Datt&Sundharam's Indian Economy. New Delhi:S.Chand&Co.
2. Dhar, P.K. (2017). Indian Economy: Its Growing Dimensions. New Delhi: KalyaniPublishers

3.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (i) True (ii) False (iii) False

Ans to Q No 2:

(i) Overpopulation, lacking or inadequate educational and vocational skills, the mismatch of knowledge to opportunity, inadequate attention towards the secondary sector, regressive social norms.

(ii) Fifth Five year plan.

(iii) The kind of unemployment resulting out of loss of jobs owing to changes in technology is called technological unemployment. The introduction of new technology displaces workers in large numbers. We can cite examples from the agricultural sector, railroad construction etc.

(iv) Employment Guarantee Scheme of Maharashtra (EGS), National Rural Employment Program (NREP), Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rojgar Yojana (JRY) etc.

3.9 MODEL QUESTIONS

Answer the following questions in about 300-500 words.

Q 1: Elaborate the concept of Unemployment inIndia.

Q 2: What are the prime causes that resulted in higher unemployment ratio in India?

Q 3: Give an account of India's unemployment scenario.

Q 4: Give an account of the progress of human resource development in India.

Q 5: Discuss the concept of poverty lines. Give an account of recent World Bank estimates on poverty in India.

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UNIT 4: INDIAN AGRICULTURE

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Contribution of Agriculture in Economic Development

4.3.1 Contribution of Agriculture in Indian Economy

4.4 Problem of Food Security

4.4.1 Concept of Food Security

4.4.2 Problem of Food Security

4.5 Public Distribution System

4.5.1 Current Status of PDS

4.5.2 The Working of PDS

4.5.3 Advantages of PDS

4.5.4 Limitations of PDS

4.6 Let Us Sum Up

4.7 Further Reading

4.8 Answer to Check Your Progress

4.9 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- acquire knowledge on the contribution of Agriculture in India's economic development.
- know about Food security and its problem.
- learn about Public Distribution System and analyse the working system, advantages and limitations of Public Distribution System.

4.2 INTRODUCTION

We all know that there are three main sectors in Indian Economy; i.e. Primary sector, Secondary Sector and Tertiary Sector. Primary Sector includes agriculture, forestry, fishing, mining and quarrying; Secondary

Sector includes manufacturing, construction, electricity, gas, water supply etc and tertiary sector includestrade, transport, finance, real estate, community, community and personal services.

If we look at the history of economic development of various advanced countries, we find something common in their development process. It is that the development of their secondary sector, and also the tertiary sector, was preceded by the development of agriculture. England, for example, relied heavily on development of its agriculture prior to the industrial development.

In this unit, we will discuss, in general, the role of agriculture in economic development. Next, we will examine the contribution of agriculture in the Indian Economy. In this context we will emphasis on the food security and its problems, and also about the Public Distribution System.

4.3 CONTRIBUTION OF AGRICULTURE IN ECONOMIC DEVELOPMENT

The Agricultural sector plays a vital role in the process of economic development. It has made a significant contribution to the economic prosperity of advanced countries, and also plays an important role in economic development in developing countries. In this context, economist Simon Kuznets, in his paper *Economic Growth and the Contribution of Agriculture* publishedin early sixties made some interesting observations. According to Kuznets, agriculture makes three types of major contributions to the process of economic development. These are

(i) The factor contribution
(ii) The product contribution
(iii) The market contribution

- ***The Factor Contribution***: The transfer of resources from agriculture sector to non-agricultural sector is known as *factor contribution* of agriculture. The factor contribution can be in the following forms
  - *Provision of Capital:* The non-agricultural sectors require funds for acquiring material capital. In the initial stages of their

development, these funds were generated in the agricultural sector and then transferred to the other sectors. The transfer of capital to non-agriculture sectors can be voluntary or compulsory. It is voluntary when agriculturists themselves invest their savings to the industrial projects. The compulsory form of flow of funds is generally brought about by the government of the day through taxation on the agricultural sector.

- *Provision of Labour:* Agricultural sector also helps in the growth of non-agricultural sector through releasing labour from agriculture sector. There are three potential sources of labour supply for the developing non-agricultural sectors, namely; natural population growth, immigration and farm population. The natural population growth and immigration can never be smooth and adequate. Therefore, for a rapid development of the non-agricultural sectors, farm population remains the only dependable source of labour supply.

- ***The Product Contribution:*** The product contribution of agriculture has also two forms, namely; provision of wage goods and provision of industrial raw-materials. The agriculture sector must supply food above subsistence needs in order to feed labours working in the alternative occupation. If other sectors of the economy are to be developed, labours need to be fed. The agriculture sector also provides the raw-materials to the industrial sector. A study of the history of industrial development of advanced countries will show that the agro-based industries were the first to develop in such countries.
- ***The Market Contribution:*** The market contributionsof agriculture may take various forms. These are
  - *Expanded market for the products of other sectors:* Agricultural sector provides expanded market for the products of other sectors in the initial stages of economic development. A growing agricultural sector leads to the increase in income of its own

people which in turn increase the demand for the products of other sectors.

- *Flow of agricultural products to the other sectors of the economy:* With the growth of agricultural development, many institutions providing different services such as marketing, processing, packing, distribution etc will come into existence. The development of agro-based industries also depends on the growth of agricultural sector.
- *Development of International Trade:* Agricultural sector also helps to improve the balance of trade of domestic country by exporting the surplus production to the foreign country.

It is, thus, clear that agriculture plays a distinct and determining role in the overall process of economic development of a country.

4.3.1 Contribution of Agriculture in Indian Economy

Agriculture is considered as the backbone of Indian economy where a huge section of rural population solely depends on this sector. About 70 percent of the country's population directly or indirectly depend upon agriculture. The following are the important points which explain the role and contribution of agriculture in the Indian economy

- **Contribution in National Income:** Agricultural sector contributes significantly to the national income of India although it has been declining gradually with the growth of other sectors. In 1950-51, agriculture contributed 55 percent of the total national income. But the share has come down to 44 percent in 1970-71, 31 percent in 1990-91, 20 percent in 2005-06, 16.17 percent in 2015 and 15.96 percent in the year of 2019 (Table 4.1).

Table 4.1 Contribution of Agriculture in National Income

Year	Share of Agriculture in National Income (in percent)
1950-51	55
1970-80	44
1990-91	31
2000-01	26
2005-06	20
2010	17.03
2015	16.17
2019	15.96

Sources: Economic Survey,2006-07; RBI Annual Report 2006-07
World Development Indicators, World Bank, October 2020.

- **Largest Employment Providing Sector:** Agriculture in India is the major source of employment.Almost half of the total population is engaged directly with this sector. It is observed from Table 4.2 that percentage of working population in agriculture is decreasing over the years, but still a large portion are engaged in agriculture sector. In 1951, total working population was 13.95 crores out of which 69.7 percent were engaged in the agricultural sector. Over the years the total working population has increased to 48.19 crores. However, the share of the population engaged in agriculture has come down to 54.6 percent.

Table 4.2 Population and Wrokers engaged in Agriculture

(In millions)

Year	Total Population	Average Annual Exponential Growth Rate (%)	Rural Population	Total Workers	Agricultural Workers		
					Cultivators	Agricultural Labourers	Total
1951	361.1	1.25	298.5 (82.7%)	139.5	69.9 (71.9%)	27.3 (28.1%)	97.2 (69.7%)
1961	439.2	1.96	360.1 (82%)	188.4	99.5 (76%)	31.5 (24%)	131.5 (69.5%)
1971	548.2	2.20	439.0 (80.1%)	180.4	78.2 (62.2%)	47.5 (37.8%)	125.7 (69.7%)
1981	683.3	2.22	525.5 (76.9%)	244.6	92.5 (62.5%)	55.5 (37.5%)	148.0 (60.5%)
1991	846.4	2.16	628.7 (74.5%)	314.1	110.7 (59.7%)	74.6 (40.3%)	185.3 (59%)
2001	1028.7	1.97	742.5 (72.2%)	402.2	127.3 (54.4%)	106.8 (45.6%)	234.1 (58.2%)
2011	1210.9	1.50	833.7 (68.9%)	481.9	118.8 (45.1%)	144.3 (54.9%)	263.1 (54.6%)

Source: Registrar General of India (Pocket Book of Agricultural statistics, 2019)

Notes

1. For 2001, figures include estimated figures for those of the three sub-divisions viz. Mao Maram, Paomata and Purul of Senapati district of Manipur as census results of 2001 Census in these three sub-divisions were cancelled due to technical and administrative reasons.
2. The 1991 Census could not be held owing to disturbed conditions prevailing in Jammu & Kashmir. Hence the population figures for 1991 of Jammu & Kashmir have been worked out by 'interpolation'. The data on workers in exclude J&K.
3. The 1981 census could not be held in Assam. The figures for 1981 for Assam have been worked out by interpolation. The data on workers exclude Assam.

- **Earning of Foreign Revenue:** Agriculture plays an important role in International trade. Agricultural products like tea, coffee, rice, wheat, pulses, tobacco, spices, oil seeds, sugar etc. are the country's well-known export items.

Table 4.3 Year-wise Exports of Principal Agricultural Commodities

(Values in Rs. Crore)

Year	Agricultural Exports	Total Exports	Share of agricultural Exports in Total Exports (%)
1990-91	6012.76	32527.28	18.49
2000-01	28657.37	201356.45	14.23
2010-11	113046.58	1136964.25	9.94
2015-16	215396.32	1716384.39	12.55
2017-18	251563.94	1956514.52	12.86

Source: Directorate General of Commercial Intelligence & Statistics, D/o Commerce (Pocket Book of Agricultural Statistics, 2019)

- **Source of Food Supply:** Agriculture is the major source of food supply which is providing food to huge size of population in India. From Table 4.4it is clear that production of food grains in India increases over the years to meet required demand of food of the people. This sector also helps to reducing hunger and food security problem in the country.

Table 4.4 Year-wise Production of major agricultural Crops

(Million Tonnes)

Crop	1990-91	2000-01	2010-11	2015-16	2017-18
Rice	74.29	84.98	95.98	104.41	112.76
Wheat	55.14	69.68	86.87	92.29	99.87
Maize	8.96	12.04	21.73	22.57	28.75
Nutri Cereals	32.70	31.08	43.40	38.52	46.97
Total Food grains	**176.39**	**196.81**	**244.49**	**251.54**	**285.01**

Source: Directorate of Economics and Statistics (Pocket Book of Agricultural Statistics, 2019)

* 4th Advance Estimates # Million bales of 170 kg. each @ Million bales of 180 kg. each

- **Source of Industrial Development:** Agricultural sector also playsan important role in the development of industrial sector. This sector offers raw materials to various industries. Cotton and jute textiles, sugar, vanaspati, edible oil, plantation industries (viz.tea, coffee, rubber) and agro-based industries collect their raw materials from agricultural sector. The development of agro-based industries is possible only when the agriculture sector grows.

- **Development of Tertiary Sector:** Tertiary sector provides helpful services to the agriculture like banking, warehousing, marketing, processing, packaging, distribution etc. Internal trade mostly done in agricultural produce e.g. various means of transport get bulk of their business by movement of agricultural goods.
- **Source of Government Revenue:** Right from the first five year plan, Agriculture has been a major source of income of Government of India. Both state and central government earn substantial revenues from agricultural and allied activities. It also helps to improve the condition of balance of trade by increasing exports.



CHECK YOUR PROGRESS

Q 1: What are the major contributions of Agriculture Sector in Economic Development according to Kuznets? (Answer in about 150 words)

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4.4 PROBLEMS OF FOOD SECURITY

4.4.1 Concept of Food Security

Food security is a measure of availability of food and individuals' ability to access it. As a concept,food security originated in the mid 1970s, in the discussions of international food problems at a time of global food crisis. The initial focus, reflecting the global concerns of 1974, was on the volume and stability of food supplies.

Food security was defined in the 1974 by the World Food Summit as"availability at all times of adequate world food supplies of basic foodstuffs to sustain a steady expansion of food consumption and to offset fluctuations in production and prices".

In 1983, Food and Agricultural Organisation(FAO) expanded this concept to include securing access by vulnerable people to available supplies, implying that attention should be balanced between the demand and supply side of the food security equation"ensuring that all people at all times have both physical and economic access to the basic food that they need". In 1986, World Development Report defined food security as "access by all people at all times to enough food for an active, healthy life".

There are four main dimensions of food security

a) Physical *availability*of food
b) Economic and physical *access* to food
c) Food *utilisation*
d) *Stability* of the above three dimensions over time.

4.4.2 Problem of Food Security

Problem of food security occurs when availability, access, utilisation of required food gets hampered under different conditions and stability of volume and prices of basic foodstuff gets disturbed. There are several reasons giving rise to problems of food security. Some of the reasons are as given under :

- **Excessive Growth of Population:**Excessive growth of population is regarded as one of the major factorsof the problem of food security. According to the United Nations data in 2020, India's population is 138 crores. Therefore, it is a difficult task to supply food to the huge population and ensuring food security for everyone in a country like India.
- **Lower Growth of Production of Food grains:** With the higher rate of increasing population, demand of the food grains also increases. But the production of the foodgrains is not increasing as much as required. So, it is the major hindrance to ensuring food security.

Table 4.5 Targets and achievements of production of Major crops

(Million Tonnes)

Crop	2015-16		2016-17		2017-18		2018-19*	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
Rice	106.10	104.41	108.50	109.70	108.50	112.76	114.0	116.42
Wheat	94.75	92.29	96.50	98.51	97.50	99.87	102.2	102.19
Nutri Cereals	43.20	38.52	44.35	43.17	45.65	46.97	48.1	42.95
Pulses	20.05	16.32	20.75	23.13	22.90	25.42	25.95	23.4
Total food grains	264.10	251.54	270.10	275.11	274.55	285.01	290.25	284.95

*4th Advance Estimates @Million Bales of 180kg. each # Million Bales of 170kg. each.
Source: Directorate of Economics & Statistics, DAC&FW (Pocket Book of Agricultural statistics, 2019)

- **Climate Change:** Climate change results in changes in average temperature and rainfall, changes in pests and diseases, changes in atmospheric carbon-di-oxide etc. which adversely affect the agricultural land use and production. Various reports indicate that climate change will lead to further intensification of temporal and spatial variation in the availability of water and extreme events of flood and drought. These, in turn, will cast impact on food security.
- **Crop Diversification:** In recent years there has been great emphasis of agricultural scientists on implementation of crop diversification. The price of food grains like rice and wheat are not encouraging and farmers end up getting very low return. By concentrating on other crops, the farmers intend to earn higher profits. Therefore, the supply of food grains cannot meet the increasing demand for food grains, and it adversely affects the food security.
- **Land Fragmentation**: Fragmentation of land is another important hindrance to ensuring food security. The increase in population over the years has led to reduction in availability of land for agriculture. There has been increased pressureon putting agriculture land into non agriculture uses to accommodate developmental activities leading to land fragmentation and low productivity.

- **Primitive Method of Cultivation:** A large number of Indian farmers are still applying primitive and outdated method in the cultivation process. They are not applying sufficient quantity of fertilizer in their land and also not using high yielding variety (HYV)of seeds. As a result, agricultural productivity has become low, and therefore country faces problem to ensure food security.
- **Mobility of Labours from Agricultural Sector:** Due to low income from agricultural activities, the labours are diversified to industrial sector and service sector for improving their standard of living. It has also affected negatively the agricultural sector, and results in low production of food grains. The following table clearly shows that the percentage of working population in agricultural sector declines gradually. In 1972-73,agriculture sector has 74 percent of its total working population, which has fallen to 68.1 percent in 1983, 63.9 percent in 1993-94, 53.2 percent in 2009-10, 45.67 percent in 2015 and 41.49 percent in 2020.

Table 4.6 Distribution of Working Force by Industry Division in India

Industrial Division	1972-73	1983	1993-94	2009-10	2015	2020
Agriculture (Agriculture forestry, fishing and hunting)	74.0	68.1	63.9	53.2	45.67	41.49
Industry (Mining and Quarrying, Manufacturing, Electricity gas and water, Construction)	11.2	13.9	14.9	21.5	24.06	26.18
Services (Wholesale and Retail trade and Restaurants and Hotels, Transport, storage and communication, Other services)	14.6	18.2	21.2	25.4	30.27	32.33
Activities not Classified	0.2	0.4	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0	100.0

Figures related to usual status of individuals.

Source : Datt & Sundharam's Indian Economy,2020

World Development Indicators, World Bank, October 2020.

- **Lack of Food storage Capacity:** It is also a main hindrance to ensuring food security. Due to lack of food storage capacity, significant amount of food grains are wasted every year. It also helps to raise the price level and poor people cannot afford it.



CHECK YOUR PROGRESS

Q 2: Define the term 'Food Security". (Answer in about 50 words)

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Q 3: Why food security is needed in a country like India? (Answer in about 150 words)

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4.5 PUBLIC DISTRIBUTION SYSTEM (PDS)

The Public Distribution System (PDS) was introduced to supply essential commodities at subsidised prices and maintain minimum standard of food security and nutrition status. It was considered as an essential element of Government's safety net to thepoor. Major commodities distributed include staple food grains, such as wheat, rice, sugar and essential fuels like kerosene, through a network of "Fair Price Shops" (also known as ration shops) established in several areas across the country. The FoodCorporation of India (FCI) was established in 1965 to run the network of PDS. FCI procures food grains from the farmers or producers at the Minimum Support Price (MSP).

4.5.1 Current Status of the PDS

- The PDS coverage was universal up to year 1992 with no discrimination between poor and non-poor. During that time

issue price of rice was Rs. 2.89 per kg and issue price of wheat was Rs. 2.34 per kg.

- In 1992, Revamped Public Distribution system (RPDS) was introduced in 1700 blocks in the country. This system was targeting remote and backward areas. A ration card holder family got 20kg of food grains at the issue price of rice and wheat at Rs.3.77& Rs.2.80 respectively.The system makes special efforts to deliver the commodities to the doorstep of the fair price shops which would be undertaken by the State Government wherever possible.
- From June 1997, Targeted Public Distribution system (TPDS) was introduced for targeting the poor all over the country. It was the first differential price policy adopted for poor and non-poor. All two categories, i.e. Below Poverty Line (BPL) and Above Poverty Line (APL) got 35 kg of food grains at different prices. For the people of BPL, issue price of rice and wheat were Rs. 5.65 and Rs. 4.15 respectively and issue price of rice and wheat were Rs. 8.30 and Rs. 6.10 respectively for the APL people.
- Further in 2000 and 2002, two special schemes were launched; "Antyodaya Anna Yojna (AAY)" and "Annapurna Scheme (APS)". AAY targeted to benefit 1crore poorest of the poor families out of a total of 6.52 crore BPL families under TPDS where APS targeted the indigent senior citizens. In AAY, people got 35 kg of food grains at the issue price of rice and wheat Rs.3 and Rs.2 respectively. The indigent senior citizens got 10 kg of food grains at free of cost under APS.
- The enactment of the National Food Security Act, (NFSA) on July 5, 2013 marks a paradigm shift in the approach to food security from welfare to right based approach. It aims to provide subsidised food grains to approximately two third of India's 120 crores population. The Act legally entitles up to 75 percent of rural population and 50 percent of urban population to receive subsidised food grains under TPDS. The NFSA also includes

Mid-Day Meal Scheme (MDM) and Integrated Child Development Scheme (ICDS) Services along with the PDS. All states and Union Territories have been asked for the inclusion of the eligible disabled persons as per benchmark fixed for NFSA beneficiaries to the National Food Security Act. Under the provision of NFSA, beneficiaries of the PDS entitled to 5kg per person per month cereals at the following prices Rice at Rs. 3 per kg, Wheat at Rs. 2 per kg and Coarse grains at Rs. 1 per kg.

4.5.2 The Working of the PDS

The existing structure of the PDS works in a Cooperative Federalist system in which both Centre and State share the responsibility.The Central Government is responsible for buying food grains from farmers at MSP. The Central Government then allocates the grains to each state on the basis of a pre-determined formula.The State Government is responsible for identifying the poor and eligible households in the states.The Centre transports the food grains to the Central depots (FCI) in each state. After that, the state government is responsible for delivering the food grains from the centre depots to the ration shops. The Ration shops are the ultimate end points from where the food grains are provided to PDS beneficiaries.

4.5.3 Advantages of PDS

- It has helped in stabilising food prices and making food available to consumers at affordable prices. It protects beneficiaries from inflation and price as well as volatility.
- It has helped in avoiding hunger and famine by supplying food from surplus region of the country to deficient region.
- The system of Minimum Support Price (MSP) and procurement has contributed to increase in food grain production.

- It helps to improve the health and nutritional status of the people of the country.
- It ensures income security to farmers.

4.5.4 Limitations of PDS

- The storage capacity of PDS food grains is limited. There is a lack of storage capacity to store the total supply of food grains.
- The storage of food grains need warehouses which inculcate high costs.
- Lack of proper storage facilities of food grains results in pest infestation causing wastage of the products.
- Adulteration by middlemen deteriorates the food grain quality in many cases.
- The eligible beneficiaries are sometimes excluded from getting food grains while undue benefits are enjoyed bynon eligible families.



CHECK YOUR PROGRESS

Q 5: What is the full form of FCI? When it was established?

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Q 6: What is NFSA? (Answer in about 100 words)

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4.6 LET US SUM UP

- Agriculture is the backbone of Indian Economy where 26.31 crores (as per data of 2011) of working population are directly engaged on this sector.

- According to Kuznets, agriculture makes three types of major contributions to the process of economic development. These are factor contribution, product contribution and market contribution
- The total food grains production in India reached 285.01 million tonnes in 2017-18.
- Agriculture sector contributes 15.96 percent to the total national income in 2019.
- In 2017-18, Agriculture sector has contributed 12.86 percent of total exports earning of the country.
- Agriculture sector plays an important role in the development of industrial sector by providing raw materials to various industries of the country.
- Food security means availability, accessibility and affordability of food to all the people at all times.
- There are four dimensions of food security food availability, food access, utilisation and stability.
- The Public Distribution System (PDS) is a national food security system that distributes subsidised food to poor people.
- On July 5, 2013, The National Food Security Act (NFSA) was introduced by Government of India. Under this act 75 percent of rural population and 50 percent of urban population are to receive subsidised food grains.



4.7 FURTHER READING

1. Datt, G. and Mahajan, A. (2020). *Datt & Sundharam's Indian Economy.* New Delhi S.Chand& Co.
2. Dhar, P.K. (2017). *Indian Economy Its Growing Dimensions.* New Delhi: Kalyani Publishers
3. Mishra, S.K. & Puri, V.K. (2018). *Indian Economy.* New Delhi: Himalya Publishing House.

4.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: According to Kuznets, agriculture makes three types of major contributions to the process of economic development. These are

(i) The factor contribution

(ii) The product contribution

(iii) The market contribution

Ans to Q No 2: Food Security means that all people at all times have physical and economic access to adequate amounts of nutritious, safe and culturally appropriate foods.

Ans to Q No 3: In a country like India where population growth and unemployment are the major problems of the country, a number of people are suffering from hunger. The need of the food security in India are mentioned below-

a) The poorest section of the society remains food insecure all the times.

b) People above poverty line might also feel food insecure in times of natural calamities like earthquake, drought, flood, tsunami etc.

c) To secure the health and nutritional status of the people of the country.

Ans to Q No 4: The full form of FCI is 'The Food Corporation of India'. It was established in 1965.

Ans to Q No 5: The National Food security Act (NFSA) is an act of Parliament enacted in July 5, 2013 which aims toprovide subsidised food grains to approximately two third of India's 120 crores population. The act legally entitles up to 75 percent of rural population and 50 percent of urban population to receive subsidiary food grains under TPDS.



4.9 MODEL QUESTIONS

A. Short questions (Answer each question in about 150 words)

Q 1: Discuss the major contributions of Agriculture Sector in Economic Development from the view of Kuznets.

Q 2: What is food security? Give some suggestions for achieving Food Security in India.

Q 3: What is PDS? How PDS can mitigate food insecurity in a country like India.

Q 4: What are the advantages and limitations of PDS ?

B. Essay Type Questions(Answer each question in about 500-700words)

Q 1: Discuss the major contributions of Agriculture Sector in Economic Development in the context of Indian Economy.

Q 2: Discuss the problems of food security.

Q 3: Explain the Public Distribution System of India.

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UNIT 5: CHANGING DYNAMICS IN INDIAN AGRICULTURE

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Diversification in Agriculture

- 5.3.1 Pattern of Diversification in Agriculture
- 5.3.2 Factors responsible for Agricultural Diversification
- 5.3.3 Drivers of Agricultural Diversification

5.4 Contract Farming

- 5.4.1 Meaning of Contract Farming
- 5.4.2 Beginning of Contract Farming in India
- 5.4.3 Regulatory Structure for Contract Farming in India
- 5.4.4 Models of Contract Farming

5.5 Subsidy to Farmers

- 5.5.1 Government Schemes and Policies for Subsidies
- 5.5.2 Types of Agricultural Subsidies

5.6 Agriculture and Environment

- 5.6.1 Relationship between Agriculture and Environment
- 5.6.2 Crop Residue Burning and Environment
- 5.6.3 Measures to reduce Agricultural Impact on Environment

5.7 WTO and Agriculture

- 5.7.1 WTO Agreement on Agriculture

5.8 Let Us Sum Up

5.9 Further Reading

5.10 Answers to Check Your Progress

5.11 Model questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to

- describe the factors responsible for agricultural diversification

- list out different models of contract farming
- know different subsidies provided to farmers
- analyse impact of agricultural practices on environment
- discuss the WTO agreement on agriculture.

5.2 INTRODUCTION

We have already seen that agriculture plays a pivotal role in Indian economy and provides employment to nearly half of the workforce in the country. However, over the past few decades the Indian economy has undergone a significant shift from agriculture to non agriculture sector. Despite this rapid shift, agriculture has been a way of life and continues to be an important sector in Indian economy due to its importance to food security, employment generation and poverty reduction especially among rural masses. The rapid population growth accompanied by strong urbanisation and a persistent rise in per capita income are likely to cause a significant transformation of the agricultural production, both in quantity as well as in quality. Indian agriculture has been changing from its inception. Green Revolution has showed the importance oftechnological advancements, supporting institutions like credit, land reforms as well as incentives like prices as drivers of growth in Indian agriculture. During 1990s, Indian agriculture marked a shift from cereal based production systems towards production of high value crops. However, because ofstressed situations in food security during the first decade of the 21st century, policy emphasis was placed again on cereal-based productionsespecially rice and wheat.

Nevertheless, diversification of agriculture towards high value crops intensified by rapid urbanisation and rise in per capita income has emerged as the important factors bringing dynamism to Indian agriculture.

5.3 DIVERSIFICATION IN AGRICULTURE

Diversification is an integral part of the process of structural transformation of aneconomy. In the field of agriculture, the term ‘diversification’ is in frequent usefor last few decades. What does diversification actually means?

Diversification is basically adopted to accelerate the positive economic growth and development. Agricultural diversification can be described in terms of shift from monoculture to mix culture of crops, animals and their products. There are various factors that trigger the process of diversification in agricultural sector. Agriculture growth during the period of green revolution, was largely achieved by supply driven policy instruments such as irrigation, power, extension services, price support whereas in the post reform period the agriculture growth has been demand driven. Rapid urbanisation, increase in per capita income and globalisation are some key catalysts to accelerate the dramatic shift of people's choice of dietary consumption away from staples towards High Value Commodities(HVC) like livestock, dairy products, vegetables and fruit,fats and oils . To generate higher income and employment in agriculture sector, diversification of farm activities is emerging as an important instrument.

5.3.1 Pattern of Diversification in Agriculture

There are, generally, two types of diversification in agriculture:

- Horizontal Diversification: It is the primary pattern of diversification; wherediversification takes place through crop intensification. It is the diversification from single crop to multiple crops, where one or more high value crops are added to the existing cropping system.
- Vertical Diversification: It refers to incorporation of some non-crops areas like animal husbandry, forestry and fisheries along with main crops. It is basically the diversification from monoculture to use of various resources in harmony within agriculture.

5.3.2 Factors responsible for Agricultural Diversification

There are various factors and agricultural diversification is the result of interactive effect of all factors. These include

- Environmental factors likerainfall, temperature, climatic condition and soil fertility

- Price-related factorslike output and input prices with respect to national and international trade policies and other economic policies affecting the prices either directly or indirectly.
- Technological factors which include use of hybrid seeds, fertilisers and water technologies, as well as those related to marketing, harvest, storage, agro-processing etc.
- Household-related factors which include regional food, fodder and fuel as well as the labour and investment capacity of farm people and their communities.
- Institutional and Infrastructural factors like farm size, location and tenancy arrangements, research, in-field technical support, marketing systems and government regulating policies, etc.

5.3.3 Drivers of Agricultural Diversification

Consumers'demand: For the last few decades people's dietary pattern has changed from consumption of only staple items towards consumption of animal proteins, dairy products, fruits and vegetables. To meet those needs, emphasis is given on diversification of crops from only staple to other types.

- **Demography:** Rapid urbanisation results in large scale conversion of agricultural land to other uses. Due to the lack of cultivated areas, farmers have to shift their cropping pattern from cultivation of staple towards cultivation of high value but low volume crops.
- **Climate:** Extreme temperature, erratic rainfall, frequent and intensive flood, cyclone and other natural eventsarising out of climate change have cast distinct and severe impact on agriculture. In such scenario, diversification of agricultural system may reduce the impacts.



CHECK YOUR PROGRESS

Q 1: Define Horizontal Diversification.

.....

.....

Q 2: Mention few environmental factors responsible for agriculture diversification.

.....

.....

5.4 CONTRACT FARMING

5.4.1 Meaning of Contract Farming

Contract farming can be defined as the production and supply of agricultural products according to agreements made between farmers and processing and/or marketing firms at predetermined prices. In contract farming, the purchaser also provides a degree of production support, for example, the supply of inputs and the provision of technical advice. There is commitment on the part of the farmer to provide best commodity in respect to quantity and quality determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity from the producer.

The following three areas determine the intensity of the contractual arrangement

- **Market provision***:* There should be agreement between the grower and buyer with regard to theterms and conditions for the future sale and purchase of a crop or livestock product;
- **Resource provision***:* In addition to the marketing arrangements, the buyers must agree to supply specific inputs including land preparation and technical advice to the producers

- **Management specifications*:*** The grower agrees to follow recommended production methods, inputs regimes, and cultivation and harvesting specifications by the buyers

5.4.2 Beginning of Contract Farming in India

Contract Farming is not a new concept in India. It dates back to the British colonial period in India where plantation of cash crops like tea, coffee, rubber, poppy and indigo was done under contract farming. In 1920s, Imperial Tobacco Corporation (ITC) introduced the first documented large-scale contract farming operation in coastal Andhra Pradesh. But, contract farming in India gained impetus after introduction of tomato contract farming by PepsiCo during early 1990's with over 400 farmers in Punjab.

Table 5.1: Milestones of Contract Faming in India

Year	Milestones
1850s - 1860s	Cotton exported to Britain after disruption of US supplies.
1860s	Plantations for tea and coffee in the hills of the North-east and in the South, indigo and poppy cultivation in plains
1910s	Distress and unrest among indentured contract farmers
1930s	Virginia tobacco contract farming in Andhra Pradesh
1948-50	Sugar co-operatives emerge in Maharashtra and milk co-operatives in Gujarat incorporating many elements of contract farming
1950s	Emergence of seed business based on contract farming
1980s	Popular introduction through contract farming; also tomato contract farming
1990s	Tomato introduced in Punjab through contract farming
2000s	Variants of contract farming introduced for wheat in MP and crop diversification in Punjab; emergence of specialist contract farming firms
2003-04	Contract farming accepted in new policy framework for agriculture reforms

Source: NABARD Occasional paper-42

5.4.3 Regulatory Structure for Contract Farming in India

In India Contract Farming is regulated under the Indian Contract Act 1872 which has many general provisions in respect of contract farming like formation of contract, obligations of parties and consequences in case of violation of contract. In addition to that, the Model APMC (Agricultural Produce Marketing Committee) Act, 2003 provides provision of registration of contract farming sponsors, recording of their agreements and proper dispute settlement mechanism for orderly promotion of contract farming in the country. So far, 20 states (Andhra Pradesh, Arunachal Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Maharashtra, Madhya Pradesh, Mizoram, Nagaland, Odisha, Rajasthan, Sikkim, Telangana, Tripura and Uttarakhand) have amended their APMC Acts to provide for contract farming, while Punjab has a separate law on contract farming. However, only 14 states have notified rules related to contract farming, as of October 2016.

The Department of Agriculture and Farmer's welfare formulated a Model Contract Farming Act, called "The State / Union Territory Agricultural Produce and Livestock Contract Farming (Promotion and Facilitation) Act", 2018. Very recently, a new Act has been passed as the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020. This Act provides for a framework for contract farming through an agreement between a farmer and a buyer prior to the production or rearing of any farm produce. It provides for a three-level dispute settlement mechanism: the conciliation board, Sub-Divisional Magistrate and Appellate Authority.

5.4.4 Models of Contract Farming

- **Centralised model:** This model involves contracting company who provides requisite supports to the farmers for production of selected crops. Under this model, the contracting company

purchases the crop from the farmers, and then processes, packages and markets the product. This type of farming is quite famous in high value crops like tobacco, cotton, sugarcane, banana etc.

- **Nucleus Estate Model:**It is the modified version centralised model where, contracting company manages central estate or plantation. The central estate is usually used to guarantee through output for the processing plant but is sometimes used only for research or breeding purposes. Typical example of crops for this model is tree, perennials and sometimes fresh vegetables.
- **Multipartite Model:** In this model, the involvement of multiple organisations is common featureswhere statutory body or state agencies and private companies jointly participate with farmers.
- **Informal model:** This model includes small entrepreneurs or companies who enter into informal contracts with farmers on a seasonal basis which mainly includes crops like fresh vegetables, watermelons or tropical fruits etc. Material inputs are mainly limited to fertilisers and seeds. A common example of the informal model is where the company, after purchasing the crop, simply grades and packages it for resale to the retail trade such as supermarkets, etc.
- **Intermediary Model:** Under this model, companies make formal sub-contracts with intermediaries (like agents, farmer groups or NGOs) for production of crops. The intermediaries generally enter into informal contracts with farmers to meet the obligations under formal contract with companies.



CHECK YOUR PROGRESS

Q 3: In which state of the Country, first documented large scale contract farming was introduced?

.....

.....

Q 4: In India, Contract Farming is regulated under .....

Q 5: In which model of contract farming involvement of multiple organisations is a common feature?

.....

.....

Q 6: Choose the correct answer

a. Among the following states, which state has separate contract farming act (Assam/Punjab/Gujrat/Andhra Pradesh)

.....

5.5 SUBSIDY TO FARMERS

Subsidy is derived from Latin word "*Subsidium"* meaning is to provide support. Thus, subsidy can be defined as a support given by the Government to individuals orbusinesses in the form of cash, grants that improve the supply of certain goods and services. An agricultural subsidy is a financial support provided by Government to farmers and agribusinesses to increase their income, manage the supply of agricultural commodities, and influence the cost and supply of such commodities.

5.5.1 Government Schemes and Policies for Subsidies

In India, central as well as state governments are providing subsidies on fertilisers, irrigation, electricity and other subsidies to marginal farmers and farmers' cooperative societies in the form of seeds, development of oil seeds, pulses, cotton, rice, maize and crop insurance schemes and price support schemes etc. for better development of agricultural sector. The Department of Agriculture & Cooperation, Government of India, has been implementing various

schemes and programmes under which these subsidies are provided for the benefit of farmers through State Governments. RashtriyaKrishiVikasYojana (RKVY 2007), National Mission on Agricultural Extension & Technology (NMAET 2010), National Food Security Mission (NFSM 2007), Mission for Integrated Development of Horticulture (MIDH 2014), National Horticulture Mission (NHM 2005), National Mission on Oilseeds and Oil Palm (NMOOP 2010), Cotton Technology Mission (CTM 2000) are some of the schemes being implemented to help the small and marginal farmers to help reduce their cost of cultivation, increase profit and encourage diversification. The subsidies under various schemes are given in the form of inputs such as seed, fertilisers, plant protection materials, farm machinery, micro-irrigation units and credit.

5.5.2 Types of Agricultural Subsidies

- **Input subsidy:** It means distribution inputs at price lower than the original price of the inputs.Several varieties of subsidies can be included in this group like fertiliser, power, irrigation, seed, and credit subsidies.
- **Price subsidy:** The market price may be so low that the farmers will have to bear losses instead of making profits. In such a case, the government may promise to buy the crop from the farmers at a price which is higher than the market price.
- **Infrastructure subsidy:** To keep both production and sale operations in harmony good roads, storage facilities, power, information about the market, transportation to the ports, are essential. As these facilities are in the domain of public goods, the cost is high. No farmer will come forward to provide these facilities because of their large size and inherent problemsrelated to revenue collections. Therefore, Government takes the responsibility of providing the public goods and given the condition of Indian farmers so that, a lower price can be charged from the poorer farmers.

- **Exportsubsidy:** When a farmer or exporter sells agricultural products in foreign market, he earns money for himself, as well as foreign exchange for the country. Therefore, agricultural exports are generally encouraged as long as these do not harm the domestic economy. Subsidies provided to encourage exports are referred to as export subsidies.



CHECK YOUR PROGRESS

Q.7: The word subsidy is derived from a Latin word .....

Q.8: Which Department of Government of India, has been implementing various schemes and programmes under which these subsidies are provided for the benefit of farmers .....

Q.9: What is "Green box subsidy" ?

.....

.....

5.6 AGRICULTURE AND ENVIRONMENT

5.6.1 Relationship between Agriculture and Environment

Agriculture and Environment have always been closely related. Agriculture is important system to provide food and fibre but agricultural practices has particular impact on environment. In the prehistoric era, humans used to survive by hunting and collecting food. But when human communities started domestication of animals, their impact on environment was accelerated. Since that era, human agricultural activity has continued to intensify, and over the last 150 years the rate of intensification has accelerated significantly.Water, soil, air and biodiversity are the common domains for all the agricultural activities and any environmental impact as a result of agricultural activities would reflect in these common domains. Agricultural activitiesare beneficialas

well as harmful to the environment. Agricultural activities are helpful in increasing the water storage capacity of certainagricultural systems which may improve problems of soil erosion, landslides, biodiversity loss and flooding. Excessive use of fertilisers, pesticides has negative impact on soil as well as environment.Agriculture is responsible for around 16 percent of India's GHG emissions. Methane is largely emitted from livestock mainly cows and buffalo, paddy cultivation, and biomass burning. N_2O emissions originate from fertilisers, animal urine, waste storage sites, biomass burning and fossil fuel use. However, Agriculture also act sink of GHGs through fixation of carbon by crop and pasture land.

5.6.2 Crop Residue Burning and Environment

With year round crop production, India generates large amount of agricultural waste including crop residues. Crop residues burning has became an alarming issue that accelerates air pollution in Delhi and other northern states most especially in and after the year 2015. According to the Indian Ministry of New and Renewable Energy (MNRE), India generates on an average 500 million tons of crop residue per year. As per National Policy for Management of Crop Residue (NPMCR,) majority of the crop residue is used as fodder, fuel for other domestic and industrial purposes. However, there is still a surplus of 140 Mt out of which 92 Mt is burned each year.Large scale burning of residues increases CO_2, CO, N_2O and NO_x in the atmosphere casuing air pollution. In last few years, the air quality in the northern India has deteriorated to nearly twice the permissible Indian standard and ten times higher than the WHO standard.

Table 5.2: Agricultural waste generation in India compared to other select nations in the same region

Country	Agricultural Waste Generated (million tons/year)
India	500
Bangladesh	72
Indonesia	55
Myanmar	19

The Indian Government has taken various measures torestrict the amount of crop residue burning and promoteusing crop residue in the energy sector as a raw material. The Indian Agricultural Research Institute (IARI), Indian Ministry of New and Renewable Energy (MNRE) are continuously promoting research and innovative measures to handle crop waste without burning. The National Policy for Management of Crop Residue (NPMCR) recently formulated by the Central Government, has laid out policies and regulations to be undertaken by the local agencies emphasising to restrain crop burning and promote sustainable management practices. The National Remote Sensing Agency (NRSA) and the Central Pollution Control board (CPCB) now monitor crop burning through aerial surveillance and penalise farmers for burning crops.

5.6.3 Measures to reduce Agricultural Impact on Environment

- **Reducing Pesticide Pollution:** Integrated Pest management (IPM)can be considered as agood practice forcontrolling pests. IPM is suitable to control the pest population and minimise risks to human health and environment.
- **Promotion of Organic Farming:** It is not like that organic farming does not have any negative impact on environment. Improper use of manure, for example overuse of manure or badly managed applications can increase ammonia in the air and nitrate in groundwater. To promote organic farming

emphasis should be given on establishment of an internationally agreed accreditation mechanism, government support to the farmers willing to switch to organic farmingetc

- **No tillage/Zero tillage practice or conservation agriculture:** Tillage operation during soil preparation for crop cultivation leads to degradation of soil structure and thus results in less recharge of ground water. Conservation agriculture can be beneficial in such condition and government policies need to be directed towards conservation agriculture.

5.7 WTO AND AGRICULTURE

5.7.1 WTO Agreement on Agriculture

The Agreement on Agriculture (AoA), came in to force on 1st January, 1995 after its negotiation in Uruguay Round (1986-1994). Prior to WTO, agriculture has been covered by General Agreement on Tariffs and Trade (GATT). But it had some loopholes like it allowed countries to use some non-tariff measures such as import quotas, and subsidy. Agricultural trade became highly deformed, especially by means of using export subsidies which was not normally allowed for industrial products.The Uruguay Round produced the first multilateral agreement dedicated to the sector.This agreement is to establish a fair and market-oriented agricultural trading system. Agreement comprises specific commitments to reduce support and protection in the areas of domestic support, export subsidies and market access.

The WTO Agreement on Agriculture (AoA), 1995 permitted the developed countries to continue to provide farm subsidies, but under certain restrictions. In WTO terminology, agricultural subsidies have been segregated into various 'boxes':

- Green Box subsidies – It includes amounts spent on research, disease control, and infrastructure and food security. These also include direct payments made to farmers such as income support that do not stimulate production.

- Blue Box subsidies– It includes direct payments to farmers to limit production and certain government assistance to encourage agriculture and rural development in developing countries. Blue Box subsidies are seen as being trade distorting.
- Amber Box subsidies – It includes all agricultural subsidies that do not fall into either blue or green boxes. These include government policies of Minimum support Prices (MSP) for agricultural products or any help directly related to production quantities (e.g. power, fertilizer, seeds, pesticides, irrigation, etc.).



CHECK YOUR PROGRESS

Q.10: Agriculture is responsible for around ..... of India's GHG emissions

Q.11: How much amount of crop residue is generated in India per year?

.....

Q 12: Write few categories of input subsidy.

.....

.....



5.8 LET US SUM UP

- Diversification is an integral part of the process of structural transformation of an economy. In the field of agricultural development, the term 'Diversification' is most frequently used term since last few decades.
- Agricultural diversification can be defined in terms of shift from monoculture to mix culture of crops, farming of animals and their products. The Process of agriculture diversification is triggered by various factors like environmental, price related, household and infrastructure. Drivers of agriculture diversification include consumer demand, demographics changes, climate etc.

- Contract farming means the production and supply of agricultural products according to agreements made between farmers and processing and/or marketing firms at predetermined prices. Three areas determine the intensity of the contractual arrangement which is: Market provision, resource provision and resource specification. Very recently, a new Act has been passed as the Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Act, 2020. This Act provides for a framework for contract farming through an agreement between a farmer and a buyer prior to the production or rearing of any farm produce.
- Though Contract farming is an old practice in India,but it gained impetus after introduction of tomato contract farming by PepsiCo during early 1990 s with over 400 farmers in Punjab.
- In India Contract Farming is regulated under the Indian Contract Act 1872. In addition to that, the Model APMC (Agricultural Produce Marketing Committee) Act, 2003 provides provision of registration of contract farming sponsors, recording of their agreements and proper dispute settlement mechanism for orderly promotion of contract farming in the country.
- Recently, the Department of Agriculture and Farmer's welfare formulated a Model Contract Farming Act, called "The State / Union Territory Agricultural Produce and Livestock Contract Farming (Promotion and Facilitation) Act", 2018.
- An agricultural subsidy is a financial support provided by Government to farmers and agribusinesses to increase their income, manage the supply of agricultural commodities, and influence the cost and supply of such commodities. Agricultural Subsidies can be categorised in to input subsidy, price subsidy, infrastructure subsidy and export subsidy.
- Agricultural activities are helpful in increasing the water storage capacity of certainagricultural systems which may improve problems of soil erosion, landslides, biodiversity loss and flooding. Excessive use of fertilizers, pesticides has negative impact on soil as well as

environment. Agriculture is responsible for around 16% of India's GHG emissions.

- Crop Residue burning is a major reason for alarming air quality degradation in Delhi and other northern states. The government has taken various measures to restrict this residue burning and promoted to use these residues in energy sector as row materials.
- The implementation of the Agreement on Agriculture started on 1st January, 1995. In WTO terminology, agricultural subsidies have been segregated into various 'boxes': Green box subsidies, blue box subsidies and Green box subsidies.



5.9 FURTHER READING

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5.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: It is the primary pattern of diversification, where diversification takes place through crop intensification. It is the diversification from single crop to multiple crops, where one or more high value crops are added to existing cropping system.

Ans to Q No 2: Irrigation, rainfall, and temperature and soil fertility.

Ans to Q No 3: Andhra Pradesh

Ans to Q No 4: Indian Contract Act 1872

Ans to Q No 5: Multipartite Model

Ans to Q No 6: Punjab

Ans to Q No 7: *Subsidium*

Ans to Q No 8: The Department of Agriculture & Cooperation,

Ans to Q No 9: Fertilizer, power, irrigation, seed, and credit subsidies.

Ans to Q No 10: 16% of India's GHG emissions

Ans to Q No 11: 500 Million tons.

Ans to Q No 12: It includes amounts spent on research, disease control, and infrastructure and food security.



5.11 MODEL QUESTIONS

Short Questions: (Answer each question in around 150 words)

Q 1: Make a list of factors responsible for agricultural diversification.

Q 2: What are the different models of Contract farming. Describe in brief the Nucleus Estate model.

Q 3: What are the three broad areas of agriculture and trade policy on whichWTO Agreement on Agriculture contains provisions/? Write a note on Amber box Subsidies.

Long Questions: (Answer each question in around 300-500 words)

Q 1: Discuss in details about subsidy to farmers.

Q 2: Discuss various drivers of Agricultural diversification.

Q 3: Define Contract farming. Discuss when and how did contract farming start in India.

Q 4: "Crop Residue burning is an alarming issue for the environment" Justify.

Q 5: Discuss in details about the WTO agreement on Agriculture. Describe the categories of agricultural subsidies in WTO terminology.

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UNIT 6: INDIAN INDUSTRY

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Growth and Pattern of Industrialisation

- 6.3.1 Industrial Pattern on the Eve of Planning
- 6.3.2 Industrial Pattern and the Five Year Plans
- 6.3.3 Structural Transformation of Indian Industries

6.4 Industries having India's Comparative Advantage

- 6.4.1 Some Large Scale Industries in India
- 6.4.2 Information Technology and Knowledge Economy
- 6.4.3 Small Scale Enterprises

6.5 Industrial Sickness in India

6.6 Disinvestment

6.7 Let Us Sum Up

6.8 Further Reading

6.9 Answers to Check Your Progress

6.10 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the meaning of industrialisation and the need for industrialisation in India
- outline the pattern and changes brought about in the industrial sector of India
- trace out the industries having comparative advantage in India and also the problems faced by them
- discuss the initiatives undertaken by the Government to deal with industrial malfunctioning.

6.2 INTRODUCTION

Industrialisation has a major role to play in the economic progress of a country. It is evident from studies that nations with industrial advancements are at an advantageous position in terms of their per capita income. The gap in per capita income between the developed and underdeveloped countries is largely reflected in the disparity in the structure of their economies; the former are largely industrial economies while in the latter production is confined predominantly to agriculture. Some countries like Saudi Arabia, Kuwait have witnessed high per capita income by virtue of their natural resources endowments and enjoying the advantage of international trade. However, industrialisation is a key to achieve economic growth.

Now, the question might come to your mind regarding what exactly is industrialisation? Industrialisation is the process by which the centre of gravity of an economy shifts from agriculture to industry with the use of technology and modern methods. It results in improvement in infrastructure, urbanisation, economic growth, employment opportunities and standard of living. Now you must be thinking why do we need industrialisation? In India, with the increase in population, the agriculture sector has been suffering from diminishing return which is instrumental in creating the trap of poverty. In order to break this vicious cycle, the essential precondition for development is a marked shift from the low productivity occupations to high productivity occupations. In general, the net value of output per person is higher in industry than in agriculture. In industry, the scope for internal as well as external economies is greater than in other sectors and certainly greater than in agriculture. As industrialisation proceeds, it leads to the creation of economic surplus in the hands of industrial producers for further investment. Besides, the process of industrialisation is associated with the development of mechanical knowledge, attitudes and skills of industrial work, with experience of industrial management and with other attributes of a modern society which in turn, are beneficial to the growth of productivity in agriculture, trade, distribution and other related sectors of the economy. As

a consequence of these factors, any successful transfer of labour from agriculture to industry contributes to economic development. Industrialisation is thus inseparable from substantial, sustained economic development because it is both a consequence of higher income and a means of higher productivity. Industrialisation acts as an instrument both of creating capacity to absorb excess labour and of catering for the diversification of the market required at higher stages of economic development.



CHECK YOUR PROGRESS

Q 1: What is meant by industrialisation?

.....

.....

Q 2: State the need for industrialisation in India?

.....

.....

Q 3: When did the planning process begin in our country?

.....

.....

6.3 GROWTH AND PATTERN OF INDUSTRIALISATION

6.3.1 Industrial Pattern on the Eve of Planning

Before the rise of the modern industrial system, the Indian manufacturers had a world-wide market. Indian muslin and calicoes were in great demand all over the world. Indian industries besides fulfilling the local demands also enabled India to export its finished products. Indian exports consisted of manufactures like cotton and silk fabrics, calicoes, artistic ware, silk and woollen cloth. The impact of the British connection and industrial revolution led to the decay of Indian handicrafts and made ways for the machine-made goods to the Indian markets. The void created by decay of Indian handicrafts was not filled by the rise of modern industry in India because of the British had the policy of encouraging the import of manufactures to

India and export of raw materials from India. The British Government in India provided discriminating protection to some selected industries since 1923. This protection was accompanied by the most favoured nation clause for British goods. Despite this factor, some industries such as cotton textiles, sugar, paper, matches and to some extent iron and steel did make progress. During the British period no effort was made to improve the development of capital goods industries, instead the British Government put definite hindrances in their development. Basic features of structure of Indian industries on the eve of planning was marked by low capital intensity, limited development of medium sized factory enterprises and imbalance between consumer goods and capital goods industries.

6.3.2 Industrial Pattern and the Five Year Plans

The planning process initiated in our country in the year 1951. The Government of India recognised the significant contribution industrialisation could make to the development process and thereby emphasised on improving the industrial sectors in the five year plans.

First Five Year Plan(1951-56*)*: The main objective of the first year plan was on agricultural development.Therefore, the importance was given on existing industries like cotton, wool and jute textiles, cement, paper, medicines, paints, sugar etc. rather than the establishment of new industries.

Second Five Year Plan(1956-61): This plan gave importance to the establishment of heavy industries. The ideals of industrialisation under this plan were based on the Industrial Policy Resolution of 1956 which aimed at expansion of the public sector. Three new iron and steel plants were built, Bhilai Steel Plant in Madhya Pradesh, Durgapur Steel Plant in West Bengal and Rourkela Steel Plant in Orissa. The other programmes of industrial development included the manufacture of electrical equipments, expansion of Hindustan Machine Tools, expansion of Sindri Fertiliser factory and the establishment of a fertiliser plant at Nangal, further expansion of Hindustan Shipyard and Chittaranjan Locomotive factory.

Third Five Year Plan(1961-66): There was an emphasis on the expansion of basic industries like iron and steel,fossil-fuel and machine building. The aim was to make the economy self-sustaining in producers' goods industries such as steel, machine building, etc., so that the quantum of external assistance needed could be reduced to a very low level. The Ranchi Machine Tool and three more units ofHindustan Machine Tools Limitedwere established for Machine building, Locomotive and Railway coach making.

Fourth Five Year Plan(1969-74): The fourth plan intended to complete industrial projects undertaken in the Third Plan. It also aimed to enlarge capacities in export promotion and import substitution industries. Industries like sugar,cotton, jute,vanaspathi,metal based and chemical industries were given much importance and during this plan, much progress was made in alloys, tools aluminium, electronic goods, machine tools, tractors and special steel.

Fifth Five Year Plan(1974-79): Programmes of industrial development in the fifth plan were formulated keeping in view the objectives of self-reliance and growth with social justice. The main emphasis was given to the rapid growth of steel plants and exports.The Steel Plants at Salem, Vijayanagar and Visakhapatnam were proposed to create additional capacity. Moreover, drug manufacturing, oil refining, chemical fertilisers and heavy engineering industries made steady progress.

Sixth Five Year Plan(1980-85): The main objective of this plan was on producing goods to exploit the domestic and international markets and priority was given to industries like aluminium, automobiles, electric equipment and thermostats. Production targets were achieved in industries like commercial vehicles, drugs, T.V.,automobiles, cement, coal, jute industry, railway wagons, sugar industry etc.

Seventh Five Year Plan(1985-90): Industrial dispersal, self-employment, exploitation of local resources, efficient use of existing

capacity as well as the establishment of new power stations including super thermal and nuclear plants, technology up-gradation, encouragement of 'sunrise' industries such as telecommunications, computers, micro-electronics, ceramic composites and bio-technology, preferring industries and proper training were the preference areas of the plan.

Eighth Five Year Plan (1992-1997): The Eighth Plan was formulated under a new environment when a number of reforms in industrial, fiscal, trade and foreign investment policies were introduced in the economy commonly called as economic liberalisation. In the context of the new Industrial Policy of July 1991, the role of the public and private sector was reviewed. During this period, the private sector gained momentum and foreign investors were encouraged. Emphasis was given on the removal of regional imbalances and encouraging the growth of employment in small and tiny sectors. However, the industrial growth was slow as the Indian industries were not prepared to face foreign competition since they had been operating on a totally protected environment for decades. Inadequate infrastructure, management mismatch are other factors that affected the growth of Indian industries during this period.

Ninth Five Year Plan(1997-2002): The Ninth Plan targeted a growth rate of 8 per cent for industry, but realised growth rate was only 5.0 per cent which was even lower than the growth rate of 7.3 per cent realised in the Eighth Plan. In this way, it may be stated that the Ninth Plan was a failure. As against the target of 5.9 per cent for mining, the realised growth rate was barely 2.5 per cent. Similarly, achievement in manufacturing was 5.3 per cent as against the target of 8.2 per cent and in electricity; the realised growth rate was 5.5 per cent as against the target of 9.3 per cent.

Tenth Five Year Plan(2002-2007): During this plan, the main emphasis was on modernisation, technology enhancement,reducing transaction costs, increasing exports and global competitiveness

and also to achieve balanced regional development. 10th Plan states that Industrial performance in this period improved to a respectable level of 8.9 per cent from the very low level of growth rate of 5 percent in the Ninth Plan.

Eleventh Five Year Plan (2007-12): This Plan gave priority to industry,infrastructure, and employment.The plan recognised the importance of a rapid industrial development in order to bring a faster reduction in poverty, generate employment opportunities and ensure essential services such as health and education to all sections of the society.

Twelfth Five Year Plan (2012-2017): The planning commission prioritised the concept of "inclusive growth" which was originally initiated in the eleventh plan. It was expected that this plan would help to create employment through developing India's manufacturing sector and move the nation higher up the value chain which would be a boon for Industries.

6.3.3 Structural Transformation of Indian Industries

Since 1951, industrialisation has been an important feature of the economic development of our nation. Industrial Policy Resolution of 1956, its implementation throughout the five year plans resulted in increase in investments in capacity of a wide range of industries. The industrial sector has been highly diversified covering broadly the entire range of consumer, intermediate and capital goods. The progress India has made in the field of industrialisation is clearly reflected in the commodity composition of India's foreign-trade in which the share of imports of manufactured goods has steadily declined; on the other hand, industrial products, particularly engineering goods have become a growing component of India's exports. Finally, the rapid stride in industrialisation has been accompanied by a corresponding growth in technological and managerial skills for efficient operation of the most sophisticated industries and also for planning, designing and construction of such industries.

A major achievement in the industrial sector has been the diversification of India's capability. India has attained self sufficiency in almost all consumer goods and the growth of capital goods has also been impressive. An impressive industrial capacity has been achieved in mining and metallurgical industries, chemical and petrochemical industries, fertiliser production, capital goods industries including sophisticated equipment for steel mills, fertiliser plants, chemical plants, etc. light, medium and heavy engineering industries, power and transportation industry, construction industry, etc. The infrastructure including R and D capability, consultancy and design engineering services, project management services and innovative capacity to improve and adapt technologies have indeed shown an impressive record of progress.The strategy adopted by Indian planners consisted of accelerated industrialisation with a base of heavy industry. Such a strategy required development of high technological capability which in turn required the promotion and creation of engineering sector.For instance, the engineering industry alone could provide the base for the industrialisation thrust contemplated in Indian planning. A broad-based industrial structure could not be sustained except on the basis of a strong, vibrant, growth-oriented engineering sector. At the same time, the engineering industry was encouraged to develop indigenous skills and know-how and reduce dependence on imported technology. Above all, our planners recognized that technological skills and expertise alone could lead to high productivity levels and consequently to high levels of incomes. The engineering industry was, therefore, promoted to act as a catalytic agent for over-all economic development.

6.4 INDUSTRIES HAVING INDIA'S COMPARATIVE ADVANTAGE

6.4.1 Some Large Scale Industries in India

Now you are going to study about few large scale industries of India. They are as follows-

- **Iron and steel industry-**The first Prime Minister of India, Jawaharlal Nehru termed steel to be a symbol of strength of the economy and as a sign of the glory of India in the future. India has made intrinsic advantages in the production of steel. Some of the richest iron ore content is to be found in India. Steel and iron ore are found in proximity to one another.As per World Steel Association data, India became the second largest steel producer of crude steel after China in 2018 and 2019, by replacing Japan. The Steel Authority of India Limited (SAIL) was introduced in 1974 and was made responsible for the development of the steel industry and also for the major inputs for the industry.

  An important feature of the growth of iron and steel industry is the growth of research, design and development within the country. The reforms in the iron and steel sector consisted of liberalisation of import and export of steel materials, abolition of price and distribution controls and successive reduction of import duties on iron and steel products. The Government has also removed barriers pertaining to the private sector. The iron and steel industry is now facing a competitive environment.

- **Cotton and synthetic textile industry-** The cotton textile industry is one of the oldest and most firmly established major industries of our country. The textile industry comprises of highly mechanised mill sector on one hand and the hand spinning and hand weaving (handloom) sector on the other hand with the decentralised power loom sector in between. India has opportunities in textile industry to grow globally given its low

cost of labour. The Indian textile industry is predominantly cotton - based with 65 per cent of the cloth production in the country being accounted for by cotton. Production of raw cotton varies from year to year depending upon rainfall and weather conditions, and price fluctuations in raw cotton affect the industry.

Problem of raw materials, obsolete machinery and need for modernisation, high costs and competition in foreign markets, etc. have influenced the cotton and textile industry. India has a natural competitive advantage in terms of a strong and large multi-fibre base, abundant cheap skilled labour and the entire range from spinning, weaving and manufacture of garments. But, emergence of intense competition, especially from China, India's advantages in the textile sector may not be adequate. Accordingly, the Government is encouraging the industry in many ways through cost cutting measures, upgrading of technology, favourable tax measures etc.

- **Jute industry-** The jute industry was started in 1885. Its importance to the economy lies in its capacity to earn foreign exchange. Currently, India is ranked one in the jute producing countries of the world. Besides giving employment, a huge number of people in India rely on jute cultivation to derive their livelihood. However, the acute shortage of raw jute was seen since independence and as such intensive and extensive strategies were undertaken in the first two plans inorder to fill the gap between production and demand for raw jute. But the production of jute textile was stagnant for many years despite the government initiatives. The industry is now modernising its post-spinning equipment by new high speed machines and the installation of broadlooms for the manufacture of carpet backing. Discovery of new uses and new products is the strategy of development of the jute industry. Some of the specialities are cotton bagging, jute tarpaulins, paper lined hessian, jute carpet and jute webbing. With an aim to promote the export of jute

goods, the Government of India had taken some short measures like continuation of Cash Compensatory Support (CCS) scheme and permission to Jute Corporation of India to import raw jute to meet the scarcities. Such measures helped in boosting the jute exports to Soviet Union, Japan and USA to certain extent.

Before Independence India enjoyed a monopoly in raw jute and manufacturers and the owners of jute mill exploited this monopoly position by charging high prices in the international market. The Government too joined by imposing high export duties. This resulted in the discovery and use of synthetic substitutes to jute. The Indian jute industry is constrained by competitionfrom synthetic substitutes in domestic as well as international markets and competition from rival producing countries. Indian jute industry faces very stiff competition from new producers like Bangladesh, Philippines, Japan and Brazil. A whole range of rival packaging materials has been introduced like paper and cloth which offer stiff competition to jute goods.

- **Sugar industry-** India has emerged as one of the major sugar producing countries of the world. Currently, India is ranked second in sugar production in the world next to Brazil. Sugar industry is the second largest agro based industry of India. Sugarcane is an important source of excise duty for the Central Government. However being an agro-based industry, its output depends upon the characteristic of the monsoons. Moreover, the output of cane is influenced to a great extent by the prices of sugarcane- industry's main raw material which in turn depend upon the prices of competing food crops on one hand and the cane prices fixed by the Government on the other. The output of sugar is also influenced greatly by the relationship between cane prices and *gur* prices. The low yield of sugarcane, short crushing season, unsatisfactory location of the industry in U.P. and Bihar and inadequate supply of cane—all these create problems of production of sugar in India. Besides, Indian sugar

factories have low milling efficiency and recovery of sugar from sugarcane is very low. One reason for that is the uneconomic character of many of the sugar mills. Further, Indian sugar mills do not have sugar plantations of their own (as in the case of West Indies) and hence do not have control over the quantity and quality of sugarcane supplied by the innumerable cane growers.

The Sugar Development Fund was set up in 1982 under the Sugar Cess Act and is funded by transfer of proceeds of sugar cess imposed at the rate of Rs. 14 per quintal on sugar produced by all sugar factories. The Fund is utilised for advancing loans at concessional rate of interest for the rehabilitation and modernisation of sugar industry and for development of sugarcane in the sugar factory area. The Sugar Development Fund makes grants for undertaking research projects for development of sugar industry. The Fund is also used to defray expenditure for the purpose of building up and maintenance of buffer stocks of sugar with a view to stabilising its price.

- **Cement industry-** The foundation of a stable Indian cement industry was laid in 1914 when the Indian Cement Company Ltd. manufactured cement at Porbundar in Gujarat. India is the second largest cement producer in the world and accounted for over 8 per centof the global installed capacity as of 2019. According to Indian Cement Industries Analysis report, India's overall cement production capacity was nearly 545 million tonnes (MT) in FY20. Of the total capacity, 98 per cent lies with the private sector and the rest with public sector. The top 20 companies account for around 70 per cent of the total cement production in India. As India has a high quantity and quality of limestone deposits through-out the country, the cement industry promises huge potential for growth. A total of 210 large cement plants account for a combined installed capacity of 410 MT in the country, whereas, 350 mini cement plants make up for the

rest. Of the total 210 large cement plants in India, 77 are in the states of Andhra Pradesh, Rajasthan, and Tamil Nadu. Sale of cement in India stood at Rs 63,771 crore (US$ 9.05 billion) in FY20. India's export of cement, clinker and asbestos increased at a CAGR of 6.44 per cent between FY16-FY19. In FY20 (till January 2020), it reached US$ 1.66 billion.

In no other industry of India is there greater centralisation of ownership and control than in the cement industry. The public sector, the A.C.C., the Dalmia and the Birlas control bulk of the cement units. In recent years, mergers and acquisitions have been quite significant in the cement industry. The industry is well diversified over all the States of India. Since the manufacture of cement requires materials like limestone or chalk, clay and gypsum, the industry has a tendency to be attracted at the point of minimum transportation costs in relation to raw materials. As late as 1980, cement factories were largely concentrated in the southern and western regions of the country. Andhra Pradesh is the largest cement producing state in India.

There has been huge increase in the demand for cement in house construction, road construction, etc. There is great scope for increase in export of cement. The industry has tremendous potential for development as limestone of excellent quality is found almost throughout the country. However, the major problems faced by the cement industry in recent years include inadequate and irregular supply of coal mainly due to poor availability of rail wagons, increase in coal prices following partial deregulation, inadequate production as compared to its demand, cost escalation and rigid prices, unrealistic distribution policies by the Government that proved to be ineffective and poor quality of coal and frequent power cuts in major cement producing states like Rajasthan , Andhra Pradesh, Karnataka , Madhya Pradesh, Gujarat and Kerala. As such, in recent years, the Government of India has introduced both direct and indirect encouragement to the cement industry. The indirect benefits

have been in the form of demand push by giving priority to infrastructure and housing sectors. Besides, imports of cement are made unviable by the Government and there is no fear of dumping of foreign cement in India.

Apart from the above mentioned industries, the paper industry, petrochemical industry and automobile industry of India has contributions to the economic growth of the nation.

6.4.2 Information Technology and Knowledge Economy

Information Technology(IT) is the industry through which the use of computers and other supporting equipment helps in the spread of knowledge. The term information technology includes computers and communication technology along with associated software. Hanna N and Dugonjic (1995), therefore, are of the view that in IT Industry, "on the supply side are computer hardware and software, telecommunications equipment, and micro-electronics-based industries. On the demand side are applications of IT and all economic sectors." IT for some time was used as synonymous to computers. But with the rapid advancement in various information delivery systems such as Radio, TV, Telephone, Newspapers, Fax and of course Computers and Computer Networks, information technology refers to the entire gamut of media and devices used to transmit and process information for use by various target groups in the society. IT has, therefore, been rightly termed as Information and Communication Revolution.

Information has become an important and distinct input in production. Thus, along with three sector model of primary, secondary and tertiary industries, a fourth sector information-related industry has emerged. Information is, therefore, used as a raw material of knowledge just as iron is a raw material for machinery. According to Low (2000), "The activities of generating, processing, transmitting, disseminating, storing, archiving and retrieving information constitute information industry." The information industry

has thus pervaded a wide range of industries, viz., manufacturing, education, entertainment, defence, trade, communications, etc. In the knowledge economy, the raw material that matters is intellectual rather than physical. Low, therefore, states: "The knowledge economy implies shift in the geographical centre from raw material and capital equipment to information and knowledge, especially in education and research centres and man-made brain industries. The knowledge economy depicts the automation of labour intensive manufacturing and service activities, as well as growth in new service industries such as health care, distance education, software production and multimedia entertainment." Information technology has integrated the world by the use of internet and the internet economy has become very powerful. The new knowledge economy is also creating high quality employment. It is reshaping the job market. Many of these jobs did not exist prior to 1994-95.

Although IT industry is a recent origin, it is spreading fast in India.Bengaluru is known as the Silicon Valley of India and contributes to more than 30 per cent of India's IT exports. Information technology is a major facilitator and catalyst for accelerating growth of the economy. It is, therefore, necessary to remove barriers on the path of growth of IT industry, businesses and services. The IT industry earns revenue from software, hardware, peripherals, maintenance and networking. These revenues are earned either in the domestic market or in the export market. The setting up of National Association of Software and Services Companies (NASSCOM) paved the way towards collection of data about growth of computer industry. The Information and Technology (IT) industry has a tremendous potential to generate foreign exchange earnings, high quality employment and also contribute to productivity in the rest of the economy. IT sector can benefit from international boom and also use IT in domestic economy to achieve higher level of efficiency. IT-enabled services like back-office operation, data entry jobs, medical transcription, insurance claim processing and content

development have a large employment potential. IT industry has a great future. To enable poor students to acquire computer education, the government should make adequate provision in the form of subsidies or charge differential fees. The government has a major role to play in expanding computer education to rural and remote areas in the country.

The IT industry helps in Outsourcing, which implies obtaining goods or services by contract from an outside source. Firms resort to outsourcing within the country as well. Producers of cars do not produce all the parts within the firm, but may outsource some parts from the producers who have specialised in them. This helps firms to cut costs. In the information technology (IT) sector, outsourcing has acquired an international dimension. US firms find it more profitable to contract IT software and services in developing countries like India and China. The costs for these services in developing countries are much less than in the developed world.



CHECK YOUR PROGRESS

Q 4: What is information technology industry?

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Q 5: Define knowledge economy.

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6.4.3 Small Scale Enterprises

A significant feature of the Indian economy since Independence is the rapid growth of the small industry sector. In the Industrial Policy Resolutions of 1948 and 1956, the small sector was given special role for creating additional employment with low capital investment. A new thrust was given in favour of small units by the Industrial Policy Statement of 1977. A common classification is between traditional small industries and modern small industries. Traditional

small industries include khadi and handloom, village industries, handicrafts, sericulture, coir, etc. Modern small-scale industries produce wide range of goods from comparatively simple items to sophisticated products such as television sets; electronics control system, various engineering products, particularly as ancillaries to the large industries. The traditional small industries are highly labour-intensive, while the modern small-scale units make use of highly sophisticated machinery and equipment.

The role of micro, small and medium enterprises (MSMEs) in the economic and social development of the country is well established. The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. However, it is seen that MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. Cutting across all sections of production and services, MSME sector is truly a strategic asset for the economy of the country. On one hand, we have the village and rural industries including Khadi industry. Location wise, they are primarily in the rural landscape and provide an important ingredient of the local economic eco-system. In a significant number, they also are inter-related and inter-dependent on the agricultural/ horticultural/other forest and non-forest produce. It adds wealth to the local economy and at the same time provides major employment and in the long run acts, as a measure against rural to urban migration. The challenge here is to provide grass-root and affordable technologies and ensure, at least primary processing at the village/ cluster level to add value and reduce the costs of logistics. With the increase of educated youth power at the village level, the second challenge is to train them to set up their own rural level enterprises

and encourage them through policy as well as fiscal instruments. Diverting unproductive labour forces from agriculture sector to productive enterprises would add to rural economy and simultaneously reduce the disguised unemployment in agricultural sector.

Small enterprises tend to get handicapped in comparison with larger units by an inequitable allocation system for scarce raw materials and imported components, lack of provision of credit and finance; low technical skill and managerial ability; and lack of marketing contracts. Hence, it is essential to develop an overall approach to remove these disabilities so as to strengthen their competitive position.

6.5 INDUSTRIALSICKNESS IN INDIA

The Sick Industrial Companies (Special provision) Act, 1985 defines, "An industrial unit (not registered for less than seven years) as sick if it has incurred cash losses for the current and preceding year equal to or exceeding its net worth". A sick unit has been regarded as a unit which does not perform its primary functions- production, sales, and collection of debts in the normal way for reasons beyond the control of the management. A persistent irregularity in working capital advances (not on account of inadequacy of limits) for a period of 12 to 18 months or stoppage of production for a sufficiently long period of time can lead to a unit's sickness. Causes of industrial sickness are usually divided into two categories- internal causes and external causes. The external factors originate outside the unit and therefore, are not under the control of the unit such as power cuts, demand, recession, erratic availability of inputs, government policies, etc. On the other hand, the internal factors originate within the unit and can therefore be said to be under the control of the unit such as production, management, marketing and finance.

A large number of textile manufacturing units had problems of management when they were taken over by the Central Government under the Cotton Textile Companies Management of Undertakings and Liquidation

or Reconstruction Act, 1967. Such taking over was necessitated with a view to providing effective management as the units in a particular industry were not capable to cope with situation arising out of recession. The situation affected the traditional industries, viz. engineering, textile, jute and a few others. There were political uncertainties, inter-union rivalries, besides scarcity of critical raw materials resulting in continuous losses from year to year. At this juncture the Government of India as also the State Governments became anxious, as the closure of the industrial concerns led to widespread unemployment and rendered the productive assets idle. Besides, a large number of industrial units suffered from underutilisation of capacity and were threatened with closure. It was necessary to extend other forms of assistance and support which the existing commercial banks and other financial institutions, being otherwise engaged in various developmental activities, could not undertake.

The Industrial Reconstruction Corporation of India (IRCI) was thus born in April 1971 and was primarily assigned the task of extending assistance to sick and closed concerns in and around Calcutta. Setting up of IRCI was unique in the sense that, in the past no financial institution had any experience to deal with the sick industrial concerns, in as much as the handling the situation was distinct from usual norm of lending. The 1980s was a decade of small industry (SSI) sickness. In August 1984, through a Parliamentary Act, the Industrial Reconstruction Corporation of India (IRCI) was converted into a statutory body called the Industrial Reconstruction Bank of India (IRBI). This new bank has been established with a capital base of Rs. 50 crores which could go up to Rs. 200 crores, for the purpose of rehabilitating and reconstructing ailing industrial concerns.The pre-reform period witnessed a massive shakeout in the SSI sector, which dominated the scenario with its high growth rate both in terms of number of units and amount blocked. The liberalisation policy of India initiated in 1991 was in part a response to the growing industrial sickness during the 1980s.During the early years of reform, the policy shift livedup to the expectations of policy-makers and the incidence ofsickness registered a drastic decline, particularly in small-scaleindustry (SSI). However, this declining trend was reversed

in1997, when recession hit the economy. More than the SSIsector, the recession battered the large- and medium-scale industry (non-SSI sector). The government then prepared for a majoroverhaul of the rules and regulations regarding industrialsickness. The Sick Industrial Companies Act of 1985 (SICA),which provided the legal framework for the rehabilitationwinding up of sick non-SSI units, is going to be repealed.



CHECK YOUR PROGRESS

Q 6: Define industrial sickness.

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Q 7: What are the causes behind industrial sickness?

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6.6 DISINVESTMENT

Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets.The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources.Disinvestment is the process of privatisation. Since the beginning of 1980s, the functioning of the public sector began to be questioned. Since a large number of public enterprises incurred losses year after year, the question of privatisation of the public sector was debated.

For the initial four decades after Independence, India followed a path of development in which the public sector was expected to be the engine of growth. But the public sector overgrew itself and its shortcomings started manifesting in low capacity utilisation and low efficiency due to over manning, low work ethics, over capitalisation due to substantial time and cost overruns, inability to innovate, take quick and timely decisions, large interference in decision making process etc. Hence, a decision was taken in 1991 to follow the path of Disinvestment. The change process in India began in the year

1991-92, when 31 selected PSUs were disinvested. The Industrial Policy Statement of 24th July 1991 stated that the government would divest part of its holdings in selected Public Sector Enterprises (PSEs), but did not place any cap on the extent of disinvestment. The objective for disinvestment was stated to be to provide further market discipline to the performance of public enterprises. In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advice, supervise, monitor and publicize gradual disinvestment of Indian PSUs. However, the Disinvestment Commission ceased to exist in May 2004. The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment in September, 2001. From 27th May, 2004, the Department of Disinvestment was brought under the Ministry of Finance. The Department of Disinvestment has been renamed as Department of Investment and Public Asset Management (DIPAM) from 14th April, 2016 which has been made the nodal department for the strategic stake sale in the Public Sector Undertakings (PSUs). The National Investment Fund (NIF) was constituted in November, 2005, into which the proceeds from disinvestment of Central Public Sector Enterprises were to be channelized.

Disinvestment is not only beneficial for the firm but also for the government since government gets money to cover their fiscal imbalance and can focus more on core operations like education, healthcare, infrastructure, poverty eradication, employment, defence and other activities which ultimately help the country in the better way. Also even if the money from disinvestment is not used to reduce fiscal deficit, it can be used to finance core operations of government which will benefit the tax payers in long run since less tax money would be required for these purposes.



CHECK YOUR PROGRESS

Q 8: Define disinvestment.

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6.7 LETS US SUM UP

- Industrialisation is the process by which the centre of gravity of an economy shifts from agriculture to industry with the use of technology and modern methods. It results in improvement in infrastructure, urbanisation, economic growth, employment opportunities and standard of living.
- In India, with the increase in population, the agriculture sector has been suffering from diminishing return which is instrumental in creating the trap of poverty. In order to break this vicious cycle, the essential precondition for development is an all-round rise in low productivity occupations to high productivity occupations. In general, the net value of output per person is higher in industry than in agriculture. In industry, the scope for internal as well as external economies is greater than in other sectors and certainly greater than in agriculture. As industrialisation proceeds, it leads to the creation of economic surplus in the hands of industrial producers for further investment.
- Underdeveloped countries should consider a pattern of industrialisation suitable to their economic conditions. It has been suggested that the pattern of industrialisation in under-developed countries should be guided primarily by considerations arising from the relative scarcity of capital. Since labour is relatively plentiful and capital scarce, the development of labour intensive consumer goods seems quite legitimate.
- The planning process initiated in our country in the year 1951. The Government of India recognized the significant contribution industrialisation could make to the development process and thereby emphasized on improving the industrial sectors in the five year plans.
- A major achievement in the industrial sector has been the diversification of India's capability. India has attained self sufficiency

in almost all consumer goods and the growth of capital goods has also been impressive.

- Information Technology (IT) is the industry which through the use of computers and other supporting equipment helps in the spread of knowledge. The term information technology includes computers and communication technology along with associated software.
- According to Low (2000), "The activities of generating, processing, transmitting, disseminating, storing, archiving and retrieving information constitute information industry."
- The knowledge economy depicts the automation of labour intensive manufacturing and service activities, as well as growth in new service industries such as health care, distance education, software production and multimedia entertainment.
- The IT industry helps in Outsourcing, which implies obtaining goods or services by contract from an outside source.
- Traditional small industries include khadi and handloom, village industries, handicrafts, sericulture, coir, etc. Modern small-scale industries produce wide range of goods from comparatively simple items to sophisticated products such as television sets; electronics control system, various engineering products, particularly as ancillaries to the large industries. The traditional small industries are highly labour-intensive, while the modern small-scale units make use of highly sophisticated machinery and equipment.
- The Sick Industrial Companies (Special provision) Act, 1985 defines, "An industrial unit (not registered for less than seven years) as sick if it has incurred cash losses for the current and preceding year equal to or exceeding its net worth". A sick unit has been regarded as a unit which does not perform its primary functions- production, sales, and collection of debts in the normal way for reasons beyond the control of the management.
- Causes of industrial sickness are usually divided into two categories- internal causes and external causes. The external factors originate outside the unit and therefore, are not under the control of the unit

such as power cuts, demand, recession, erratic availability of inputs, government policies, etc. On the other hand, the internal factors originate within the unit and can therefore be said to be under the control of the unit such as production, management, marketing and finance.

- Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets. The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources.



6.8 FURTHER READING

1. Datt, G. & Mahajan, A. (2020). *Datt&Sundharam's Indian Economy*. New Delhi: S. Chand & Co. Ltd.
2. Mishra, P. K. &Puri, V. K. (2020). *Indian Economy*. New Delhi: Himalaya Publishing House.



6.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No. 1: Industrialisation is the process by which the centre of gravity of an economy shifts from agriculture to industry with the use of technology and modern methods. It results in improvement in infrastructure, urbanisation, economic growth, employment opportunities and standard of living.

Ans to Q No 2: In India, with the increase in population, the agriculture sector has been suffering from diminishing return which further results in deepening poverty among the masses. In order to break this vicious cycle, we need industrialisation in order to bring about an all-round rise in low productivity occupations to high productivity occupations. The net value of output per person is higher in industry than in

agriculture. Moreover, the scope for internal as well as external economies is greater in industries than in other sectors and certainly greater than in agriculture.

Ans to Q No 3: The planning process initiated in our country from 1951.

Ans to Q No 4: Information Technology (IT) is the industry which uses computers and other supporting equipment to help in the spread of knowledge. The term information technology includes computers and communication technology along with associated software.

Ans to Q No 5: Information is used as a raw material of knowledge just as iron is a raw material for machinery. Thus, the knowledge economy implies shift in the geographical centre from raw material and capital equipment to information and knowledge, especially in education and research centres and man-made brain industries.

Ans to Q No 6: The Sick Industrial Companies (Special provision) Act, 1985 defines a sick industry as a unit which has incurred cash losses for the current and preceding year equal to or exceeding its net worth. An industrial unit has been regarded as a sick industry when it does not perform its primary functions of production, sales, and collection of debts in the normal way for reasons beyond the control of the management.

Ans to Q No 7: Causes of industrial sickness are usually divided into two categories- internal causes and external causes. The external factors originate outside the unit and therefore, are not under the control of the unit such as power cuts, demand, recession, erratic availability of inputs, government policies, etc. On the other hand, the internal factors originate within the unit and can therefore be said to be under the control of the unit such as production, management, marketing and finance.

Ans to Q No 8: Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets.



6.10 MODEL QUESTIONS

Q 1: What is industrialisation? Why do we need to give importance on industrialisation?

Q 2: Explain the pattern of industrialisation in the five year plans.

Q 3: Mention some industries having comparative advantage in India. Explain the challenges faced by these industries.

Q 4: Explain the information technology industry in India.

Q 5: Explain the scope of small sector enterprises in India.

Q 6: What is industrial sickness? Explain.

Q 7: Explain the process of disinvestment.

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UNIT 7: SOCIAL SECTOR

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Meaning, Importance and Major Issues of Social Sector

- 7.3.1 Importance of Social Sector
- 7.3.2 Major Issues Relating to Development and Management of Social Sector

7.4 Performance of Social Sector and Social Infrastructure

- 7.4.1 Education
- 7.4.2 Health
- 7.4.3 Housing

7.5 Recent Government Policies and Programmes in the Social Sector

- 7.5.1 Major Policies and Programmes in the Education Sector in India
- 7.5.2 Major Policies and Programmes in the Health Sector in India
- 7.5.3 Major Policies and Programmes in the Housing Sector in India

7.6 Let Us Sum Up

7.7 Further Reading

7.8 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the meaning, importance of social sector in an economy
- trace the major issues relating to the social sector in the Indian economy
- discuss the performance of the key social sectors, viz., education, health and housing

- discuss the major policies and programmes introduced in the social sectors like education, health and housing.

7.2 INTRODUCTION

Social sector plays an important role in the Indian economy. The important social sectors include education, health, housing, water and sanitation, social welfare and social protection etc. This unit shall be helpful in deriving an idea about the social sectors in India. In this unit, three major social sectors have been discussed: education, health and housing.

7.3 MEANING, IMPORTANCE AND MAJOR ISSUES OF SOCIAL SECTOR

For the several decades in the past, the governments in developed countries have tended to expand its function and role resulting in the emergence of the public sector. As is well known, the original role of government started from the very limited scope defined by Adam Smith that provides for only defence and the administration of justice. However, it is widely acknowledged that the government had begun to play an expanding role in providing public goods and services to maintain better conditions in the economy and society.

In providing public goods and services in a welfare state, social sector plays a significant role. The ultimate aim of the social sector is to achieve social development in the economy, which refers to fulfilling basic needs of the people.

7.3.1 Importance of Social Sector

The social sector such as education, health and medical care, water supply and sanitation, poverty alleviation, housing conditions etc. play a vital role in the overall development. Social sector may also refer to the value system entailing philanthropy, social business and social entrepreneurship. The liberalisation and consequent economic reforms have played a key role in the areas of social infrastructure and development. Important aspects of human development are now governed within the economic sphere marked by both market

principles and private philanthropy. Due to the rapidly globalising market coupled with the increasing need to ensure quality of life at the grassroots, policy makers in India are slowly but surely encouraging series of reforms in the social sector.

7.3.2 Major Issues relating to Development and Management of Social Sector

For inclusive growth in general and enhancing employment in particular, expenditure on social sector as a proportion to GDP becomes extremely important. Social sector pursues both social and economic goals, and engages in the delivery of social services for disadvantaged groups and communities both in urban or rural area. Economic Survey 2019-20 draws attention to social services which include, education, sports, art and culture; medical and public health, family welfare; water supply and sanitation; housing; urban development; the welfare of SCs, STs and OBCs, labour and labour welfare; social security and welfare, nutrition, relief on account of natural calamities etc.

Issues related to the development and management of Social Sector/ Services are:

- Issues related to coverage i.e. ensuring coverage of all sections of people without leaving anyone deserving.
- Issues related to equityi.e. ensuring provision according to peoples' need through participation of people
- Issues related to accessi.e. ensuring availability and affordability of social sector infrastructure and services to everyone. Here, awareness and technological innovation can play distinct role.
- Issues related to scaling up of the efforts to make the desired impart
- Issues related to creating employment opportunities in the
- Issues related to providing quality services along with the quantity, especially in healthcare and education

- Issues related to maintaining and sustaining the social sector over the period of time. This requires resources and also a defined system of regular monitoring.

7.4 PERFORMANCE OF SOCIAL SECTOR AND SOCIAL INFRASTRUCTURE

7.4.1 Education

There are reasons to believe that increased educational opportunity and achievement lead to social progress. Education can promote social progress in an economy keeping multiple aims ahead concerningeducational governance, educational institutions, educators, curriculum, and also pedagogy.

Education plays an empowering role in the society. To understand the connection between education and social progress, we distinguish among four distinct aims of education: *economic*, *civic*, *humanistic*, and *equity promotion*.Each of these goals can be understood by the following functions of education.

- Education develops productive skills, and this is valuable for the individual, to advance in the labour market and for society, to improve and maintain prosperity and compete in a globalised economy.
- Education develops civic skills, and this is valuable for the individual, to allow for meaningful participation in civil society and political life, and for society, to benefit from an informed and engaged citizenship.
- Education develops human talents and interests, and this is valuable for the individual, allowing for personal flourishing, and for society, since the expansion of knowledge and human achievement are valuable for their own sake.
- Education can be a vehicle for equity and greater social inclusion, or when absent, poorly delivered or unfairly distributed, a vehicle for injustice and greater social exclusion.

Education in India – Key Indicators

- 74.04 per cent of the Indian people are literate (82.14 per cent of male and 65.46 per cent of females) according to Census of India 2011.
- While close to 90 per cent children in the 6-11 age group are formally enrolled in primary schools, nearly 40 per cent drop out at the primary stage. The enrolment ratios of Scheduled Caste (SC), Scheduled Tribe (ST) and Muslim children (especially girls) still remain far lower than the national average.
- 1.36 crore (40 per cent) children in the age group of 6-14 years remained out of school as on March 2005, even after four years of the launch of SarvaShikshaAbhiyan (SSA).
- Half of India's schools have a leaking roof or no water supply, 35 per cent have no black board or furniture, and close to 90 per cent have no functioning toilets.
- The official teacher-student norm is 1:40, yet in some states the average teacher student ratio continues to be one teacher per 80 children. The prescribed norm of a school being available within the radius of one kilometre is still not being fulfilled.
- Malnutrition, hunger and poor health remain core problems, which comprehensively affect attendance and performance in classes. The added burden of home chores and child labour still influence a large number of children, especially girls, to drop out of school.

7.4.2 Health

The World Health Organization (WHO) defines health systems as all organisations, people, and actions whose primary intent is to promote, restore, or maintain health. This includes efforts to influence determinants of health as well as more direct preventive and curative activities. WHO describes health systems as onethat comprises six interrelated building blocks viz. service delivery; fielding a well-performing healthcare workforce; maintaining a

functioning health information system; providing access to essential medical products, vaccines, and technologies; provision of adequate financing; and leadership and governance.

In order to explain the relationship between health and economic growth, it is necessary to understand the concept of health in a broad sense. Health is not only the absence of illnesses; it is also the ability of people to develop to their potential during their entire lives. In that sense, health is an asset individuals possess, which has intrinsic value (being healthy is a very important source of well-being) as well as instrumental value. In instrumental terms, health impacts economic growth in a number of ways. For example, it reduces production losses due to worker illness, it increases the productivity of adult as a result of better nutrition, and it lowers absenteeism rates and improves learning among school children. Health also allows for the use of natural resources that used to be totally or partially inaccessible due to illnesses. Finally, it permits the different use of financial resources that might normally be destined for the treatment of ill health. In sum, health affects economic growth directly through enhancing labour productivity and reducing the economic burden of illnesses, for example. Health also indirectly impacts economic growth since aspects such as child health affect the future income of people through the impact health has on education. This indirect impact is easier to understand if it is observed on a family level. When a family is healthy, both the mother and the father can hold a job, earn money which allows them to feed, protect and send their children to school. Healthy and well-nourished children will perform better in school and a better performance in school will positively impact their future income.

The social case: Good health is an important enabler of positive family and community life. It enables people to participate in activity and contribute to the society in different ways.

- A family member in good health is better able to build foundations that support other family members to thrive. For example, a

parent provides emotional support for a child. On the other hand, health challenges such as childhood obesity and poor mental health can negatively affect family life and people's ability to form and maintain good quality relationships.

- Having good health enables people to take part in civic society, including clubs and social groups, while poor health may hinder participation. In turn, engagement with communities can have a positive effect on social cohesion.

The economic case: Where a person stands in the labour market – such as whether they have a job that pays enough to live on – is the key to their financial security and wellbeing. Yet that person's wellbeing throughout their life is also crucial to employers, businesses and the economy as a whole. The potential economic benefits of ensuring the best possible health of the population are huge. A healthy population can be good for the economy because:

- healthier children have better educational outcomes, which positively impact productivity in adulthood
- a healthy working-age population can lead to economic prosperity by being more engaged and productive
- a healthy person is enabled to continue to work as they get older, whereas poor health can lead to forced early retirement.

Health in India – Key Indicators

- India accounts for more than 20 per cent of global maternal and child deaths, and the highest maternal death toll in the world estimated at 138,000.
- United Nations calculations show that India's spending on public health provision, ashare of GDP is the 18th lowest in the world.
- Nearly 67 per cent of the population in India do not have access to essential medicines.
- As per the Sample Registration System (SRS) Data, 2020 India's Infant Mortality Rate (IMR) is 32 (rural 36 and urban 23) per 1000 live births. The highest IMR is recorded in Madhya Pradesh as 48 (rural 52, urban 36) while the lowest is recorded

in Kerala as 7 (rural 9 and urban 5). The IMR in Assam is found to be 41 per 1000 live births (rural 44, urban 20).

- Maternal Mortality Rate (MMR) i.e. proportion of maternal deaths per one lakh live births, is 113 (SRS, Special Bulletin on MMR 2016-18) and India accounts forthe largest number of maternal deaths in the world. Assam records the highest MMR with 215 while Kerala has the lowest MMR at 43.
- 79 per cent of the children between the age of 6-35 months, and more than 50 per cent of women, areanaemic, and 40 per cent of the maternal deaths during pregnancy and child-birth relate toanaemia and under-nutrition.
- There are 585 rural hospitals compared to 985 urban hospitals in the country. Outof the6,39,729 doctors registered in India, only 67,576 are in the public sector.
- The ratio of hospital beds to population in rural areas is almost fifteen times lower thanthat for urban areas.

7.4.3 Housing

Housing is one of the most important components of life giving shelter, safety and warmth, as well as providing a place to rest.

The need for housing is not only one of the basic human facilities, but also the indicator of living standard of the population. Today it is a topical issue that housing has to be comfortable, economical and reasonably maintainable, as well as architectonically expressive and compliant with the environment.

Proper housing provides children in low-income households the opportunity to improve and succeed academically, maintain their health and well-being, and achieve financial success in life, while reducing costs to society in the long term. When families can afford rent, everyone benefits.

Housing provides shelter, obviously, but it also serves other needs in both developed and developing countries. Housing is a location for business and provides other intangible emotional and cultural benefits.

The role of housing is multi-faceted in the progress of a household as housing affects access to infrastructure, employment, health, education, poverty levels and many other indicators. As India seeks to improve its living conditions on a large scale, and access to affordable housing becomes a major stumbling block for its citizens. Current urban housing shortage in India accounts to 18.78 million units in 2017. Over 95 per cent of those affected via acute housing shortage belong to the Economically Weaker Section (EWS) and Lower Income Group (LIG). India is expected to gain a staggering 218 million people in its urban areas from 2011 to 2030. Government intervention into housing is driven by a number of different rationales, ranging from human rights to fundamentals of economic growth in terms of housing.

The extent of government support for housing ranges from a comprehensive approach, such as the wholesale provision of public housing to a more hands-off approach of playing a facilitating role in market-based activities. The central government, state governments and the local governments all thrive to bring the urban poor in the mainstream by following inclusive planning. The central government as well as state governments make provisions for mitigating the housing shortage by providing various direct and indirect financial options. After trying out various options many states in the country now want to reach the goal of affordable housing for all through Public Private Partnership, for which again different states have set of models, polices and schemes specified for EWS/LIG.

7.5 RECENT GOVERNMENT POLICIES AND PROGRAMMES IN THE SOCIAL SECTOR

7.5.1 Major Policies and Programmes in the Education Sector in India

After independence India adopted the Constitution in 1950. Education became the responsibility of both state and central governments.

Thus, in independent India education policies have been closely influenced by the Education Commissions that were set up from time-to-time. In the following section highlights of the recommendations of these important Commissions have been presented.

University Education Commission (1948): The first Commission to be appointed in independent India was the University Education Commission of 1948, under the chairmanship of Dr. S. Radhakrishnan, to report on the status of Indian university education and suggest improvements and extensions that would be desirable to suit the present and future requirements of the country. This Commission aimed at creating universities as a provider of knowledge and wisdom for a comprehensive national as well as personal development. It considered university education as a pivotal step for higher level of learning. The main goal of establishing a university in a particular region was to make higher education accessible to all sections of society, irrespective of region, caste, gender and region. This report proposed the re-construction of education system in tune with the vision of the Indian constitution.

Secondary Education Commission (1952): The Secondary Education Commission was set up under the chairmanship of Dr. A. LakshmanaswamiMudaliar in 1952. Also known as Mudaliar Commission, the Commission suggested diversification of high school courses and the establishment of multipurpose high schools as well as technical schools following a uniform pattern of education throughout India. Though the recommendations of the Commission were noteworthy, yet they were criticised for lacking freshness, being replication of old policies and offering impractical suggestions. Many however pointed out that the Commission also did lay proper emphasis on women's education.

Indian Education Commission (1964-66): The Mudaliar Commission was followed by the appointment of the Indian Education Commission under the chairmanship of D. S. Kothari.

Popularly known as the Kothari Commission, it was entrusted with the task of dealing with all aspects and sectors of education and to advise the Government on the evolution of a National System of Education. It is in accordance with the recommendations of this Commission that the National Educational Policy of 1968 was formulated. In the Commission's view education had to work as a powerful instrument of social, economic and political change. Therefore, educational objectives have to be related to long term national aspirations. If the change is to be achieved without any violent revolution, the only instrument, the Commission noted was education.

Further, the Commission reviewed the development of education in India in the modern period and particularly since Independence and came to the conclusion that Indian education needs a drastic reconstruction, almost a revolution, to realise the constitutional goals and to meet the various problems facing the country in different sectors.

National Policy on Education (1968): In 1968 the Government of India had formulated the National Policy on Education, in response to therecommendations of the Kothari Commission. The National Policy on Education sought 'total reformation' and aimed at extending the prospects of education to all sections of the society to accomplish the goal of harmony and integration. The policy suggested the provision of compulsory education to children in the 6-14 years age group as proposed in the Indian Constitution. Further, it also recommended that regional languages must be encouraged for being used in secondary schools. The Commission was of the opinion that English had to be the medium of instruction in schools and it considered Hindi as the national language. The National Policy on Education also promoted the development of Sanskrit, which was the symbol of India's cultural heritage. This policy recommendedto the Government of India that 6 percent of the national income be spent on education.

National Policy on Education (1986): National Policy on Education (1986) stressed on the provision of fellowships for the poor, imparting adult education, recruiting teachers from oppressed groups and also developing new schools and colleges. The policy focused more on providing primary education to students. Further, it also gave importance for the establishment of open universities besetting up the Indira Gandhi National Open University (IGNOU) at Delhi. The policy had recommended that education be given to rural people in consonance with the Gandhian philosophy. It also set the stage for the emergence of information technology in education, besides opening up the technical education sector in a rather big way to private enterprise.

National Policy on Education (1992): The Government of India had set up a commission under the chairmanship of AcharayaRamamurti in1990 to reassess the impact of the provisions of the NPE, 1986 and also to give recommendations. Later, under the leadership of N. Janadhana Reddy the Central Advisory Board of Education was set up. This Board considered some modifications in NPE. The report of the committee had been submitted in 1992 and it came to be known as the National Programme of Action of 1992.The National Policy on Education – 1992 stressed on promotion of development and strengthening national integration. The National Policy on Education (1992) emphasised the need for greater transformation of the Indian educational system, with a focus on quality enhancement. The policy also stressed on developing moral values among students and bringing education closer to life.

SarvaShikshaAbhiyan (SSA): SarvaShikshaAbhiyan or The Education for All Movement is a central government programme which aimed at universalising elementary education in a time bound manner. This programme hasbeen in operation since 2000-2001. However, its origin dates back to 1993-94, when the District Primary Education Programme (DPEP) was launched. DPEP had basically

aimed at fulfilling the goal of universalising primary education. SSA proposed that the education system must be developed in consonance with contemporary societal needs.Availability of infrastructure is fundamental in providing access to education.

Under the SSAscheme between 2002-03 and 2008-09, 1,48,492 new primary schools and 1,33,277 new upper primary schools were opened and an additional 8,00,000 classrooms were built, significantly expanding access to the elementary level. Further, the Mission also motivated increased efforts to develop, fund and implement specific strategies to reach deprived urban children, particularly in the35 cities with more than one million inhabitants.

Right to Education Act (2009): Right to Education Act or The Right of Children to Free and Compulsory Education Act ensures free and compulsory education for children who are in the age group of 6 to 14years. The Act came into existence on 1st April, 2010 and since then India became one of the 135countries to make education a fundamental right of every child.

Further, this Act specifies that all private schools have to reserve 25 percent of seats to children of socially disadvantaged groups. It also laid down that no child shall be held back, expelled or required to pass a board examination until the completion of elementary education. For school dropouts there is a special training, given under this Act. Since education is a concurrent issue in the Indian Constitution, the responsibilities of implementation of this Act have been distributed among centre, state and local government bodies.The central government bears 70 percent of the expenses of the implementation of this Act and 30 percent are provided by state government.

Besides these centrally sponsored education policies, state governments have also launched many support schemes such as for example, the Midday Meal Scheme, Bicycle to Girls Students Scheme, establishment ofpre and post-matric hostels to enhance access and utilisation of educational opportunities. Almost every

state government has set up committees and commissions to recommend policy changes in the field of education, to make it more 'inclusive', 'quality conscious' and 'attune itself to meet globally accepted standards'. But at the implementation level, there have been many shortfalls which need to be addressed in future policies.

7.5.2 Major Policies and Programmes in the Health Sector in India

Some major initiatives undertaken by the Govt which aim at providing accessible, cost-friendly and quality healthcare services to the majority of the citizens along with providing a holistic view of the health system in the country are:

Pradhan Mantri Jan ArogyaYojana (PMJAY) was launched in September 2018, aiming to provide health insurance worth Rs 500,000 to over 100 million families every year, and is already implemented in several states. In August 2018, the Government of India approved Ayushman Bharat, the National Health Protection Mission as a Centrally Sponsored Scheme contributed by both centre and state govt. It aims at covering over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage up to 5 lakh rupees per family per year for secondary and tertiarycare hospitalisation.

Under the Ayushman Bharat program, nearly 1.5 lakh primary health centres will be transformed as health and wellness centres by 2022. These centres will be equipped to provide treatment and care for several diseases such as high blood pressure, diabetes, cancer, and old age-related illnesses.

Another important mission undertaken in full throttle is Mission Indradhanush (launched in December 2014) which aims to achieve at least 90per cent full immunisation coverage of India and sustain the same by the year 2020. The ultimate goal here is to ensure full immunisation with all available vaccines for children up to two years of age and pregnant women in both rural and urban areas.

It is also important to highlight recent developments such as the decline in India's maternal mortality rate (MMR), which dropped by 22 per cent, to 130 (per lakh of live births), also referred to as a 'groundbreaking' decline by WHO. The Sustainable Development Goal target for MMR is 70, by 2030 which India expects to achieve within the next 3 years. WHO also recently commended India over its achievement of curbing the overall malaria score, thanks to a significant drop in Malaria in the state of Odisha.

These are all major positives to consider in a country with more than a billion citizens, where accessible health care in remote areas and effective diagnosis is of utmost importance. Ministry of Health and Family Welfare has been given a push in terms of money allocation in recent years.

7.5.3 Major Policies and Programmes in the Housing Sector in India

Housing policies in India have come a long way since the 1950s; initially the policies were welfare centric which later on dwelled to be market-centric policies. The role of government has also seen a shift from being provider to being the facilitator of housing. Dividing the policies in India into four phases as the first phase comprising of first two decades (1950s to 1970s) where the policies were taking shape that focused more upon integrating all sections of the society. The second phase (1970s to mid-1980s), shifting the focus to economically weaker section (EWS) of the society. The third phase (1980s to 2000s), focusing more on physical provision of housing as well as housing finance mechanisms. The last phase (2000s to present) shifting the role of government as facilitator of housing.

It is important to focus on housing policies in the last phase i.e., from 2000 to present. The major reform came with the onset of Jawaharlal Nehru Urban Renewal Mission (JNNURM), 2005. The program was launched with an objective to improve state of infrastructure in cities. The two sub-missions under JNNURM are

Basic Services for Urban Poor (BSUP) designed to upgrade and improve the existing conditions of slums by giving them access to basic amenities like water and sanitation, health care and education etc. The second part is Integrated Housing and Slum Development Program (IHSDP), designed to tackle the poor housing for urban slum dwellers as per 2001 Census.

Rajiv AwasYojna (RAY), launched was in 2011 with a vision to 'create a slum-free India'. Under the scheme, central support up-to 25 percent of cost of civic infrastructure (external and internal), whichever is lower was provided. The first component of RAY involved in-situ slum redevelopment of existing slums and second proposed to curb creation of slums.The Affordable Housing in Partnership (AHP) a part of the second component of RAY made provision for public private partnership for affordable housing. The state's implementing agencies were to make effort to ensure that at least 25 percent of the total built up/constructed area of the projects proposed is for EWS/LIG units. To facilitate private investment in this sector, Government had allowed 100 per cent FDI in housing sector and the budget (2014-15) has gone one step further in this direction by listing slum redevelopment as an accepted component under the Corporate social responsibility (CSR)4 to attract more private funds (GOI,2014-15).

Pradhan MantriAwasYojna- Urban launched by the BJP government in 2015 envisages 'Housing for All' by 2022. The flagship mission under the Ministry of Housing &Urban Affairs (MoHUA), Government of India was launched in 2005 for a seven year period to encourage cities to initiate steps in improving civic services and improve housing.Housing scheme launched by central government in name of Prime Minister to achieve Transformative, Inclusive and Sustainable development through planning, development and reforms. The Mission compromises of four components:

- In situ slum redevelopment by using land as a resource. Slums located on government land/ ULB land or private land are

covered under in-situ slum redevelopment for providing houses to all eligible slum dwellers.

- Promotion of Affordable Housing through credit linked subsidy for beneficiaries include economically weaker section (EWS), low-income groups (LIGs) and Middle Income Groups (MIGs).
- Affordable Housing in Partnership with Public & Private sectors, where the private sector and public sector join together to produce the required housing stock.
- Subsidy for beneficiary-led individual house construction / enhancement for families who want to construct their own house or make addition to the existing housing unit.Under each of the components eligibility, income groups, ceiling for subsidy, minimum construction, unit area and other conditions vary so as to benefit large number of people.



7.6 LET US SUM UP

- Social sector plays an important role in the Indian economy. The important sectors that are included in the scope and purview of social sectors in India include: education, health, housing, water and sanitation, social welfare etc.
- For the several decades in the past, the government in any developed countries has tended to expand its function and role in the borderline zone between private and public sectors. As is well known, the original role of government started from the very limited scope of Adam Smith's "cheap government" that provides only defence and the administration of justice. However, it is widely acknowledged that the government had begun to play an important role in providing public goods and services to maintain better conditions in the economy and society.
- Social sector is an important sector for India's economy and includes several important components such as education, health and

medical care, water supply and sanitation, poverty alleviation, housing conditions etc. that play a vital contribution in human development.

- For inclusive growth and employment, expenditure on social services as a proportion of GDP and investment in social infrastructure is of paramount importance. Social sector pursues both social and economic goals and engages in the delivery of social services for disadvantaged groups and communities whether in urban or rural area.
- There are many reasons to believe that increased educational opportunity and achievement lead to social progress. Education can promote social progress in an economy keeping multiple aims ahead, and concerning – educational governance, educational institutions, educators, curriculum, and pedagogy
- In order to explain the relationship between health and economic growth, it is necessary to understand the concept of health in a broad sense. Health is not only the absence of illnesses; it is also the ability of people to develop to their potential during their entire lives. In that sense, health is an asset individuals possess, which has intrinsic value (being healthy is a very important source of well-being) as well as instrumental value.
- Where a person stands in the labour market – such as whether they have a job that pays enough to live on – is key to their financial security and wellbeing.
- Housing is one of the most important life components giving shelter, safety and warmth, as well as providing a place to rest.
- Housing provides shelter, obviously, but it also serves other needs in both developed and developing countries. Housing is a location for business and provides other intangible emotional and cultural benefits.
- After independence India adopted the Constitution in 1950. Education became the responsibility of both state and central governments.

- The first Commission to be appointed in independent India was the University Education Commission of 1948, under the chairmanship of Dr. S. Radhakrishnan, to report on the status of Indian university education and suggest improvements and extensions that would be desirable to suit the present and future requirements of the country.
- Housing policies in India have come a long way since the 1950s; initially the policies were welfare centric which later on dwelled to be economic-centric policies. The role of government has also seen a shift from being provider to being the facilitator of housing.



7.7 FURTHER READING

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2. Dhar, P.K. (2017). Indian Economy: Its Growing Dimensions. New Delhi: Kalyani Publishers
3. Kapila, U. (Ed.) (2020). Indian Economy: Performance and Policies. New Delhi: Academic Foundation
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7.8 MODEL QUESTIONS

Short Questions. Answer each question in about 150 words.

Q 1: Discuss the Meaning and Importance of Social Sector.

Q 2: Discuss some Major Issues Relating to Development and Management of Social Sector in India.

Long Questions. Answer each question in about 300-500 words.

Q 1: What has been the growth of the education sector in India since independence? Discuss.

Q 2: What has been the growth of the health sector in India since independence? Discuss.

Q 3: Discuss some of the recent policy measures initiated in the education sector.

Q 4: Discuss some of the recent policy measures initiated in the health sector.

Q 5: Discuss some of the recent policy measures initiated in the health sector.

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UNIT 8: THE ROLE OF THE SERVICE SECTOR IN THE INDIAN ECONOMY

UNIT STRUCTURE

8.1 Learning Objectives
8.2 Introduction
8.3 The Service Sector
8.4 The Growth Trend of the Service Sector in India
8.5 Recent Growth Trend of Major Service Sectors in India
8.5.1 Tourism including Hotels and Restaurants
8.5.2 Services Related to Transportation and Communication
8.5.3 Real Estate and Housing Services
8.5.4 IT-BPM Services
8.5.5 Construction Services
8.5.6 Banking Services
8.6 Changing Role of the Tertiary Sector in the Indian Economy
8.7 Major Issues Faced by the Service Sector
8.8 Suggestive Policy Measures
8.9 Let Us Sum Up
8.10 Further Reading
8.11 Answers to Check Your Progress
8.12 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- conceptualise the service sectors and point out its various components
- outline the importance of services sectors in Indian economy and discuss its changing role.
- describe the growing dimensions of various components of services sector.
- discuss the issues and challenges faced by services sector in India.

- put forward certain interventions required to addresses some challenges faced by the services sector in India and strengthen it for furthering its growth.

8.2 INTRODUCTION

If we carefully look at the growth trajectory of Indian economy, it is clear that India's present growth is service sector-led growth. Over the years, the share of services in Gross Domestic Product (GDP) of India has been rising consistently whereas the share of agriculture is sharply declining and industrial growth rate has remained more or less stagnant. For instance, between 1950-51 and 2013-14 the share of Agriculture in GDP has declined from 53% to 13.9% whereas the share of services sector has increased from nearly 30% in 1950-51 to 59.9% in 2013-14. Services sector though started growing since 1980-81, this phenomenon has become more pronounced after 1990-91 i.e. after liberalisation, privatisation and globalisation. In fact, since 2000-01, services sector triggered the growth momentum of Indian economy. Almost all sectors under the umbrella of "ServicesSector" viz. trade, hotels, transport & communication, financing, insurance, real estates, community, social and personal services registered considerable growth resulting in high growth performance in Indian economy. In this backdrop it is important to look into the significance and various dimensions of services sector in Indian economy.

8.3 THE SERVICE SECTOR

The service sector is the sector which provides services. In an economic sense, services are any functions or tasks that are performed for which there is a demand and hence a price determined in the relevant market. (Macmillan Dictionary of modern Economics). Services are also known as intangible goods. Services are consumed at the point of production and they are usually non-transferable. In the earlier time to few years back, the service sector was the less contributing sector to GDP of India and also the employment opportunity was low. This may be the reason behind the service sector is also name as tertiary sector (tertiary means in third place).

In the traditional economy, there are mainly three sectors: primary sectors, secondary and tertiary sector in the economy. Primary sector includes the activities related to agriculture and allied services, secondary sector includes industrial activities and the tertiary sector includes the services provided by trade, hotels and restaurants; transport storage and communication; financing, insurance, real estate, and business services; community, social and personal services. (As classification provided by National Accounts)



LET US KNOW

- Services are any functions or tasks that are performed for which there is a demand and hence a price determined in the relevant market.
- Services are non-transferable. There is no'arbitrages'i.e. the services cannot be purchasedand then resold at different price.
- In most developed countries, the service sector contributes the major portion of GDP and generates three times more employment than manufacturing sector.
- In Services sector, India world rank is 8thand GDP is $1500 billion. Contribution of Agriculture sector in Indian economy is much higher than world's average (6.4%). Contribution of Industry and Services sector is lower than world's average 30% for Industry sector and 63% for Services sector.
- Main reasons behind the growth of services include rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy.



CHECK YOUR PROGRESS

Q 1: What is meant by Services sector?

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Q 2: What is meant by the primary sector in India?

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8.4 THE GROWTH PATTERN OF THE SERVICE SECTOR IN INDIA IN THE POST-1991 PERIOD

Table 8.1 shows that over time, the share of services in GDP has increased while that ofagriculture has declined. In the last decade, the share of services surpassed the combined share of agriculture and industry making it the most important contributor to the country's output. For example, in fiscal year (FY) 2009, services accounted for 57.3 per cent of India's GDP which was less than that of countries such as the United Kingdom (UK) at78.4 per cent and the United States (US) at 78.2 per cent, but higher than that of the People's Republic of China (PRC) at 41.8 per cent.

Table 8.1: Average by Decade of the Share of Sectors in India's Gross Domestic Product (%)

Sector	1950s	1960s	1970s	1980s	1990s	2000s
Agriculture	55.3	47.6	42.8	37.3	30.9	21.8
Industry	14.8	19.6	21.3	22.3	23.3	24.5
Services	29.8	32.8	35.9	40.3	45.7	53.7

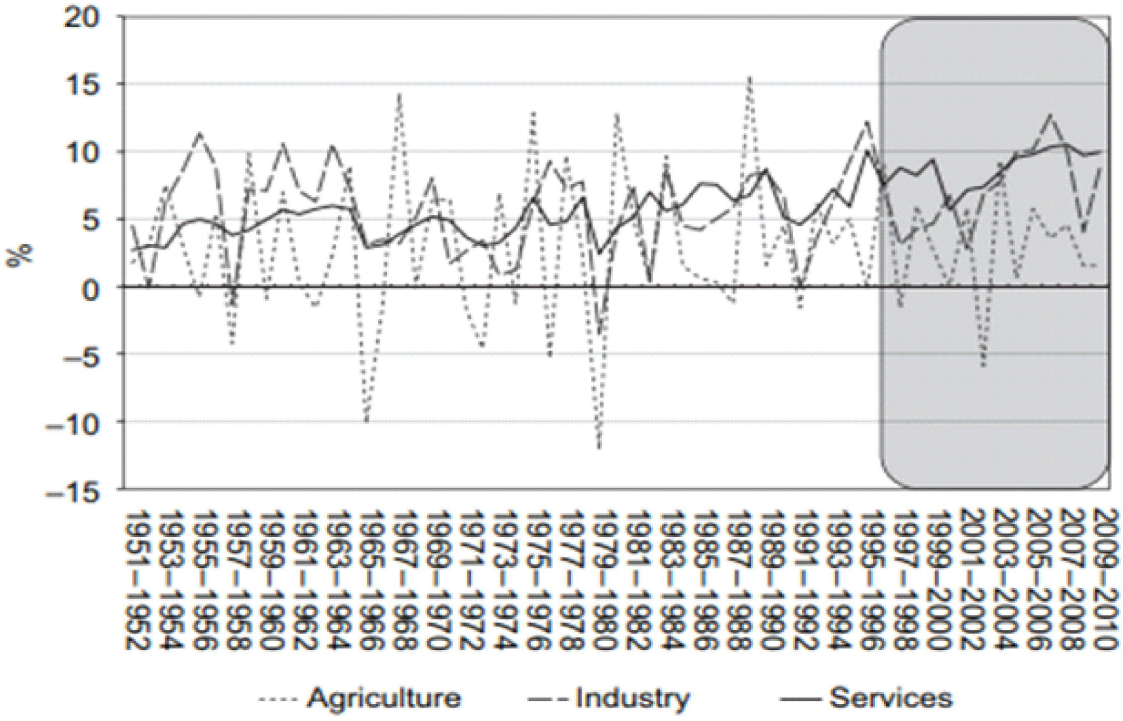
Source: Asian Development Bank (2013)

Thus, from the table it can be seen that the growth of the service sector accelerated in the late 1980s, and in the late 1990s it surpassed the growth of industries to become the fastest growing sector of the Indian economy.

This can also be seen in Figure 8.1 in which growth trend of all the economic sectors of India have been shown. From the Figure 8.1 it can be seen that in FY2009, the service sector grew at 9.96 per cent compared to 8.81 per cent growth in the industry sector and 1.57 per cent in agriculture. The compound annual growth rates (CAGR) of services in India from 2001 to 2010 was 9.4 per cent. This implies that even though the present share

of services in GDP for the PRC is lower than that of India, in future the share of services will be higher and can even surpass that of India since it is growing at a faster rate.

Figure 8.1: Growth Trend of Different Economic Sectors in India



Source: Asian Development Bank.

Further, from the Figure 8.1 and Table 8.2, the growth trend of India's services sector in the post-1991 period can be seen. it can be seen that during the period of 2000-01 to 2013-14, the share of sevice sector in India's GDP has increased from 50.8 per cent to 55.7 percent in 2011-12, though it came down to 51.3 per cent in 2013-14.

Again, within the different service sectors, the construction and real estate is showing acontinuous growth trend. The real estate ownership has increased from 8.7 per cent to 14.0 per cent during the period of 2000-01 to 2013-14. Similarly, constructionsector has also made noticeable growth from 6.0 per cent to 8.3 per cent during this period.

Table 8.2: Share and Growth of India's Service Sector

(At factor cost; as percentage)

	2000-01	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10^*	*2010-11@*	*2011-12**	*2013-14*
Trade, hotels, and restaurants	14.6 (5.2)	16.7 (12.2)	17.1 (11.1)	17.1 (10.1)	16.9 (5.7)	16.5 (7.9)	17.2 (11.5)	18.0 (6.2)	12.0 (13.3)
Trade	13.3 (5.0)	15.1 (11.6)	15.4 (10.8)	15.4 (9.8)	15.3 (6.7)	15.1 (8.5)	15.7 (11.5)	16.6 (6.5)	11.0 (14.3)
Hotels and restaurants	1.3 (7.0)	1.6 (17.4)	1.7 (14.4)	1.7 (13.0)	1.5 (–3.3)	1.4 (1.9)	1.5 (10.8)	1.5 (2.8)	1.1 (3.9)
Transport, storage and communication	7.6 (9.2)	8.2 (11.8)	8.2 (12.6)	8.0 (12.5)	7.8 (10.8)	7.7 (14.8)	7.3 (13.8)	7.1 (8.4)	6.6 (7.3)
Railways	1.1 (4.1)	0.9 (7.5)	0.9 (11.1)	1.0 (9.8)	0.9 (7.7)	0.9 (8.8)	0.8 (5.9)	0.7 (7.5)	0.8 (9.3)
Transport by other means	5.0 (7.7)	5.7 (9.3)	5.7 (9.0)	5.6 (8.7)	5.5 (5.3)	5.3 (7.3)	5.3 (8.2)	5.4 (8.6)	3.3 (5.5)
Storage	0.1 (6.1)	0.1 (4.7)	0.1 (10.9)	0.1 (3.4)	0.1 (14.1)	0.1 (19.3)	0.1 (2.2)	0.1 (9.4)	
Communication	1.5 (25.0)	1.6 (23.5)	1.5 (24.3)	1.4 (24.1)	1.4 (25.1)	1.4 (31.5)	1.1 (25.4)	0.9 (8.3)	
Financing, insurance, real estate, and business services	13.8 (4.5)	14.5 (12.6)	14.8 (14.0)	15.1 (12.0)	15.9 (12.0)	15.8 (9.7)	16.0 (10.1)	16.6 (11.7)	19.8 (8.5)
Banking and insurance	5.4 (–2.4)	5.4 (15.8)	5.5 (20.6)	5.5 (16.7)	5.6 (14.0)	5.4 (11.4)	5.6 (14.9)	5.7 (13.2)	5.8 (6.4)
Real estate, ownership dwelling and business services	8.7 (7.5)	9.1 (10.6)	9.3 (9.5)	9.6 (8.4)	10.3 (10.4)	10.4 (8.3)	10.4 (6.0)	10.8 (10.3)	14.0 (8.5)
Community, social and personal services	14.8 (4.6)	13.5 (7.1)	12.8 (2.8)	12.5 (6.9)	13.3 (12.5)	14.5 (11.7)	14.0 (4.3)	14.0 (6.0)	12.9 (6.8)
Public administration and defence	6.6 (1.9)	5.6 (4.3)	5.2 (1.9)	5.1 (7.6)	5.8 (19.8)	6.6 (17.6)	6.1 (0.0)	6.1 (5.4)	6.0 (4.9)
Other services	8.2 (7.0)	7.9 (9.1)	7.6 (3.5)	7.4 (6.3)	7.5 (7.4)	7.8 (7.2)	7.9 (8.0)	7.9 (6.5)	6.9 (10.9)
Construction	6.0 (6.1)	7.9 (12.8)	8.2 (10.3)	8.5 (10.8)	8.5 (5.3)	8.2 (6.7)	8.2 (10.2)	8.2 (5.6)	8.3 (2.5)
Total Services	50.8 (5.4)	53.1 (10.9)	52.9 (10.1)	52.7 (10.3)	53.9 (10.0)	54.5 (10.5)	54.4 (9.8)	55.7 (8.2)	51.3 (9.1)
Total Services (including construction)	56.8 (5.5)	61.0 (11.1)	61.0 (10.1)	61.2 (10.3)	62.4 (9.4)	62.7 (10.0)	62.6 (9.8)	63.9 (7.9)	59.6 (8.1)
Total GDP	100.0 (4.3)	100.0 (9.5)	100.0 (9.6)	100.0 (9.3)	100.0 (6.7)	100.0 (8.6)	100.0 (9.3)	100.0 (6.2)	100.0 (5.0)

Source: Dhar, P. K. *Indian Economy: Its Growing Dimension* (2015).

In the next section, we shall examine the recent growth trend of the major service sectors in India.

8.5 RECENT GROWTH TREND OF MAJOR SERVICE SECTORS IN INDIA

8.5.1 Tourism including Hotels and Restaurants

Indian tourism is ranked 11th in the Asia Pacific region and 62nd in the world. According to the travel and Tourism Competitiveness report of 2009 by the 'World Economic Forum', India had been ranked 14th for best tourist destination and for its natural resources, 24th for its cultural resources. In India, tourism is the largest industry. Its share to India's GDP is 6.23%. It is an employment generating sector as it proves a lot of services like hotelling, tourist transportation cabs, hospitality services etc. It generates nearly 8.78% of the total employment opportunities of India. In 2008, the revenue generated through the tourism was about US$275.5 billion. The tourism sector is substantial and vibrant in nature. It is one the most profitable business in India. it is considered as the growth as well as export growth engine in India. This sector witnessed significant growth in recent years. The CAGR of foreign tourist arrivals (FTA) was 7.2% in 2006. In the same year, the CAGR of foreign exchange earnings (FEE) was 14.1%. The FTAs in 2009 and 2010 were 5.17 million and 5.78 million respectively. The growth of FTAs was 11.8%in the year 2010 and it was comparatively much higher than the world's growth of 6.5%. The FEEs of Indian tourism were Rs. 64889 and Rs. 54960 in 2009 and 2010 respectively.

Health tourism is another important sub group under tourism in India. India has the scope of exploring this service in upcoming years. The India is a better destination for health tourism for cost-effective health care services, skilled and experienced health care experts and professionals, better hospitality of paramedical staffs, strong IT sector etc. Now-a-days, India's traditional systems of health care systems such as Ayurveda, Yoga, Siddha, Naturopathy, spirituality are appreciated and adopted by foreigners.

Though India's tourism is an emerging ad fast growing service sector in India, but has faced the ill-impact of slowdown of Indian Economy. The FTAs grew a mere 2.12% in the first half of calendar year 2019 which was the lowest for the comparable period in the last four years. The FTAs is 6.08 million during the period January to July, 2019. This is marginally increase as the FTA s during Jan -July, 2018 was nearly 5.96 million. The FEEs also showed a marginal increase to Rs. 1,16,872 during Jan-July, 2019 from Rs. 1,12,481 crores during Jan-July, 2018. In dollar terms, this marginal increase reported a negative growth of 2% at $16.75 billion.

8.5.2 Services Related to Transportation and Communication

Transportation is one of the major services in India. The share of Transportation (including railway services) in GDP at factor cost was 6.6 % in 2006-07. In 2011-12, it was 6.2% only. Similarly, the Indian telecom sector has shown a rapid growth during the last few years. This sector is going through many reforms and initiatives introduced by the department of telecommunications. India's position is second in respect of telecommunication network. In 2015-16, India has crossed the landmark of 1 billion telephone subscribers and in the year 2017, this number is increased to 1195 million. Please note that we have already discussed about Transport and Communication services in Unit 3 in block 1. As such, we shall avoid any detail discussion on these two areas here. However, for you benefit, you are advised to keep updated on the recent scenario of these two sectors.

8.5.3 Real Estate and Housing Services

Real estate is one of the major components of services sector in India. Real estate sector deals with housing services. This sector provides many job opportunities and solve the problem of unemployment to some extent. The jobs offered by this sector are

construction workers, builders, architects, engineers, interior decorators, plumber, painters, carpenters, property consultant etc. thus, this sector is considered as a employment intensive sector in India. Again, this sector is dealing with the income generating activities as housing can act as asset and it has significant leveraging effect in order to support and supplement other means of income generation.

Real estate sector includes ownership and dwelling accounted for 7.6% share in India's overall GVA (Gross Value Added) in 2015-16. The growth of this sector has been reducing from 7.5% in 2013-14 to 4.5% in 2015-16. The reason behind may be the ownership and dwelling segment having a share of 6.8% in overall GVA decreasing 7.1% in 2013-14 to 3.2% in 2015-16. The residential sales are also reduced to a five-year low about 2,45,000 units in 2016 across eight cities in India.

8.5.4 IT-BPM Services

The IT-BPM (Information Technology- Business Process Management) is an important emerging sector in India. In 2016, global IT-BPM market including hardware was US$ 2.2 trillion and excluding hardware US$ 1.2 trillion. The Indian IT-BPM industry is a global powerhouse and its impact on India and world is unprecedented. India pioneered the offshoring model and is today seen as the partner of choice for technology and business solution. This sector recorded a six- fold growth in terms of revenue during the last decade. It is also an employment intensive - sector and it provides more than 3.9 million jobs to the people. It is also an employment supporting sector as it creates employment in other sectors like transportation, hotels, restaurants, infrastructure, security etc. Indian IT-BPM industry comprises over 16000 firms ranging from multibillion-dollar firms to start -ups, many Multi-National Companies (MNCs) including over 4,750 start-ups making India the world's 3rd largest start-up ecosystem. The start-up ecosystem

comprises firms catering to mature verticals (e- commerce, aggregators), emerging verticals (fintech, edutech, healthtechetc) and technology specialists around cloud, Internet of Things (IoT), Machine learning, artificial intelligence, robotics, 3D printing etc. US is the major market of India for IT-BPM services followed by UK, Europe (excluding UK) and Asia. As per NASSCOM's estimates, India's total revenue (export and domestic) of the IT-BPM sector including and excluding hardware is expected to touch US$ 154 billion and US$ 140 billion with growths of 7.8% and 8.1% respectively in 2016-17. The domestic market including hardware and excluding e-commerce is growing at 8.5% to reach US$38 billion and excluding hardware and e-commerce is growing at 10.4% to reach US$ 24 billion.

India's software exports were growing robustly at 27 to 38% from 2002-03 to 2007-08. But this growth is slowed down in recent years. As per RBI's data, the software exports fell by 0.7% to US$ 73.7 billion compared to US 74.2 billion in 2015-16.

8.5.5 Construction Services

The construction service is one of the most important and emerging sectors in India. this sector is gaining importance over the years as it is considered as an important indicator of growth and development. It creates a lot of investment opportunities and accelerates the production capacity of an economy. The share of it to the India's GDP at factor cost was 6% in 2000-01. In 2008-09, it was8.2% and in 2011-12, it was 8.2%. The construction service includes construction of bridges, roads, buildings, bridges, dams etc. the growth of it decelerated from 5% in 2015-16 to 1.7% in 2016-17. This sector was given the industry status in 2000. The government takes many steps to promote this industry. As a result of these steps, more private ownership of Build- Operator –Transfer (BOT), Build- Operate -Own -Transfer (BOOT) and Build-Operate-Lease-Transfer (BOLT) projects have been taken up in this sector.

8.5.6 Banking Services

Within the services sector financing, insurance, real estate and business sectors are most dynamic sector in the economy in recent years. The role of banks especially in developing country is important, crucial as well as critical for overall development of the economy of the country. Indian banking system is very vibrant and has a wide scale of operation. It consists of 27 public sector banks, 21 private sector banks, 49 foreign banks, 56 regional rural banks, 1562 urban cooperatives banks and 94384 rural cooperative banks. Banking sector is one of the fastest growing sectors in the country. This is evident from the fact that total banking sector assets including public and private sector banks have increased at compound annual growth rate (CAGR) of 6 percent to US $2.3 trillion during 2013-14. The surge in credit provided by the banking sector at large has contributed a lot to the high growth of performance of Indian economy during the period 2003-2008. During this period, total credit grew at around 20 percent year to year basis which however plummeted to 15 percent in 2014 basically due to world financial crisis in 2008-1. Since 2014, credit growth has been slow and went down to around 7 percent on an average in 2016-17.

While discussing the banking sector special mention must be made to the public sector banking in India. PSB was ushered into in India when State Bank of India came into being in 1955. After that, in 1969, 14 major private banks were nationalised. Again in 1980, other 6 private banks were nationalised. In the beginning there were 8000 branches of banks with total deposits of Rs. 5000 crores, but now, there are 90,000 bank branches with total deposit of Rs. 85,00,000 crores in India, while credit extended by the public sector banks have gone up to Rs. 60,00,000 crores.

8.6 CHANGING ROLE OF THE TERTIARY SECTOR IN THE INDIAN ECONOMY

In early years, almost in all the developing countries including India, agriculture contributed major portion of GDP. But in recent few years, the picture has been changing as service sector contributes the major portion of GDP. Thus,the service sector has experienced a rapid shift in generating both income and employment all over the world. In India, growth has been shifted from agriculture to service sector, not in traditional pattern i.e., from agriculture to industry and then industry to service sector. Thus, current growth of India is service led growth. This type of growth path can be termed as the services sector revolution. Recently, service sector has emerged as leading sector of India as it provides major contribution to India's GDP and second largest employment providing sector after agriculture sector. The role of service sector has changed from lowest contributor to highest contributor to India's national income. This can be evaluated with the following discussion:

- **Contribution to GDP:** In the early years, the share of service sector to Indian Gross Domestic Product was very negligible. But in recent years the share of services sector to GDP of India has been increasing.The share of tertiary sector to India's GDP has increased from almost one third of total GDP in 1950-51 to 57% in 2009-10.The following table shows this changing share of services sector India's GDP.

Table8.3: Shares of Services sector to India's GDP (in %)

Year	1950	1960	1970	1980	1990	2000	2010-11	2013-14	2014-15
Services sector	29.8	32.8	35.9	40.3	45.7	53.7	57.48	59.93	50.1

Source: i) ADB Economics Working Paper Series No. 352: *The Services Sector in India;* June 2013.

ii) Planning Commission's Indian Economy Related Table 2; December 23,2014.

- **Rapid growth of service sector:** The higher Compound Annual Growth Rate (CAGR) attained by India in recent years can be taken as the result of expansion of services sector in India.
- **Horizontally higher share of services in GSDP (Gross State Domestic Product:** In recent years, the services sector has significantly contributed to Gross State Domestic Product of different states and UTs (Union Territories). Moreover, Tripura, Nagaland, West Bengal, Maharashtra, Bihar, Tamil Nadu, Kerala, Delhi and Chandigarh has recorded a higher share of 55.7% to GSDP than other remaining states and UTs. Thus, India has witnessed a horizontally higher share of services sector in GSDP.
- **Employment generation of services sector:** In India, though the primary sector contributes highest employment since ancient time till date, the percentage increase in the employment generation is highest in the service sector. The growth of the employment generation in the primary sector has declined from 64.75% in 1993-94 to 53.2% in 2009-2010.

  According to statistics provided by the NSSO in 2009-10, on the basis of usually working persons in the primary and subsidiary statuses, for every 1000 people employed in rural areas ,679 are employed in the agriculture sector, 241 are employed in the services sector including construction and only 80 persons employed in industrial sector in India. While in the urban areas of India, among each 1000 people, only 75 people are employed in agriculture sector, 683 employed in the service sector and 242 employed in the industrial sector.
- **Contribution to India's services trade:** The service sector plays an important role in India's trade. The share of services exports in the world export has been increasing from 0.6% in 1990 to 3.3% in 2011. Thus, in recent years, India is moving towards a service led export growth. The merchandised and services export of India has grown from 22.2% in 2004-05 to 25.3% in 2008-09. Services growth slowed down in 2008-09 as a consequence of global Financial

Crisis, but it recovered rapidly in 2010-11. According to the data provided by RBI, the India's services export grew at a CAGR (Cumulative Annual Growth Rate) of 20.6% during the period of 2004-05 to 2010-11. CAGR of financial services were higher with the rate

- **Contribution towards human development:** Services sector has provided ample scope for human development as it renders many important and valuable services like education facilities, health services, IT and ITeS, tourisms, skill development etc.These services are responsible for the development of the economy through providing empowerment, ensuring high quality of living and formation of human capital. Thus, the services sector contributes towards human development.
- **Role in infrastructure development and communication services:** The developing countries like India are not infrastructurally compact. Therefore, infrastructural development plays a major role in development of such economies. Transportation, communication facilities are major infrastructural facilities. The contribution of transport, storage and communication services to India's GDP at factor cost is 7.1% in 2011-12. Thus, the role of services sector towards infrastructure development via communication services and transportation services in developing countries is very significant.
- **Role in growth of IT and ITeS:** The recent era has witnessed a sharp rise in IT and IT enabled services (ITeS) in India. IT and ITeS sector have introduced India as an image of young and resilient global power.IT and ITeS industry has four major parts as IT services, Business Process Outsourcing (BPO), engineering services and Research and Development (R&D). Among these four components, Indian ITeS and BPO have proved its superiority, sustained cost advantage and fundamentally powered value propositions in the global market. The IT and ITeS industry have established as a full-fledged industry in India. As per the data provided by NASSOCOM, IT and BPO sector (excluding hardware) s' revenue is US $95.2

billion in 2012-13. These sectors have also generated direct employment and indirect employment of nearly 2.8 billion and 8.9 billion respectively in 2012-13.

- **Role in development of social services:** The growth of service sector also generates, expands and develops some social services like sports, cultural services etc. the role of sports in the creation of human capital is very important as it provides physical fitness, uniqueness, bonding (both community and international bonding) etc. Now-a-days, the sports are important for national identity and togetherness. Cultural services includeentertainments, recreational activities, radio and television broadcasting and other cultural services like art, spiritual believes, customs etc. For promoting and preserving all forms of art and culture, the Government of India has allocated a total of Rs. 3555 crores in the Eleventh Plan. The cultural services have emerged as not only a component of growth and job creation but also as a vehicle of cultural identity. In 2010, India have exported creative services worth of US $ 4 billion at a CAGR of 26%. Moreover, the services sector plays an important role in promoting some social services beneficial to the society.
- **Supports to other sectors:** The service sector provides supports to agricultural and industrial sectors through financial services, transport services, software services, communication services, services related to storage facility and distribution etc. Without the interlinkages, cooperation and support among the various sectors, no economy can grow.



CHECK YOUR PROGRESS

Q 3: Briefly mention important contributions of the service sector to the Indian economy.

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Q 4: State the difference between the share of service sector to the India's GDP from 1951 to 2014-15?

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8.7 MAJOR ISSUES FACED BY THE SERVICE SECTOR

- Wage inequality is one of the major challenges in services sector. the skilled and efficient workers in the services sector get higher wages as compared to the other sectors of the economy. But low skilled workers have faced disadvantage as low income.
- The different sub sectors of services sectors are impacted differently by the demonetisation. The tourism sector is not much affected by the demonetisation.Bank credit by commercial Banks also increased after demonetisation. There is fall in property registration in post-demonetisation. But there was not much change in property prices. It has positively impacted upon the sub-sectors like IT industry, insurance sectors etc. thus, the impact of demonetisation on services sector is mixed and temporary in nature.
- The Goods and Services Tax (GST) launched on July 1, 2017 in India. It has significant impact on the growth of services sector in India. The reason is that it affects the valuation of the service categories, their operations in each state through multiple returns filing, and stringent tax compliance. There are some of the major challenges faced by the services sector under GST like multiple tax slabs (5 percent, 12 percent, 18 percent and 28 percent), multiple registration of place of business, filing multiple return (filing returns three times in a month) etc.GST has helped the services sector in many ways like avoiding confusion as pre-GST, both Central and State Govt. had the right to collect the tax which was leading to confusion in finding out to whom the tax is to be paid for services like software, works contract etc. resulting in disputes between Central and State Governments. However, the major difficulty is

registration of Place of Business as agents will have to register in all states that they operate in and file in each of them in the GST regime. There are also issues of GST network, as, in the GST network, not more than 100 branches of Bank can register. In the case of Healthcare Services, while there are no taxes on health care services, the input tax credits are not available for the very reason that healthcare services are exempt from GST.

- There are also some early results of GST affecting services with 24 states abolishing check posts while others are in the process, resulting in reduction in transportation cost, fuel use and fall in congestion. There has also been better tax compliance with 71 lakh central and state taxpayers having migrated to the Goods and Services Tax (GST) system and 15 lakhs new tax payers having been registered.
- In case of construction of Greenfield Airports, there are many factors that affect the construction such as acquisition of land, availability of mandatory clearances, financial closure etc by the individual operators.
- There are many challenges faced by the tourism sector in India. the FTAs decline in the first half of 2019. The main reason behind this are as follows:
    - Brexit in the US.
    - Recession fears in large parts of Europe and the US.
    - Heightened tensions between India and Pakistan.
    - Shutdown of Pakistan air space for India-bound flights led to an increase in travel time and air fare.
    - High Visa charges.
    - Strong competition from tourist destinations such as Sri Lanka, Thailand, Malaysia, Vietnam etc.
- One of the main issues of the services sector is that the majority of services are operate under unorganised sector. thus, the actual estimation is not easy. Again, as the majority of jobs are confined to

the unorganised sector, there is no job security, no uniform salary and wages etc.

- It is costlier for start-ups in the services sector in India as majority of labour force in India are not properly skilled.
- In India, the operating costs of a shipping company are high. Thus, high taxes are to be paid in India than overseas and therefore foreign shipping companies do not prefer to flag their ships in India.
- There is an issue of terms of shipment with a majority of India's bulk imports being done on C&F/CIF basis despite the policy of imports on FoB basis and the Indian companies not even getting the benefit of ROFR in these trades with the result that the share of Indian flag vessels in India's bulk imports is limited.

8.8 SUGGESTIVE POLICY MEASURES

Some of the policy suggestions to improve the performance of the tourism, real estate and banking sectorsinclude the following:

- **Tourism**: There is need to make India Tourism friendly and Tourist safe Country. There is an urgent need to create a special Tourist Protection force besides maintaining cleanliness hygiene and ambience of acceptable standards. Good Tourism Infrastructure including beautifying riversides passing the middle of cities, providing accommodation for tourists by increasing the number of hotel rooms and improving infrastructure in important tourist sites by privatization of some areas of infrastructure. There is also a need for further improvement in E-Visas and Immigration procedures. India is presently emerged as medical hub with lots of sophistication compared to many developing countries. Therefore, there is another area for promoting Medical Tourism by facilitating imports for hospitals providing medical tourism and providing a package of services for medical tourists including state of the art medical facilities, ambulance services at airports, airlifting of medical tourists to hospitals by helicopters and fast track clearance of medical visas, immigration and other formalities.

- **Real Estate Services:** As we all know that Housing and Infrastructure sectors are very important as they have direct impact on social and economic development generating varied employment opportunities ranging from unskilled, semi-skilled and skilled labourers to professionals and experts. Some of the issues and challenges affecting growth in real estate and housing sector include the delay in approvals of permits; high land registration costs including stamp duty; rising debt levels and NPAs; lack of skilled workforce; need to implement the single –window clearance for construction permits in all states on top priority; higher risk provisioning assigned to real estate sector by the RBI and dwindling profits in the real estate sector; GST Issues, like all components of construction except bricks being charged at the highest slab of 28% GST which needs a relook; delay in payment for Government projects; funding problems for land acquisition; and need for new financing instruments including expanding the Secondary Market and considering the feasibility of Covered Bonds. In this context there is an urgent need to revitalise this sector on priority basis so that India can arrest unemployment to a great extent.
- **Banking sector:** As noted above India's banking sector is one of the vibrant sectors in the umbrella of services sector. The major issue with the banking sector today is the growing volume of Non-performing Assets (NPAs) known as bad loans and inefficiency in bank management especially with the PSBs. In order to strengthen the banking sector, a slew a measures have been taken recently of which the prominent one is the merger of the banks. However, there are two sides of opinion about this mega bank merger policy. If you are interested, you can browse through the Net or read leading financial newspapers to learn about the different debates into it.



8.9 LET US SUM UP

- The service sector is the sector which provides services. In an economic sense, services are any functions or tasks that are performed for which there is a demand and hence a price determined in the relevant market. Services are consumed at the point of production and they are usually non-transferable.
- In the traditional economy, there are mainly three sectors: primary sectors, secondary and tertiary sector in the economy. Primary sector includes the activities related to agriculture and allied services, secondary sector includes industrial activities and the tertiary sector includes the services provided by trade, hotels and restaurants; transport storage and communication; financing, insurance, real estate, and business services; community, social and personal services.
- Over the years, the share of services in Gross Domestic Product (GDP) of India has been rising consistently whereas the share of agriculture is sharply declining and industrial growth rate has remained more or less stagnant. For instance, between 1950-51 and 2013-14 the share of Agriculture in GDP has declined from 53% to 13.9% whereas the share of services sector has increased from nearly 30% in 1950-51 to 59.9% in 2013-14.
- Recently, service sector has emerged as leading sector of India as it provides major contribution to India's GDP and second largest employment providing sector after agriculture sector.
- There are many challenges faced by the service sector of India. These are: the majority of services are operating under unorganised sector, wage inequality, high cost for start ups in the service industry, impact of GST and demonetisation, impact of international relations and issues etc.
- Some concerted steps should be taken by the Government of India for upgradation of services sector of India. There are some other

services like Super Specialty healthcare, Satellite Mapping, Professional services etc where India has high potential to grow and India has the necessary competence to provide them cost efficiently. The health tourism can be good choice where India has a lot of potentials.



8.10 FURTHER READING

1. Dhar, P.K. (2018), *Indian Economy Its Growing Dimension*, Kalyani Publishers.
2. Kapila, U. (2016), *Indian Economy Since Independence,* 26th Edition, Academic Foundation, New Delhi
3. Mukherjee, D. (2019), *Indian Economy Since Independence,* New Central Book Agency (p) Ltd.



8.11 ANSWERS TO THE CHECK YOUR PROGRESS

Ans to Q No 1: The service sector is the sector which provides services.

Ans to Q No 2: Primary sector includes the activities related to agriculture and allied services.

Ans to Q No 3: Recently, service sector has emerged as leading sector of India as it provides major contribution to India's GDP and second largest employment providing sector after agriculture sector.

Ans to Q No 4: The share of tertiary sector to India's GDP has increased from almost one third of total GDP in 1950-51 to 50.1% in 2014-15.



8.12 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: What is service sector? Give examples.

Q 2: What is arbitrage? Is arbitrage possible with services?

Q 3: What is the recent share of service sector to India's GDP?

Q 4: Discuss the recent growth of various sub sectors of service sector in India.

Q 5: What are the major challenges faced by the Indian service sector? Explain.

Long Questions (Answer each question in about 300-500 words)

Q 1: Compare the share of three sectors of India from the time of Independence to till date.

Q 2: Discuss the major challenges in the tourism sector in India?

Q 3: Discuss certain measures betterment of tourism sector in India?

Q 4: Do you think that there is any potential for health tourism in India? If yes, explain.

Q 5: Discuss about the IT-BPM industry in India.

Q 6: Are you aware of the changes that have taken place in the Indian service sector due to the GST?

Q 7: What is the impact of demonetisation on service sector in India? Discuss briefly.

Q 8: What do you suggest for the improvement of Indian service sector?

Q 9: Explain the role of banking sector in the growth of services sector in India?

Q 10: State three cases for and against merger of Public Sector Banks in India?

Q 11: Explain the significance of tourism sector in the overall growth of services sector in India? Suggest a few policies for improvement of tourism sector in India.

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UNIT 9 : INFRASTRUCTURE DEVELOPMENT IN INDIA

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Energy Development in India

- 9.3.1 Commercial Sources of Energy
- 9.3.2 Non-commercial sources of Energy
- 9.3.3 Consumption Pattern of Commercial Energy

9.4 Transport System

- 9.4.1 Land Transport
- 9.4.2 Water Transport
- 9.4.3 Air Transport

9.5 Communication System

- 9.5.1 Postal System of India
- 9.5.2 Indian Telegraphs
- 9.5.3 Telecommunication

9.6 Let Us Sum Up

9.7 Further Reading

9.8 Answer to Check Your Progress

9.9 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the role of infrastructure in economic development.
- describe the role of energy in the Indian Economy.
- outline the role of transport in the economy.
- acquire knowledge about the different communication sectors.

9.2 INTRODUCTION

Have you ever thought why some states in India have prospered in industry or agriculture as compared to other states? It is because these states have better infrastructure facilities on these grounds. For the development of industry and agriculture sector it is necessary to haveadequate facilities of power, transportation and communication. Infrastructure provides supporting services to the industry and agriculture sectors.

In this unit, we shall discuss about the contribution of infrastructure sector in the Indian Economy mainly on the grounds of energy, transport and communications.

9.3 ENERGY DEVELOPMENT IN INDIA

Energy has been the one of the most important links for sustainable economic growth and human development. The per capita energy consumption is one of the key parameters used to assess the stage of economic and social development of any country. Energy is a critical aspect of the development process of a nation. It is, of course,essential for industries. India is both a major energy producer and consumer. India has madesignificant investments in energy infrastructure assets, viz., power plants, refineries, energy ports, pipelines, roads, railways, etc. Currently, India ranks as the world's seventh largest energy producer and fifth largest energy consumer.

Sources of energy can be divided into two parts: Conventional Sources and Non-Conventional Sources

Conventionalsources of energy are also known as non-renewable sources of energy and are available in limited quantity. Further, it can be classified as commercial and non-commercial energy. There are three other sources of energy which are commonly termed as non- conventional Sources of energy. They are- solar energy, wind energy and tidal energy. They are renewable in nature.

9.3.1 Commercial Sources of Energy

Commercial sources of energy are generally exhaustible (with the exception of hydropower), as they are bought and sold.InIndia, commercial energy consumption makes up about 74 percent of the total energy consumed in India.

Coal: Coal is the most important source of energy. In 2020, the annual production of coal went up to 319020 million metric tons. India is the fourth-largest coal-producing country and the deposits are mostly found in Bihar, Odisha, Chhattisgarh, West Bengal, Madhya Pradesh etc.

Table 9.1: Coal reserves in India by States

(Million Tonnes)

States	Total Coal Reserve	States	Total Coal Reserve
Jharkhand	83152	Bihar	1367
Odisha	79295	Uttar Pradesh	1062
Chhattisgarh	57206	Meghalaya	576
West Bengal	31667	Assam	525
Madhya Pradesh	27987	Nagaland	410
Telangana	21702	Sikkim	101
Maharashtra	12299	Arunachal Pradesh	90
Andhra Pradesh	1581	**Total**	**319020**

Source: Geological Survey of India (Ministry of Coal, GOI)

Oil and Natural Gas: Oil and natural gas are naturally occurring chemicals which are made up of just two elements: carbon and hydrogen. Crude Oil and Natural Gas are both fossil fuels formed from the remains of dead animals and plants over the course of thousands of years. Both of them are used as heat source that produce energy. Oil is considered to be the liquid gold and one of

the crucial sources of energy in India and the world. Oil is mostly used in planes, automobiles, trains and ships. It is mainly found in Assam, Gujarat and Mumbai. Crude oil production in 2014-15 is about 28.171 million metric tonne (MMT) by ONGC, OIL and Private/ JV Companies. About 68.5% of crude oil is by ONGC and OIL from nomination regime and remaining 31.5% of crude oil production is by Private/Joint Venture companies from PSC regime.In 2014-15, the share of offshore crude oil production was about 50.2%. The remaining crude oil production was from 6 States viz., Andhra Pradesh (0.7%), Arunachal Pradesh (0.2%), Assam (12.1%), Gujarat (12.5%), Rajasthan (23.7%) and Tamil Nadu (0.6%).

Table 9.2: State-wise Crude Oil Production Trends

(Thousand Metric Tonnes)

State/ Source	**2009-10**	**2012-13**	**2013-14**	**2014-15 (Upto December)**
Andhra Pradesh	303	295	297	184
Arunachal Pradesh	129	120	111	60
Assam	4743	4863	4709	3403
Gujarat	5962	5332	5061	3534
Rajasthan	447	8593	9180	6679
Tamil Nadu	238	238	226	176
Total Onshore	**11822**	**19441**	**19854**	**14036**
Total Offshore	**21683**	**18421**	**18204**	**14135**
Grand Total	**33505**	**37862**	**37788**	**28171**

Source: Ministry of Petroleum and Natural Gas (GOI)

Natural gas production in 2014-15 upto December 2014 is about 25.319 Billion Cubic Metre (BCM) or 92.1 MMSCMD by ONGC, OIL and Private/ JV Companies. About 73.7% of natural gas was produced by ONGC and OIL from nomination regime and remaining 26.3% of natural gas production was by Private/JV companies from

PSC regime.The share of offshore natural gas production in 2014-15 was about 74%. The remaining natural gas production including CBM was from 10 States viz., Andhra Pradesh (1.5%), Arunachal Pradesh (0.1%), Assam (8.9%), Gujarat (4.6%), Rajasthan (3.4%), Tamil Nadu (3.6%), Tripura (3.3%), Jharkhand (0.01%), Madhya Pradesh (0.01%) and West Bengal (0.6%)

Table 9.3: State-wise Natural Gas Production Trends

(MMSCMD)

State/ Source	2009-10	2012-13	2013-14	2014-15 (Upto December)
Gujarat	6.7	5.6	4.5	4.2
Assam	7.4	8.0	7.9	8.2
Andhra Pradesh	4.1	3.4	3.2	1.4
Tamil Nadu	3.2	3.3	3.6	3.3
Tripura	1.5	1.8	2.3	3.0
Rajasthan	0.7	1.9	2.7	3.1
Arunachal Pradesh	0.1	0.1	0.1	0.1
CBM-WB, MP, Jharkhand	0.1	0.3	0.4	0.62
Total Onshore	**23.8**	**24.3**	**24.7**	**23.92**
Total Offshore	**106.4**	**87.1**	**72.3**	**68.2**
Grand Total	**130.2**	**111.4**	**97.0**	**92.1**

Source: Ministry of Petroleum and Natural Gas (GOI)

Electricity: The most visibleform of energy, which is often identifiedwith progress in modern civilization, is power, commonly electricity. Electricity is a common source of energy and used for domestic and commercial purposes. It is mainly utilized in electrical appliances like fridge, T.V, washing machine and air conditioning. It isa critical component of infrastructurethat determines the economicdevelopment of a country.The major sources of power generation are mentioned below:

Thermal Power:Thermal power is generated at various power stations by means of oil and coal. It is a vital source of electric current and its share in the total capacity of the nation in 2004-05 was 70%.

Hydroelectric Power: Hydroelectric power is produced by constructing dams above flowing rivers like Damodar Valley Project and Bhakra Nangal Project. The installed capacity of hydroelectric power was 587.4 MW in 1950-51 and went up to 19600 MW in 2004-05.

Nuclear Power:The fuel used in nuclear power plants is Uranium, which costs less than coal. India has 22 nuclear reactors in operation in 7 nuclear power plants, with a total installed capacity of 6,780 MW. Nuclear power produced a total of 35 TWh and supplied 3.22% of Indian electricity in 2017.

9.3.2 Non-commercial sources of Energ

Non-conventional sources are also known as renewable sources of energy. Examples include solar energy, biomass energy, tidal energy and wind energy. More than 60 percent of Indian households depend on traditional sources of energy for meeting their regular cooking and heating needs.

Solar Energy: The sun is the ultimate source of all forms of energy. Solar power is energy from the sun that is converted into electrical energy. Solar energy is the cleanest and most abundant renewable energy source available. Solar power in India is a fast developing industry. The country's solar installed capacity was 35,739 MW as of 31 August 2020.

Biomass Energy: We know about Sun and solar energy. Solar energy radiates on the earth. A small part of solar energy is converted into chemical energy through the process of photosynthesis. The green plants prepare their food through photosynthesis; this is chemical energy. This chemical energy is in the form of bio-mass. Thus, "the material contained in the bodies of plants and animals is called biomass." It acts as a fuel. It includes wastes from trees, grass and crops, forestry, agricultural and urban wastes. The excreta of living organisms and their bodies after death also contribute to the biomass. Biomass is used as a fuel in two ways: Directly and

Indirectly. Biomass can be used directly as a fuel. For example, wood, cattle dung etc. Indirectly it is used in gobar gas plant, charcoal etc. India produces about 450-500 million tonnes of biomass per year. Biomass provides 32% of all the primary energy use in the country at present.

Wind Energy: The blowing wind has energy which is called wind energy. It isanotherform of solar energy. Wind energy describes the process by which wind is used to generate electricity.Wind energy is one of the key renewable energy sources for electricity generation in India. With 37.5GW of capacity installed, the country currently ranks fourth in the world in wind power generation after China, the US and Germany.

Tidal Energy: The energy generated by exploiting the tidal waves of the sea is known as tidal energy. This source is yet to be tapped due to the lack of cost-effective technology. According to the estimates of the Indian government, the country has a potential of 8,000 MW of tidal energy. This includes about 7,000 MW in the Gulf of Cambay in Gujarat, 1,200 MW in the Gulf of Kutch and 100 MW in the Gangetic delta in the Sunderbans region of West Bengal.

9.3.3 Consumption Pattern of Commercial Energy

In India, commercial energy consumption makes up about 74% of the total energy consumed. This includes coal and lignite with the largest share of 74%, followed by oil at 10%, natural gas at 9%, hydro and other new and renewable energy at 7%. Non-commercial energy sources consisting of firewood, cow dung and agricultural wastes account for over 26% of the total energy consumption. The critical feature of India's energy sector, and its linkages to the economy, is the import dependence on crude and petroleum products, which is likely to grow rapidly in the near future. The sectoral pattern of consumption of commercial energy is given in Table 9.4. The transport sector was the largest consumer of commercial energy in 1953-54. However, there has been continuous fall in the share of

the transport sector while the shares of the household, agriculture and others have been increasing. The share of oil and gas is the highest among all commercial energy consumption. With the rapid rate of economic growth, there has been a corresponding increase in the use of energy.

Table 9.4: Trends in Sectoral Share of Commercial Energy Consumption

(In Percentage)

Sector	1953-54	1970-71	1990-91	2005-06
Household	10	12	12	12
Agriculture	01	03	08	09
Industries	40	50	45	42
Transport	44	28	20	22
Others	05	07	15	15
Total	100	100	100	100

Source: Ninth Five Year Plan, Vol. II, Ch 6 andDatt&Sundharam's Indian Economy,2020



CHECK YOUR PROGRESS

Q1: What are the types of sources of energy?

.....

.....

Q2: Fill in the blanks:

a) _____Sources of energy are renewable.

b) Coal is an example of _____sources of energy.

c) _____ is the largest crude oil producer in India.

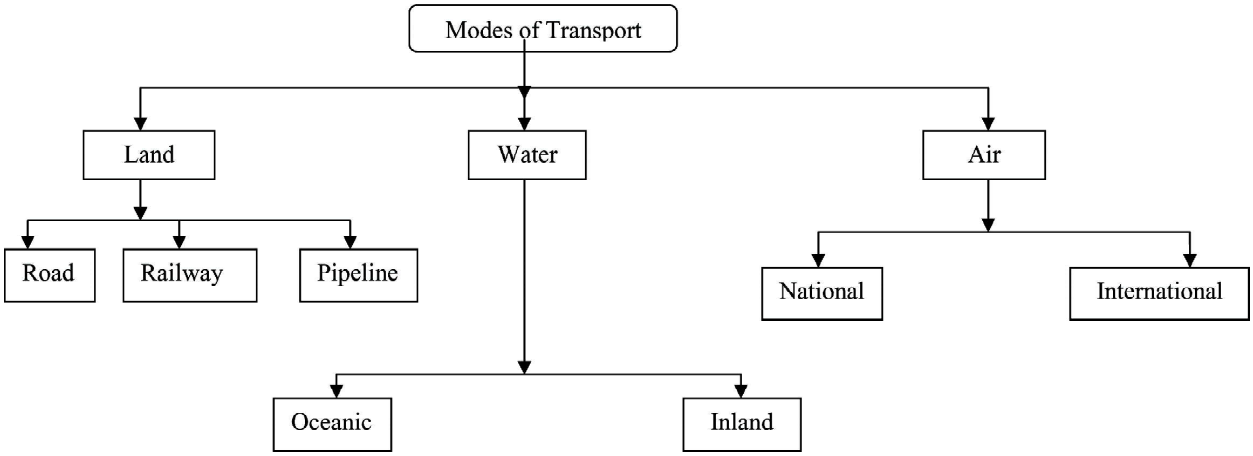
9.4 TRANSPORT SYSTEM

The transport sector is an important dimension for the Indian economy. India's transport sector is large and diverse; it caters to the needs of 1.3 billion people. In 2007, the sector contributed about 5.5 percent to the nation's

GDP. Transport sector include road transport, rail transport, air transport, water transport and pipeline.

The following diagram shows the major means of transportation

Figure 9.1: Modes of Transport



9.4.1 Surface Transport

Surface transport is the *transport* or movement of people, animals or goods from one location to another location on *land*. The three main forms of *land transport* can be considered to be road *transport*, rail *transport* and pipeline.

*Road Transport:*Road transport means transportation of goods and personnel from one place to the other on roads. Road Transport is considered to be one of the most cost effective and preferred mode of transport, both for freight and passengers, keeping in view its level of penetration into populated areas. India has one of the second largest road networks in the world with a total length of about 58.98 lakh km (Ministry of Transport and Highways, Annual Report 2019-20). About 85%of passenger and 70% offreight traffic are carried by roads every year. For the purpose of construction and maintenance, roads are classified as National Highways (NH), State Highways (SH), Major District Roads and Rural Roads.

- National Highways: The main roads which are constructed and maintained by the Central Government are known as

the National Highways. These roads are meant for inter-state transport and movement of defence men and material in strategic areas. These also connect the state capitals, major cities, important ports, railway junctions, etc.

- State Highways: State Highways are constructed and maintained by state governments. They join the state capitals with district headquarters and other important towns. These roads are connected to the National Highways. These constitute 4% of total road length in the country.
- District Roads: These roads are the connecting link betweenDistrict Headquarters and the other importantareas in the district. They account for 14% of the total road length of the country.
- Village Roads: These roads are vital for providing links in the rural areas. About 80% of the total roadlength in India is categorized as rural roads.There is regional variation in the density of ruralroad because these are influenced by the natureof the terrain.
- Other Roads: Other roads include Border roads and international highways.

Table 9.5: Progress of Road Construction since 1991.

(In 000kms)

Year	Length of Roads	Length of National Highway	Length of State Highway
1991	1998.2	33.7	127.3
2001	3373.5	57.7	132.1
2011	4690.0	66.8	154.5
2019-20	5897.6	132.5	156.6

Source: (i) Economic survey of India, 2009-10
Datt&Sundharam's Indian Economy,2020
CSO, Infrastructure Statistics 2013

(ii) Ministry of Transport and Highways, Annual Report 2019-20

Rail Transport: Indian Railways network is one of the longest in the world. It facilitates the movement of both freight and passengers and contributes to the growth of the economy. Mahatma Gandhi said, the Indian railways "...brought people of diverse cultures together to contribute to India's freedom struggle".The history of Indian Railways dates back to over 160 years ago. On 16th April 1853, the first passenger train ran between BoriBunder (Bombay) and Thane, a distance of 34 km. . The length of Indian Railways network was 65,800 km of which electrified 21,600km at the end of 2013-14. It is very large size puts a lot of pressure on a centralized railway management system. Thus, in India, the railway system has been divided into 16 zones. The progress of railways is given in the Table 9.6

Table 9.6: Progress of Railways under the Plans since 1950-51

Particulars	1950-51	1970-71	2012-13	2013-14
Route length (km)	53,600	59,800	65,400	65,800
Electrified (km)	390	3,700	20,900	21,600
Passengers Originating (millions)	1,290	2,430	8,421	8,397
Goods Originating (million tonnes)	93	197	1014	1059

Source: Explanatory Memorandum on the Railway Budget, 2015-16 and Outcome and performance Budget of Railways for 2008-09. Ministry of Railways (Datt&Sundharam's Indian Economy,2020)

Table 9.7: The total earnings, total expenses and net earnings of Indian Railway

(In Rs Crores)

Year	Total Earnings	Total Expenses	Net Earnings
1950-51	260	210	50
1980-81	2620	2500	120
2006-07	64780	50330	14450
2010-11	96681	90335	6346
2013-14	139558	131464	11749

Source: Explanatory Memorandum on the Railway Budget, 2015-16 and Outcome and performance Budget of Railways for 2008-09. Ministry of Railways (Datt&Sundharam's Indian Economy,2020)

Oil and Gas Pipelines: Pipelines are the most convenient and efficient mode of transporting liquids and gases over long distances. Even solids can also be transported by pipelines after converting them into slurry. Oil India Limited (OIL) under the administrative set up of the Ministry of Petroleum and Natural Gas is engaged in the exploration, production and transportation of crude oil and natural gas. It was incorporated in 1959 as a company. Asia's first cross country pipeline covering a distance of 1,157 km was constructed by OIL from Naharkatiya oilfield in Assam to Barauni refinery in Bihar. It was further extended up to Kanpur in 1966.

9.4.2 Water Transport

Water transport is the most easy and cheap mode of transport. Unlike rail and road transport we do not have to construct water ways because river and seas are given by nature. It is a fuel-efficient and eco-friendly mode of transport. Water transport plays important role in case of international trade. The water transport is mainly of two types- Inland waterways and oceanic waterways.

Inland Waterways: The Inland Water Transport (IWT) mode is widely recognized as a fuel efficient, environment friendly and cost effective

mode, especially for bulk goods, over dimensional cargo and hazardous goods. Inland water transport refers to the transport facilities available in the navigable waters, canals and back waters.India has 14,500 km of navigable waterways, contributing about 1% to the country's transportation. For the development, maintenance and regulation of national waterways in the country, the Inland Waterways Authority was set up in 1986. The following waterways have been declared as the National Waterways by the Government which are discussed below:

- NW1 (Allahbad- Haldia stretch-1600km):- It is one of the most important waterways in India, which is navigable by mechanical boats up to Patna and by ordinary boats up to Haridwar. It is divided into three parts for developmental purposes– (i) Haldia-Farakka (560 km), (ii) Farakka-Patna (460 km), (iii) Patna-Allahabad (600 km).
- NW2 (Sadiya- Dhubri stretch- 891km):- Brahmaputra is navigable by steamers up to Dibrugarh (1,384 km) which is shared by India and Bangladesh.
- NW3(Kottapuram-Kollam stretch-205 km):- It includes 168 km of west coast canal along with Champakara canal (14 km) and Udyogmandal canal (23 km).
- NW4: Specified streches of Godavari and Krishna rivers along with Kakinada Puducherry stretch of canals (1078 km).
- NW5: Specified stretches of river Brahmani along with Matai river, delta channels of Mahanadi and Brahmani rivers and East Coast canals (588km).

Oceanic Waterways:Oceanic Transport means the movement of ships between the countries through sea routes. India has a vast coastline of approximate 7,517 km, including islands. Twelve major and 185 minor ports provide infrastructural support to these routes. Oceanic routes play an important role in the transport sector of India's economy. Approximately 95 % of India's foreign trade by volume and 70% by value moves through ocean routes. Apart from

international trade, these are also used for the purpose of transportation between the islands and the rest of the country.

9.4.3 Air Transport

Air transport is the fastest means of movement from one place to the other. It has reduced distances by minimizing the travel time. It is very essential for a vast country like India, where distances are large and the terrain and climatic conditions are diverse. Air transport in India made a beginning in 1911 when airmail operation commenced over a little distance of 10 km between Allahabad and Naini. But its real development took place in post-Independent period. The Airport Authority of India is responsible for providing safe, efficient air traffic and aeronautical communication services in the Indian Air Space. The authority manages 125 airports. The air transport in India is managed by two corporations, Air India and Indian Airlines after nationalization. Now many private companies have also started passenger services.Aviation in *India*, is broadly divided into military and civil aviation.

Civil aviation is one of two major categories of flying, representing all non-military aviation, both private and commercial. In our Five Year Plans, good amount of funds was invested for the development of Civil aviation in the country. The First, Second and Third Plan spent Rs.7.2 crore, Rs.16 crore, and Rs.26 crore respectively. Again in our Fourth, Fifth, Sixth and Seventh Plan a good amount of funds worth Rs.200 crore, Rs.295 crore, Rs.700 crore and Rs.760 crore were allocated respectively for the development of internal and external aviation of the country.As on December 31, 1985, the country was having 739 civil aircrafts, 91 civil aerodromes and 26 civil enclaves maintained by Ministry of Civil aviation of the country.At the end of 2006-07, total fleet strength of Air India and Indian Airlines comprised of 36 and70 aircrafts respectively. Total number of passengers carried by Air India and Indian Airlines, which were 21.61 lakh and 84.19 lakh respectively in

1990-91,gradually reached the level of 43.0 lakh and 85.7 lakh respectively in 2006-07.Subsequently in 2007-08, Air India and Indian Airlines were amalgamated. Subsequent amalgamation of Air India and Indian Airlines with National Aviation Company of India Ltd. (NACIL), the brand name "Air India has been retained with "Maharaja" as its mascot. The merged entity along with its subsidiary companies with more than 140 aircraft, would enter the list of top 30 airlines globally in terms of fleet size. An on December 31, 2008, the company has inducted 42 Boeing/ Airbus aircraft to its fleet out of 111 aircraft ordered in December, 2005. Total fleet strength of NACIL/Air India Ltd. in 2014-15 was 101. Total number of passengers handled at Indian Airports also increased from 177.23 lakh in 1990-91 to 1901.0 lakh 2014-2015. Again the total amount of cargo handled at Indian airports also increased from 377.33 thousand tonnes in 1990-91 to 2527.5. thousandtonnes in 2014-15.



CHECK YOUR PROGRESS

Q3: What do you mean by National Highway and State Highway? (Answer in about 40 words)

.....

.....

Q4: What are the types of waterways?

.....

.....

Q5: Which national waterways cover Sadiya-Dhubri Stretch of the Brahmaputa?

.....

.....

9.5 COMMUNICATION SYSTEM

Communication is the act of transmission of information. Communication system refers to the channels by which exchange of ideas, information's,

news and views takes place between different individuals, groups and institutions. The communication system of a country includes post and telegraph services, telecommunication systems, television and broadcasting and also information services etc.

9.5.1 Postal System of India

Indian Postal Services formed in 1 October,1854 by the British People. It is the cheapest mode of communication. India has the largest postal network in the world with 1,55,721 post offices in March,2020. The number of post offices was 23,344 when India got independence in 1947 and these were primarily in urban areas. The long term objective of the Department of Postal Services of Government of India is to locate post office within three kilometers of every village to provide the facility of letter box in every village with a population over 500. The Distribution of Post offices in different circles are shown in Table 9.8.

Table 9.8 : The Distribution of Post offices

Sl. No.	Circle Name	Head Post Office	Sub Post Office	Branch Post Office	Letter Box
1	Andhra Pradesh Circle	58	1518	8995	29186
2	Assam Circle	19	605	3383	13054
3	Bihar Circle	32	1031	8032	17654
4	Chhattisgarh Circle	11	341	3556	15444
5	Delhi Circle	12	372	147	803
6	Gujarat Circle	33	1190	7641	23389
7	Haryana Circle	16	490	2188	6197
8	Himachal Pradesh Circle	18	453	2324	6480
9	Jammu and Kashmir Circle	9	258	1433	4241
10	Jharkhand Circle	13	454	3355	9964
11	Karnataka Circle	58	1643	7933	28023

12	Kerala Circle	52	1457	3554	14563
13	Madhya Pradesh Circle	43	970	7264	33691
14	Maharashtra Circle	61	2153	10786	38505
15	North Eastern Circle	9	331	2579	5663
16	Odisha Circle	35	1174	7044	16097
17	Punjab Circle	22	746	3101	14561
18	Rajasthan Circle	47	1284	8976	27129
19	Tamilnadu Circle	94	2743	9303	39439
20	Uttar Pradesh Circle	36	798	4967	14151
21	Uttarakhand Circle	13	381	2328	10428
22	West Bengal Circle	72	2483	15115	48573
23	Telangana Circle	47	1724	7308	27031
Total		**810**	**24599**	**131312**	**444266**

** Cumulative data as on 31-03-2020*

Source: *Department of Posts Ministry of Communications, GOI*

The features of The Indian Postal Networkare as follows:

- It has a vast network and is within reach of the average Indian, especially in rural areas.
- It provides various facilities like speed post, business post, registered post, ordinary postetc.
- It functions like a bank, especially in unbanked areas, for making all kinds of deposits.
- Facilities like post boxes and post bags help in receiving clients' postal mail in one place.

9.5.2 Indian Telegraphs

Indian telegraphs offices are one of the oldest Government-owned public utility organizations in the World. The first telegraph line was opened in October 1851 in India between Calcutta and Diamond Harbour, a distance of 30 miles (48 kms.). But official inauguration

of this line took place on 1st November 1851. By 1854, Calcutta was linked with Agra, Bombay and Madras by telegraph network. The number of telegraph offices has increased from 8200 in 1951 to over 30,000 now.

9.5.3 Telecommunication

Telecommunication is the most important mode of communication. It establishes direct link between two parties located at different places and at any time. Telephone service was started in 1881 in India but in the last two decades, there has been tremendous growth in telecommunication sector. India has now the largest telecommunication network in Asia and world's second-largest telecommunications market with a subscriber base of 1.17 billion and has registered strong growth in the last decade. The Indian mobile economy is growing rapidly and will contribute substantially to India's Gross Domestic Product (GDP) according to a report prepared by GSM Association (GSMA) in collaboration with Boston Consulting Group (BCG). In 2019, India surpassed the US to become the second largest market in terms of number of app downloads.

Trends in Indian Telecom Sector: Telecommunication sector in India can be primarily subdivided into two broad segments, they are- Fixed Service Providers (FSPs) and Cellular Service Providers (CSPs). Indian Telecom Sector constitutes some essential telecom services like Telephone, Radio, Television, Internet etc. Now-a–days, Indian Telecom Sector is specially giving importance on latest technologies like GSM (Global System for Mobile Communication) and CDMA (Code Division Multiple Access) along with Fixed Line, PMRTS (Public Mobile Radio Trunking Services) and WLL (Wireless Local Loop).

Table 9.9: : Growth of Telephones over the years (in million)

Sr. No.	Years	Wire line	Wireless	Total Annual	Annual Growth %
1.	March, 2004	40.92	35.61	76.53	40
2	March, 2010	36.96	584.32	621.28	45
3	March, 2015	26.96	969.54	996.13	8.04
4	March, 2017	24.40	1170.59	1194.99	12.81
5	November,2019	20.27	1154.39	1174.66	-1.60

Source: Dept. of Telecommunication(DoT), Annual Report, 2010-11, 2013-14 and 2019-20



CHECK YOUR PROGRESS

Q6: When did Postal services formed in India?

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.....

Q7: What is thelong term objective of the Department of Postal Services of Government of India?

.....

.....

Q8: State whether True or false.

a) The first telegraph line was opened in October 1878.

b) Telephone service was started in 1888 in India.

c) The country has 1174.66 million telephone connections at the end of November, 2019.

d) India has now the largest telecommunication network in Asia and world's second-largest telecommunications market.



9.6 LET US SUM UP

- Sources of energy can be divided into two parts- Conventional Sources andNon-Conventional Sources.
- Conventionalsources of energy are also known as non-renewable sources of energy and are available in limited quantity.

- Non-conventional sources are also known as renewable sources of energy.
- Commercial sources of energy are generally exhaustible (with the exception of hydropower), as they are bought and sold.
- InIndia, commercial energy consumption makes up about 74% of the total energy consumed in India.
- India is the fourth-largest coal-producing country. In 2020, the annual production of coal went up to 319020 million metric tons.
- Crude Oil and Natural Gas are both fossil fuels formed from the remains of dead animal and plants over the course of thousands of years.
- Total production of Crude oil in India is 28171 Thousand Metric Tonnes in 2014-15.
- Natural gas production in 2014-15 upto December 2014 is about 25.319 Billion Cubic Metre (BCM) or 92.1 MMSCMD by ONGC, OIL and Private/ JV Companies.
- Electricity is a common source of energy and used for domestic and commercial purposes.
- Thermal Power is a vital source of electric current and its share in the total capacity of the nation in 2004-05 was 70%.
- In India, commercial energy consumption makes up about 74% of the total energy consumed. Non-commercial energy sources consisting of firewood, cow dung and agricultural wastes account for over 26% of the total energy consumption.
- There are three major means of transportation- land transport, water transport and air transport. Land transport consists of road transport, rail transport and oil & gas pipelines. Again, water transport consists of inland waterways and oceanic waterways; and air transport can be classified as national and international.
- Communication is the act of transmission of information.The communication system includes post and telegraph services, telecommunication systems, television and broadcasting, and also information services, etc.

- Indian Postal Service is the cheapest mode of communication. India has the largest postal network in the world with 1, 55,721 post offices in March,2020.
- India has the largest telecommunication network in Asia and world's second-largest telecommunications market with a subscriber base of 1.17 billion.



9.7 FURTHER READING

1. Datt, G and Mahajan,A. (2020). *Datt&Sundharam's Indian Economy.* New Delhi: S.Chand& Co.
2. Dhar, P.K. (2017). *Indian Economy Its Growing Dimensions.* New Delhi:Kalyani Publishers
3. Mishra, S.K. &Puri, V.K. (2018). *Indian Economy.* New Delhi:Himalya Publishing House.



9.8 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: There are two types of sources of energy- Conventional Sources of energy and Non-Conventional Sources of energy.

Ans to Q No 2: a) Non- conventional, b) Commercial, c) Rajasthan

Ans to Q No 3: National Highways are backbone of the road infrastructure that connects every major cities of India. These roads are constructed and maintained by the Central Government.

State highways are the roads linking major cities and towns within the state and thus connecting them to the neighbouring states, the national Highways or state highways. State Highways are constructed and maintained by state governments.

Ans to Q No 4: The waterways are mainly of two types- Inland waterways and oceanic waterways.

Ans to Q No 5: NW2 covers Sadiya- Dhubri stretch of the Brahmapura

Ans to Q No 6: Postal Services formed in 1 October,1854 in India.

Ans to Q No 7: The long term objective of the Department of Postal Services of Government of India is to locate post office within three kilometers of every village to provide the facility of letter box in every village with a population over 500.

Ans to Q No 8: a) False b) False c) True d) True



9.9 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Write a brief note on Commercial Sources of Energy.

Q 2: Discuss the various sources of non-commercial energy.

Q 3: What are the different modes of land transport? Discuss briefly.

Q 4: Write a short note on Oil and Gas Pipeline.

Q 5: Give a snapshot on present status of Postal services of India.

Essay type Questions (Answer each question in about 300-500 words)

Q 1: Discuss the energy infrastructure development in India.

Q 2: Explain the transport and communication sectors in India.

Q 3: Write a short note on telecommunication in the context of Indian Economy.

*** ***** ***

UNIT 10: URBANISATION IN INDIA

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Concept of Urbanisation

- 10.3.1 Urbanisation in India

10.4 Trend of Growth in Urban Population in India since 1991

- 10.4.1 Level of Urbanisation in India

10.5 Growth and Composition of Urban Working Population

- 10.5.1 Urban Employment Trends Between 1999-00 and 2004-05
- 10.5.2 Nature of Urban Working Population
- 10.5.3 Industry-wise Break up of Working Population

10.6 Problems of Urbanisation in India

10.7 Growth of Urban Infrastructure in India

- 10.7.1 Demand for Urban Infrastructure in India
- 10.7.2 Major Infrastructure Projects Currently Ongoing in India
- 10.7.3 Recent Government Initiatives for Urban Infrastructure Development in India

10.8 Let Us Sum Up

10.9 Further Reading

10.10 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to–

- discuss the concept of urbanization and the level of urbanization in India
- describe the trend of growth in urban population in India
- explain growth and composition of urban working population in India
- trace the problems and growth of urbanisation in India
- outline some of the recent Government initiatives in the area of urban infrastructure development in India. context

10.2 INTRODUCTION

In the previous units we have already discussed infrastructure development in India. In this Unit, we shall primarily discuss urbanization in India. Urbanisation refers to the population shift from rural to urban areas, the corresponding decrease in the proportion of people living in rural areas, and the ways in which societies adapt to this change. In this Unit, we shall discuss the causes, trend and a few related issues relating to urbanisation in India.

10.3 CONCEPT OF URBANISATION

Urbanisation (or urbanization) refers to the population shift from rural to urban areas, the corresponding decrease in the proportion of people living in rural areas, and the ways in which societies adapt to this change. Thus, the term urbanisation is often used more loosely, to refer to a broad-based rural-to-urban transition involving population, land use, economic activity and culture, or indeed any one of these. Thus, it is frequently used to refer to changes in land-use for specific areas (usually on the periphery of urban concentrations) as this land becomes 'urbanised' and is sold and developed for urban use (e.g. the sale of plots for housing).

10.3.1 Urbanisation in India

In India, population and economic growth has fostered urbanization as is evident from increased number of urban towns and cities. Studies have shown that this growth is expected to continue in the years to come.

There are several factors that have led to rapid urbanization in India. The two major factors are population growth and migration from rural to urban areas. Recently, a third factor has been seen as a huge contributor to the urbanization growth: the expansion of towns and cities. This factor is due to the high economic growth that the city has witnessed over the years. Because of this, Government in India has decided to provide major thrust to promote urbanization in the country. This is evident from the fact that in the recent years,

initiatives have been taken to develop a number of smart cities in various important locations throughout the country and other such initiatives.

At present, there are nine major cities in India: New Delhi, Mumbai, Bangalore, Hyderabad, Ahmedabad, Chennai, Kolkata, Surat and Pune. Other than that, Government also has initiated the smart cities mission in a few major cities in India. We shall discuss this later.

10.4 TREND OF GROWTH IN URBAN POPULATION IN INDIA SINCE 1991

In India out of the total population of 1210.2 million as on 1st March, 2011, about 377.1 million are in urban areas. The net addition of population in urban areas over the last decade (2001-2011) is 91.0 million. The percentage of urban population to the total population of the country stands at 31.6. There has been an increase 3.35 percentage points in the proportion of urban population in the country during 2001-2011.The provisional results of Census 2011 reveals that there is an increase of 2774 towns comprising 242 Statutory and 2532 Census towns over the decade. Growth rate of population in urban areas was 31.8 per cent (Table 10.1).

Table 10.1: Population Census 2001 and 2011

	Persons in million numbers		**Decadal growth in population per cent**	
	2001	2011	1991-2001	2001-2011
Total	1029	1210	21.5	17.6
Rural	743	833	18.1	12.2
Urban	286 (27.8 per cent of total)	377 (31.1 per cent of total)	31.5	31.8 (+0.3 per cent of total)

Further, the number of million plus cities/urban agglomeration (UA) has increased from 35 in Census 2001 to 53 in Census 2011. The new entrants are Srinagar (Jammu and Kashmir),Union Territory of Chandigarh, Jodhpur and Kota (Rajasthan), Ghaziabad (Uttar Pradesh), Ranchi (Jharkhand), Raipur and Durg-Bhilainagar (Chattisgarh), Gwalior (Madhya

Pradesh), Vasai Virar and Aurangabad (Maharashtra), Kozhikode, Thrissur, Malappuram, Thiruvananthapuram, Kannur and Kollam (Kerala), and Tiruchirapalli(Tamil Nadu). So while the States of Jammu and Kashmir and Chattisgarh now also have million plus city/UA, Kerala now has as many as 7 million plus cities/UA, a quantum jump from the situation in 2001 when just Kochi UA was a million plus city/UA.



CHECK YOUR PROGRESS

Q 1: Define urbanisation.

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.....

Q 2: Mention any three reasons that may be pointed out for urbanisation in India.

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.....

10.4.1 Level of Urbanisation in India

Among all the States and Union territories, the National Capital Territory (NCT) of Delhi and the Union territory of Chandigarh are most urbanized with 97.5 percent and 97.25 percent urban population respectively, followed by Daman and Diu (75.2 percent) and Puducherry (68.3 percent).

Among States, Goa is now the most urbanised State with 62.2 percent urban population, a significant increase since 2001 when urban population of Goa was 49.8 per cent. Another significant instance of rapid urbanisation is that of Kerala, its urban population is now 47.7 per cent, while a decade ago it was just 25.9 percent. Among the North-Eastern States, Mizoram is most urbanised with 51.5 per cent urban population, though in terms of absolute contribution to total urban population in the country, Mizoram's contribution is just 0.1 per cent. Similarly, Sikkim, which was just 11.0 per cent urbanised a decade ago became almost 25 percent urbanised in 2011. Among major states, Tamil Nadu continues to be

the most urbanized state with 48.4 percent of the population living in urban areas followed now by Kerala (47.7 per cent) upstaging Maharashtra (45.2 percent).

The proportion of urban population continues to be the lowest in Himachal Pradesh with 10.0 per cent followed by Bihar with 11.3 percent, Assam (14.1 percent) and Orissa (16.7 percent).

In terms of absolute number of persons living in urban areas, Maharashtra continues to lead with 50.8 million persons which comprise 13.5 percent of the total urban population of the country. Uttar Pradesh accounts for about 44.4 million, followed by Tamil Nadu at 34.9 million.

10.5 GROWTH AND COMPOSITION OF URBAN WORKING POPULATION

A study conducted by Martha Alter Chen and G. Raveendran (2014) reveals some important pattern relating to urban employment in India. Some of their important findings include:

10.5.1 Urban Employment Trends Between 1999-2000 and 2004-05

The study found that during this period, employment in urban India grew at a faster rate per year (3.22 per cent) than in rural India (1.97 per cent). As of 2004-05, over half (54 per cent) of the urban working age (15+) population (79 per cent of men but only 24 per cent of women) was in the labour force, either actively working or unemployed but actively seeking work. The unemployment rate was higher among women (7 per cent) than among men (4 per cent) in the urban labour force.

But after 2004-05, there was a marked slowdown in employment growth in both rural and urban India. By 2011-12, just under half (49 per cent) of the urban working age population (76 per cent of men but only 21 per cent of women) was in the labour force, either actively working or unemployed but actively seeking work.

Significantly, during this time, there was a decline in the labour force participation rate of women by three percentage points.

10.5.2 Nature of Urban Working Population

The above study further found out that out of the total urban workers, 59 per cent work in informal enterprises (IE) or households (HH); others work in formal enterprises (FE) (34 per cent) or in agricultural activities (AG) (7 per cent). Similarly, the study also came up with the following important findings:

- Among the urban self-employed, 74 per cent are own account workers (who did not hire others), 20 percent are unpaid contributing family workers, and only 6 per cent are employers.
- Of the urban wage employed, just under one third (32 per cent) are formally employed and just over two thirds (68 per cent) were informally employed. In sum, 80 per cent of all urban workers (80 per cent of men and 82 per cent of women) are informally employed.



LET US KNOW

According to the International Labour Organisation (ILO), the informal refers to organisations in the informal sector (i.e., those not registered with a local authority and not paying taxes), and the activities of firms in the formal sector that employ informal workers (i.e., workers without a formal work contract and without any safety net). Thus, the enterprises in the informal sector are known as informal enterprises.

During the last three decades, in most developing countries, growth of employment in the formal sector has stagnated or, at best, shown a gradual ascent, while the informal economy has increased significantly. For instance, in India, the informal economy accounts for about 93 per cent of total employment.

Significantly, the informal sector also reigns in the high-income countries. It is estimated that the percentage of the gross national income attributable to the informal sector is 27 per cent in Italy, 18.3 per cent in Finland, 16.3 per cent in Germany, 15.3 per cent in France, 8.8 per cent in the US and 3 per cent in Canada.

Indeed, the informal sector acts as a niche to absorb a part of the retrenched formal sector workers in developed countries and the bulk of workers in developing ones. The informal sector is the primary source of job for most of the women, in the form of self-employment (selling directly to consumer), contract labour (producing for another organisation regularly), casual labour (working on and off for other organisations) or contributing family members.

10.5.3 Industry-wise Break up of Working Population

With regard to the industry-wise break up of working population, the study found that as of 2011-12, the largest percentages of both men and women urban workers were in non-trade services, followed by manufacturing for women and trade for men. The other major findings include the following:

- Between 1999-00 and 2011-12, among male urban workers, there was a slight increase in informal employment in manufacturing and non-trade services (both domestic work and waste picking), and a slight increase in both formal and informal employment in construction; and a slight decrease in both formal and informal employment in transport: by one to four percentage points in each case.
- Among female urban workers, there was an increase in informal employment in manufacturing (especially home-based) and non-trade services (notably domestic workers and waste pickers) and a decrease in informal employment in trade and construction: by 4 to 8 percentage points in each case except construction (1 per cent).

- Among both women and men informal workers, the percentage engaged in waste picking more than doubled from less than one percent to 6 and 2 per cent, respectively.
- While informal employment in manufacturing increased among urban women workers (to 27 per cent), the percentage of those who manufactured goods in their own homes increased significantly (to 72 per cent). And while the percentage of informal employment of urban women in trade decreased only by four percentage points, the percentage of informal women traders who sold goods from the street decreased to half of the earlier share.
- It should also be noted that the percentage of urban women engaged as domestic workers increased from 31 per cent in 1999-00 to 39 per cent in both 2004-05 and 2011-12. At all three points in time, a higher percentage of women urban workers than men urban workers in the different branches of industry were informally employed, except in construction, transport and trade.



CHECK YOUR PROGRESS

Q 3: Which states/UTs are most urbanised in India?

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Q 4: In which state of India, most of the population live in rural areas?

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10.6 PROBLEMS OF URBANISATION IN INDIA

The major problems associated with urbanisation in India are as follows:

- **Unplanned expansion:** Unplanned expansion of the cities, both in terms of population and geographical area, of rapidly growing cities is the root cause of urban problems. In most cities the economic

base is incapable of dealing with the problems created by their excessive size. Massive immigration from rural areas as well as from small towns into big cities has taken place almost consistently; thereby adding to the size of cities.

- **Overcrowding:** Overcrowding is a logical consequence of over-population in urban areas. It is naturally expected that cities having a large size of population squeezed in a small space must suffer from overcrowding. This is well exhibited by almost all the big cities of India.
- **Housing:** Housing provision for the growing urban population is one of the major challenges before the government. The growing cost of houses in comparison to the income of the urban middle class has made it impossible for majority of lower income groups and is residing in congested accommodation and many of those are devoid of proper ventilation, lighting, water supply, sewage system, etc.
- **Sanitation:** The poor sanitation condition is another gloomy feature in urban areas and particularly in slums and unauthorized colonies of urban areas in India. The drainage system in many unorganized colonies and slums do either not exist and if existing, are in a bad shape and in bits resulting in blockage of waste water. These unsanitary conditions lead too many sanitation related diseases such as diahorrea and malaria. Unsafe garbage disposal is another critical problem in urban areas and in most of the Indian cities, garbage management always remains a major challenge.
- **Environmental concern**: Vulnerability to risk posed by the increasing man-made and natural disasters. The risk is higher in urban areas owing to density and overcrowding. Urban areas are becoming heat islands, ground water is not being recharged and water crisis is persistent. Here making, water harvesting compulsory will be beneficial.
- **Poverty:** Today roughly one third of the urban population lives below poverty line. There are glaring disparities between haves and have-nots in urban areas. The most demanding of the urban challenges

unquestionably is the challenge posed by poverty; the challenge of reducing exploitation, relieving misery and creating more human condition for urban poor.

- **Transport:** As high income individuals in the urban areas are buying more private vehicles, they use less public transport. Such huge number of vehicles in cities is causing more traffic jam, as well as increased pollution. Also the penetration of public transport is less, which makes people use private vehicle. On overall, there is also lack of infrastructure and poor maintenance of existing public transport infrastructure.
- **Unemployment:** The problem of unemployment is no less serious than the problem of housing mentioned above. Urban unemployment in India is estimated at 15 to 25 per cent of the labour force. This percentage is even higher among the educated people. Significantly, in the current phase of COVID-19 pandemic, the situation is only turning worse.
- **Water:** Water is one of the most essential elements of nature to sustain life and right from the beginning of urban civilization, sites for settlements have always been chosen keeping in view the availability of water to the inhabitants of the settlement. However, supply of safe and clean drinking water started falling short of demand as the cities grew in size and number. Various studies have shown that most of the cities in India are already facing or going to face huge water crisis in the coming days. These have also adversely affected the rural agricultural sector, as most the cities are being fed with water of the rural areas only. This is because, it has been seen that through installation of storm water drains spanning over hundreds of kilometres, water from rural areas are being drained and transported to the urban areas.
- **Garbage Disposal:** As Indian cities grow in number and size the problem of garbage disposal is assuming alarming proportions. Huge quantities of garbage produced by our cities pose a serious health problem. Most cites do not have proper arrangements for garbage

disposal and the existing landfills are full to the brim. These landfills often serve as hotbeds of disease and innumerable poisons leaking into their surroundings.



LET US KNOW

Delhi is the capital of India and has been bearing the brunt of air pollution over the past several decades. The 16.8 million population of the National Capital Territory of Delhi have been subject to average PM2.5 levels of 132 µg/m3 in 2014, 2015 and 2016 while the WHO annual standard for clean air is 10 µg/m3. The Air Quality Index for Delhi recorded the highest PM2.5 level (24 hrs) in November 2019 at 625 µg/m3, 25 times higher than the World Health Organization (WHO)- prescribed safe levels of 25 µg/m3 (24-hour average) and over ten times higher than the more relaxed Indian standard of 60 µg/m3.

10.7 GROWTH OF URBAN INFRASTRUCTURE IN INDIA

According to the High Powered Expert Committee (HPEC) appointed by the Ministry of Urban Development, Government of India, which gave its recommendations to the Government in the year 2011, there is a requirement of investment in urban infrastructure to the tune of 39 Billion (39.2 lakh crore at 2009-2010 prices) over the next 20 years.

As per estimates of the HPEC, as the backlog in urban roads is very large, 44 per cent of this investment requires to be for urban roads, while water, sewerage, solid waste management, storm water drains, streetlights would require another 20 per cent of investment, while 14 per cent investment would be required for transport and traffic related infrastructure. Among others, urban renewal including redevelopment of slums would require 10.5 per cent of investment and capacity building for better urban governance 2.5 per cent of investment.

Considering the huge estimated requirement of investment, sums of these magnitudes cannot be located only from within the budgetary

resources of Central, State and Local Governments. A compulsion has, therefore, arisen to access financial resources from the market, and induce the private sector to participate in urban development programmes as a policy.

10.7.1 Demand for Urban Infrastructure in India

India's urban population is growing rapidly and placing immense pressure on its cities. Some of the important considerations with regard to the demand for urban development in India include:

- Each year, about 10 million people move from rural areas to towns and cities.
- This rural migration, combined with urban population growth, means India adds an urban population equivalent to three Los Angeles city in the USA each year.
- By 2025, India will have 69 cities with a population of one million or more.
- By 2035, India's urban population is expected to reach 640 million.
- India's urban infrastructure lags behind economically comparable nations and requires significant investment to upgrade existing, as well as create new infrastructures.
- India's cities already face traffic congestion and pollution, infrastructure deficits, governance problems and suffer from poor connectivity to essential services.
- Together, these factors are likely to adversely affect commerce, limit employment opportunities and hamper the health of citizens.

In Table 10.2, we discuss service demands of a few important urban infrastructures in India.

Table 10.2: Projected Service Demands of Urban Infrastructure in India

Infrastructure	Service Demand
Urban water supply	➢ No Indian city receives piped water 24 hours a day, seven days a week. ➢ 47 per cent of households have individual water connections. ➢ Average duration of water supply in urban areas is one to six hours per day. ➢ Around 40 per cent of available water in India is unusable for any purpose.
Sanitation	➢ No Indian city has a sewerage system covering its entire population. ➢ 4,861 cities lack even partial sewerage networks. ➢ 37 per cent of urban households are connected to open drainage; 18 per cent are unconnected and have no access to toilet facilities
Affordable housing	➢ There are 65 million slum dwellers in India according to 2011 census data. ➢ At current rates 38 million urban housing units will be needed by 2030.
Waste	➢ Waste collection services cover 70–90 per cent of needs in major cities, but less than 50 per cent in smaller cities. ➢ Less than 30 per cent of solid waste is segregated.
Road safety	➢ Although India has about 1 per cent of the world's vehicles it accounts for more than 10 per cent of global road fatalities.

Source: *https://www.dfat.gov.au/geo/india/ies/chapter-9.html*

Please note that of these key urban infrastructure deficits, water deserves particular consideration. Following facts are important in this regard:

- India is likely to face a water security crisis before 2030, when demand is projected to outstrip supply.
- Around 50 per cent of urban water demand will remain unfilled in 2030.
- The water in nearly half of the country's interstate rivers has been assessed as unfit for any purpose due to pollution.
- Agricultural production already uses 80 per cent of India's water, is depleting groundwater levels and will continue to increase to feed the growing population. this will leave less water available

for urban domestic use. India therefore has a dire need for more efficient water use and management.

10.7.2 Major Infrastructure Projects Currently Ongoing in India

The following are the top ongoing mega projects in India, most of which will also help in boosting the urban infrastructure development in the country.

- **Delhi-Mumbai Trade Corridor (DMIC) worth US $90bn**: The Delhi-Mumbai Trade Corridor is a 1,483 km railway track worked into nine "Mega Industrial Zones". The main aim of the billion dollar scheme is to create a quick, reliable trade route linking the north of India to the south.

  Currently, it takes 14 days to transfer cargo along this route. It is expected that with the DMIC's completion, it will take just 14 hours.
- **Gujarat International Finance Tec-City (GIFT) worth US $20bn:** The GIFT city project, which kicked off in 2016 was conceived to focus on promoting India as a financial power. It will cover a construction area of 8.5 million square metres. 200 skyscrapers, some upwards of 80 metres tall, will dot the area, rivalling other financial districts in scope.
- **World One Tower worth US $321m:** World One is a tall residential skyscraper under construction in Mumbai. Designed by world famous fashion icon Giorgio Armani, the project is located in Lower Parel and being built on a 17.5-acre site of the defunct Shrinivas Mill. At a sky-piercing 117 stories, and over 440 metres in height, World One in Mumbai will be the world's tallest purely residential structure. The complex will feature swimming pools, gyms, a health club and even a cricket pitch complete with pavilion.
- **Navi Mumbai International Aiport (NMIA):** NMIA is one of the biggest greenfield airport projects in the world which is expected

to handle 10 million passengers in its first year of operation, and a capacity of 60 million per year by 2030.NAMI will cover 11.6 square kilometres once built, with two parallel runways and a terminal building situated in between them. It will have to divert the nearby Ulwe River, flattening of hills, levelling ground and clearing green patches.

- **Lokhandwala Minerva:** Lokhandwala Minerva complex will become a huge presence in the Mumbai skyline. It stretches over 82 storeys to reach over 300 metres in height and built on former slum land, acquired using various schemes including providing free land and rehabilitation for those moved.
- **Diamond Quadrilateral project:** The Diamond Quadrilateral is a project of the Indian railways to establish a high speed rail network in India. The Diamond Quadrilateral will connect the four mega cities in India, Delhi, Mumbai, Kolkata and Chennai, similar to the Golden Quadrilateral expressway system.
- **High-speed train:** High-speed train on Mumbai-Ahmedabad section will be the first high-speed train corridor to be implemented in the country. The project was launched in 2014 by the Government led by Prime Minister Narendra Modi.
- **India-Japan Coordination Forum:** Further, India and Japan have joined hands for infrastructure development in India's Northeast states and are also setting up an India-Japan Coordination Forum for Development of Northeast to undertake strategic infrastructure projects for the region.

10.7.3 Recent Government Initiatives for Urban Infrastructure Development in India

The Government of India recognises the urbanisation challenges it faces and has introduced a number of important policies and campaigns in an effort to manage the development of cities. The most notable programs are discussed below:

- **100 Smart Cities Mission:** India's 100 Smart Cities Mission was launched in June 2015 and has committed Central Government funding of $9–11 billion and will be matched by state governments. Some of the important facts in this regard are:

  The Smart Cities Mission is focused on providing core infrastructure, decent quality of life and sustainable environments in five segments – security, transportation, water, energy and solid waste

  - The funding it provides is seed money to attract financing from other private and multilateral sources
  - States and local bodies will have equity stakes in projects and are expected to attract private capital
  - The plans are expected to be implemented through Special Purpose Vehicles, which will be structured to be more flexible than traditional government funding mechanisms
  - The Asian Development Bank is providing assistance to some Smart Cities programs in India, including in water and waste management.
- **Atal Mission for Rejuvenation and Urban Transformation (AMRUT):** Atal Mission for Rejuvenation and Urban Transformation is a nation-wide initiative aimed at improving provision of basic services such as water supply, sewerage systems, storm water management and urban transport. The Central Government has allocated over $9 billion, mainly for project funding.
- **Housing for All:** The Housing for All project has ambitious targets for building housing for low income groups in urban areas by 2022.
- **Swachh Bharat Mission:** Swachh Bharat Mission is the main program driving the campaign to make cities cleaner. It aims to introduce modern solid waste management, improve sanitation and enable private sector engagement.

- **Infrastructure Programs:** Other important infrastructure projects include:
  - In public transport, the government has committed to expand metro lines and operationalise bus transit systems. Bullet train projects have also been implemented with the collaboration of Japan.
  - In road safety, the central and state governments of India have allocated a considerable budget to work with international companies to adopt new technologies and services.
  - For water, the Central Ministry of Water Resources, River Development and Ganga Rejuvenation have a comprehensive National Water Policy.



ACTIVITY 10.1

Prepare the list of cities in which the Smart Cities Mission have been undertaken. Which city from North East has been included in the project?

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.....

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CHECK YOUR PROGRESS

Q 5: What is the Diamond Quadrilateral mission?

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.....

Q 6: Mention the major objectives of the Swachh Bharat Mission.

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Initiative and investment announced in Union Budget, 2021: In Union Budget 2021, the government has given a massive push to the infrastructure sector by allocating Rs. 233,083 crore (US$ 32.02

billion) to enhance the transport infrastructure. The government expanded the 'National Infrastructure Pipeline (NIP)' to 7,400 projects. Two hundred seventeen projects worth Rs. 1.10 lakh crore (US$ 15.09 billion) were completed as of 2020. The key highlights of the Budget 2021 are as follows:

- In May 2021, Minister for Road Transport & Highways and Micro, Small and Medium Enterprises, Mr. Nitin Gadkari stated that the government is giving utmost priority to infrastructure development and has set a target of road construction of worth Rs.15 lakh crore (US$ 206 billion) in the next two years.
- The Ministry of Railways plans to monetise assets including Eastern and Western Dedicated Freight Corridors after commissioning, induction of 150 modern rakes through PPP, station redevelopment through PPP, railway land parcels, multifunctional complexes (MFC), railway colonies, hill railways and stadiums.
- In March 2021, the government announced a long-term US$ 82 billion plan to invest in the country's seaports. 574 projects have been identified, under the Sagarmala project, for implementation through 2035.
- In April 2021, the Ministry of Power (MoP) released the draft National Electricity Policy (NEP) 2021. The MoP created an expert committee including members from state governments, the Ministry of New and Renewable Energy (MNRE), NITI Aayog and the Central Electricity Authority (CEA).
- In March 2021, the Parliament passed a bill to set up the National Bank for Financing Infrastructure and Development (NaBFID) to fund infrastructure projects in India.
- Indian railways received Rs. 1,10,055 crore (US$ 15.09 billion), of which Rs. 1,07,100 crore (US$ 14.69 billion) is for capital expenditure.
- Rs. 1,18,101 crore (US$ 16.20 billion) has been allocated towards road transport and highway sector.

- India plans to spend US$ 1.4 trillion on infrastructure during 2019-23 to have a sustainable development of the country. The Government has suggested investment of Rs. 5,000,000 crore (US$ 750 billion) for railways infrastructure from 2018-30.



10.8 LET US SUM UP

- Urbanisation (or urbanization) refers to the population shift from rural to urban areas, the corresponding decrease in the proportion of people living in rural areas, and the ways in which societies adapt to this change.
- In India, population and economic growth has fostered urbanization as is evident from increased number of urban towns and cities. Studies have shown that this growth is expected to continue in the years to come.
- In India out of the total population of 1210.2 million as on 1st March, 2011, about 377.1 million are in urban areas. The net addition of population in urban areas over the last decade is 91.0 million.
- Among all the States and Union territories, the National Capital Territory (NCT) of Delhi and the Union territory of Chandigarh are most urbanized with 97.5 percent and 97.25 percent urban population respectively, followed by Daman and Diu (75.2 percent) and Puducherry (68.3 percent).
- According to the High Powered Expert Committee (HPEC) appointed by the Ministry of Urban Development, Government of India, which gave its recommendations to the Government in the year 2011, there is a requirement of investment in urban infrastructure to the tune of 39 Billion (39.2 lakh crore at 2009-2010 prices) over the next 20 years.
- The Government of India recognises the urbanisation challenges it faces and has introduced a number of important policies and campaigns in an effort to manage the development of cities.



10.9 FURTHER READING

1. Dhar, P.K. (2018), *Indian Economy Its Growing Dimension*, Kalyani Publishers.
2. Kapila, U. (2016), *Indian Economy Since Independence,* 26th Edition, Academic Foundation, New Delhi
3. Mukherjee, D. (2019), *Indian Economy Since Independence,* New Central Book Agency (p) Ltd.



10.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Urbanisation is frequently used to refer to changes in land-use for specific areas (usually on the periphery of urban concentrations) as this land becomes 'urbanised' and is sold and developed for urban use (e.g. the sale of plots for housing).

Ans to Q No 2: The main causes of urbanization in India are the following:

- Expansion in government services, as a result of Second World War.
- Migration of people from Pakistan after partition of India.
- The Industrial Revolution.

Ans to Q No 3: Among States, Goa is now the most urbanised State with 62.2 percent urban population, a significant increase since 2001 when urban population of Goa was 49.8 per cent.

Ans to Q No 4: The proportion of rural population is highest in Himachal Pradesh where 90.0 per cent of population live in the rural areas.

Ans to Q No 5: The Diamond Quadrilateral is a project of the Indian railways to establish a high speed rail network in India. The Diamond Quadrilateral will connect the four mega cities in India, Delhi, Mumbai, Kolkata and Chennai.

Ans to Q No 6: The major objectives of Swachh Bharat Mission are to introduce modern solid waste management, improve sanitation and enable private sector engagement.



10.11 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words)

Q 1: Discuss the concept of urbanization.

Q 2: Mention the causes of urbanization in India

Long Questions (Answer each question in about 300-500 words)

Q 1: Discuss the trend of growth in urban population in India since 1991.

Q 2: Discuss the growth and composition of urban working populationin India.

Q 3: Discuss the nature of urban working populationin India.

Q 4: Briefly discuss industry-wise break up of urban working populationin India.

Q 5: Discuss the major problems of urbanisation in India.

Q 6: Discuss the various demands for urban infrastructure in India.

Q 7: Discuss the major infrastructure projects currently ongoing in India.

Q 8: Explain recent government initiatives for urban infrastructure development in India.

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UNIT 11: INCLUSIVE GROWTH

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Inclusive Growth: Concept and Rationale

11.4 Inter-Regional Exclusion in India

11.5 Inter-Community Exclusion in India

11.6 Inclusive Growth Strategies Adopted in the Five Year Plans

11.7 Let Us Sum Up

11.8 Further Reading

11.9 Answer to Check Your Progress

11.10 Model Questions

11.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the concept and rationale of inclusive growth
- explain inter-regional exclusions in India
- describe inter-community exclusions in India
- explain the different policy measures adopted by the Government through the Five Year Plans to bring about social equality in India.

11.2 INTRODUCTION

Inter-regional and inter-community disparities in development are important issues in India. This is reflected from various economic and social indicators. In this unit, we shall discuss the problem of social inequality in India from regional and inter-community perspectives. Towards the end, a few policy measures adopted by the Government in the various five year plans have also been discussed.

11.3 INCLUSIVE GROWTH: CONCEPT AND RATIONALE

The concept of Inclusive Growth can be traced back to post World War II development theories, when it was thought that development followed a pre-determined path. The idea was that income growth not only produces but also needs inequality, which would eventually decline as economies grow. However, this theory was later challenged in many countries where growth produced more inequality. It was then argued that equity can and should be a part of the growth process, as reducing inequality can contribute to both reducing and making growth more sustainable.

While growth still remains the most important component of any poverty reduction attempt, redistributive growth is more likely to be effective than distribution-neutral growth. In this context, the notion that poor people actually benefit from growth emerged. Pro-poor growth, however, is understood in different ways ranging from growth that improves the conditions of the poor to growth where the poor benefit more than the rich; or even from the creation of policies to benefit the poor to ones that stress the importance of adding non-income dimensions to policies, as poverty is a multidimensional phenomenon.

It should be noted here that the concept of inclusive growth is often used synonymously the term 'pro-poor growth' but in reality inclusive growth is actually a broader concept. *Inclusive growth allows opportunities for everyone to participate in the growth process while making sure that benefits are shared.* Given that the poor face challenges that impair their conditions and limit their opportunities, hence, to be inclusive, growth should benefit everyone while reducing the disadvantages faced by the poor, both in terms of benefits enjoyed and, especially, in terms of access to opportunities for participation.

The concept of inclusive growth was quickly integrated into the development literature and policymaking, virtually becoming sine-qua-non of any discussion about improving living conditions across the globe, more particularly in the developing world. This has happened despite the lack of

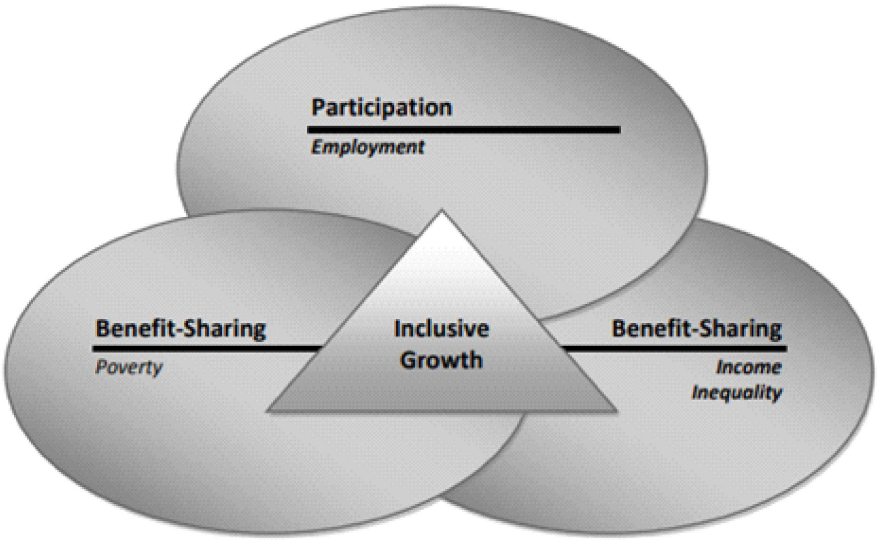
a consensus on what constitutes inclusive growth. The term, however, witnessed widespread usage based on the shared intuition that it refers to improvements in peoples' lives without discrimination, although involving diverse conceptualisations.

In this context, many thinkers have pointed out that inclusive growth is intimately related to pro-poor growth, which requires that both poverty and inequality be reduced.However, the two differs in their content.It is commonly held that pro-poor growth primarily focuses on people below the poverty line, while inclusive growth is arguably more general: it intends growth to benefit allsections of society, of course including the poor.Thus, according tothis concept, inclusive growth is the kind of growth that reducesthe disadvantages of the most disadvantaged while benefitting everyone, whereas pro-poor growth occurs either in the absence of benefits to one or more groups or at the expense of one or more groups.

Another distinguishing feature of inclusive growth is that unlike pro-poor growth, rather than being limited to outcomes (mostly income outcomes), it extends to include the manner or the processby which growth takes place. Thus, inclusive growth has been conceptualised as the kind of growth that promotes development, where developmententails comprehensive improvements in multiple dimensions, includingboth living conditions as well as empowerment.

The International Policy Centre for Inclusive Growth (IPCIG) in their paper *Mapping Inclusive Growth* has explained inclusive growth as a two dimensional process, viz., benefit-sharing and participation. Figure 11.1 presents the two dimensions and their indicators, as was discussed by IPCIG, in which inclusive growth has been analysed in two steps. The first part focuses on the benefit-sharing dimension, through an analysis of income inequality and poverty indicators. The second part includes the participation dimension in the analysis by adding employment indicators.

Figure 11.1: Inclusive Growth: Dimensions and Indicators.



Source: IPCIG, (2012). *Mapping Inclusive Growth*

Two aspects noticeable in the above approach have beenunderlined by IPCIG. *First,* the benefit-sharing dimension looks into whether the process led to a decrease in poverty and income inequality. This segment of the analysis is aligned with the concept of 'relative pro-poor growth', which differs from 'absolute pro-poor growth' due to the understanding that, for growth to be pro-poor, poor people's income must grow faster than that of wealthier people, resulting in a decrease in inequality. *Second,* the participation dimension considers how the society is involved in the growth process, given that such involvement is essential for promoting social coherence and for capacity-building, which are crucial for the sustainability of inclusive growth processes. Analysed in the economic sphere, a participatory process can be characterised by one generating employment for majority of country's population. The employment ratios, therefore, serve as a proxy for participation.

In the Indian context, the Eleventh Five Year Plan (FYP) has visualised inclusive growth as a growth process which yields broad-based benefits and ensures equality of opportunity for all. The Twelfth plan further reiterated the need of Inclusive Growth in India.



CHECK YOUR PROGRESS

Q 1: What is meant by inclusive growth? Answer in about 50 words.

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11.4 INTER-REGIONAL EXCLUSION IN INDIA

One of the major challenges in India resulting in widespread social inequality is the slow progress in social indicators and human development despite high economic growth. One example is that nearly 40 per cent of our children suffer from malnutrition in 2015-2016. Quality of employment, health, and education are major concerns. The approach of growth with equity has been followed since independence. However, the focus has been more on reducing absolute poverty than inequality. In the following section we shall discuss regional/inter-state disparities in India with regard to a few economic indicators.

State Per-Capita Income

The most important indicator of regional disparity is the difference in per capita income of the States. In most of the years States like Punjab, Haryana, Maharashtra, Gujarat, Karnataka, Tamil Nadu and Kerala have achieved higher per capita income when compared with Orissa, Bihar, M.P, UP, Assam and Rajasthan. In Table 11.1, we have shown per capita income of a few Indian states in recent years based on constant price of 2004-05 and 2011-12.

Table 11.1: Per Capita Net State Domestic Product of Select Indian States at Constant Prices

State/UT	Base: 2004-05		Base: 2011-12		
	2004-05	**2009-10**	**2013-14**	**2015-16**	**2019-20**
Andhra Pradesh	25959	35677	72254	88609	115333
Arunachal Pradesh	26721	33893	77044	85020	-
Assam	16782	20406	43002	50642	62796
Bihar	7914	10635	22776	24064	31287
Delhi	63877	97525	200702	233115	283636
Goa	76968	95320	188358	278601	-
Gujarat	32021	49168	102589	120683	-
Haryana	37972	55044	119791	137818	180026
Himachal Pradesh	33348	43492	98816	112723	146268
Jharkhand	18510	21534	43779	44524	57863
Karnataka	26882	37294	101858	116813	161931
Kerala	32351	47360	107846	120387	-
Madhya Pradesh	15442	20959	42548	47351	59929
Maharashtra	36077	54246	109597	122889	-
Manipur	18547	21810	41441	46389	-
Meghalaya	23079	29306	58681	56039	66153
Mizoram	24662	34699	67594	91845	-
Nagaland	30441	40590	58619	60663	-
Odisha	17650	22846	54762	58838	80330
Punjab	33103	42831	93238	100141	120569
Rajasthan	18565	24304	61053	68565	81355
Sikkim	26690	60774	168897	195066	255772
Tamil Nadu	30062	47394	102191	115875	153853
Telangana	24409	37183	96039	112267	153927
Tripura	24394	34544	54645	61612	89285
Uttar Pradesh	12950	16390	34044	36973	45648
Uttarakhand	24726	44557	112803	126952	-
West Bengal	22649	29799	53811	57255	71757

Table 11.1 reflects wide disparity in per capita net state domestic product across Indian states. For example, while per capita NSDP in Goa in 2015-16 is Rs 2.78 lakh, it is just over Rs 24 thousand in Bihar.

Inter-State Disparities in Agricultural and Industrial Development: Punjab, Haryana and part of U. P. has recorded high rate of productivity in agriculture due to extensive irrigation, use of high yielding variety seeds, improved technology and higher level of fertiliser use. On the other hand, states like Assam, Bihar, Orissa and Uttar Pradesh have been lagging behind in respect agricultural productivity as well as of the pace of industrialisation.

Spatial Distribution of Industries:

Uneven distribution of industries is another important indicator of inter-state/ regional disparities. Let us consider Table 11.2, wherein numbers of factories in select states of India have been shown in recent years.

Table 11.2: Number of Factories in Select States and India

Year	2004-05	2008-09	2011-12	2012-13	2015-16	2017-18
Andhra Pradesh	15572	16903	27708	15358	16340	16296
Assam	1710	2211	3019	3303	3890	4538
Bihar	1674	1775	3231	3345	3623	3461
Chhattisgarh	1343	1919	2472	2441	3037	3352
Dadra & Nagar Haveli	1059	1151	1480	1413	1392	1355
Delhi	3156	3026	3849	3958	3776	3432
Gujarat	13603	14863	22220	22587	24426	26586
Haryana	4339	4450	6142	6163	7953	8891
Himachal Pradesh	653	1294	2489	2654	2767	2671
Karnataka	7596	8451	11460	11753	12973	13518
Kerala	5493	5868	7031	7129	7580	7649
Madhya Pradesh	3028	3345	4286	4206	4426	4533
Maharashtra	18912	20450	28215	28949	28210	26393
Manipur	55	72	102	128	173	191
Meghalaya	58	95	100	116	102	133
Nagaland	113	91	86	106	185	186
Odisha	1749	1930	2678	2854	2948	3066
Punjab	7575	10065	12593	12427	12521	12726
Rajasthan	5740	6352	8444	8782	9049	9212
Sikkim	-	-	61	65	68	82
Tamil Nadu	21053	26122	36996	36869	37331	37787
Tripura	275	363	446	534	558	607
Uttar Pradesh	9582	10935	14090	14440	15291	15830
Uttarakhand	752	1907	2843	2911	2978	2998
West Bengal	6105	6260	8402	8607	9300	9534
All India	***136353***	***155321***	***217554***	***222120***	***233116***	***237684***

Source: *RBI. (2020).Handbook of Statistics on Indian States*

From Table 11.2, it is clear that though, the country as a whole has achieved industrial development at a fair rate since independence, the spatial distribution of such industrial development among the states remained rather uneven. It can be seen from the Table 11.2 that Tamil Nadu, Gujarat and Maharashtra shares 15.9, 11.2 and 11.1 percent of the countries factories

while sates like Assam, Madhya Pradesh and Bihar has got shares less than 2 percent each out of the total factories of the country. The share of factories in the North Eastern States, as a whole is less than one percent. This indicates uneven industrialisation in various states which, in turn, results in uneven growth and development across states.

Population below poverty line:

Percentage of population living below the poverty line in different states is another important indicator of regional imbalance or inequalities. Data presented in Table 11.3 are based on a NITI Aayog study for the year 2011-12, which shows the population below poverty line in three geographical strata, viz., rural, urban and total as a whole.

Table 11.3: State-wise Poverty Situation in 2011-12 (in per cent) in India

Population below Poverty line	Rural Poverty	Urban Poverty	Total Poverty
Less than 10	Goa, Himachal Pradesh, Kerala, Punjab, Sikkim	Andhra Pradesh, Goa, Himachal Pradesh, J&K, Kerala, Maharashtra, Meghalaya, Mizoram, Punjab, Sikkim, Tamil Nadu, Tripura	Andhra Pradesh, Goa, Himachal Pradesh, Sikkim, Punjab
10 to 20	Andhra Pradesh, Haryana, J&K, Meghalaya, Nagaland, Rajasthan, Tamil Nadu, Tripura, Uttarakhand	Gujarat, Haryana, Karnataka, Nagaland, Odisha, Rajasthan, Uttarakhand, West Bengal	Gujarat, Haryana, J&K, Maharashtra, Nagaland, Rajasthan, Tripura, Uttarakhand, West Bengal
30 to 40	Arunachal Pradesh, Assam, Bihar, Madhya Pradesh, Manipur, Mizoram, Odisha, Uttar Pradesh	Bihar, Manipur	Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Madhya Pradesh, Manipur, Jharkhand, Odisha,
20 to 30	Gujarat, Karnataka, Maharashtra, West Bengal	Arunachal Pradesh, Assam, Chhattisgarh, Jharkhand, Madhya Pradesh, Uttar Pradesh	Mizoram, Karnataka, Uttar Pradesh
Above 40	Chhattisgarh, Jharkhand		

Source: *Based on NITI Aayog Estimates, 2011-12*

It is important to note here that the high rural poverty can be attributed to lower farm incomes due to subsistence agriculture, lack of sustainable livelihoods in rural areas, pressure of rising prices of food products on rural incomes, lack of skills, underemployment and unemployment. It is evident that total poverty (Rural & Urban) is more in M.P, Assam, Odisha, Arunachal Pradesh, Manipur, Jharkhand and Chhattisgarh.

Per Capita Consumption of Electricity:

Per capita consumption of electricity is also another important indicator of development. States like Punjab, Gujarat, Haryana, Maharashtra etc., having higher degree of industrialisation and mechanisation of agriculture, have recorded a higher per capita consumption of electricity than the economically backward states like Assam, Bihar, Orissa, Madhya Pradesh and Uttar Pradesh.

Employment Pattern:

States attaining higher degree of industrialisation are maintaining higher proportion of industrial workers to total population. It is found that industrially developed states like Maharashtra, Gujarat, Haryana, Punjab, Tamil Nadu and West Bengal are maintaining a higher average daily employment of factory workers per lakh of population as compared to that of lower average maintained in industrially backward states like Assam, Orissa, Uttar Pradesh, Rajasthan etc. Even the industrially developed states like Gujarat, Maharashtra, Tamil Nadu and West Bengal are still maintaining a higher proportion of agricultural labourers to total workers as the industrial sector of these states have failed to enlarge the scope of employment sufficiently to engage more and more rural workers.

Foreign Direct Investment:

FDI is yet another important indicator of regional disparities. Most of the states think that if they attract FDI it is useful for economic growth. Discounts in bank rates, discount in taxes etc. are the benefits of FDI investment. The projects like IT Park, Industrial park, Agricultural processing such projects are reserved for FDI. There are various facilities for attracting FDI so that it shows various inequalities in foreign investment.

Table 11.4: Flow of FDI in various States of India

High FDI States	Medium FDI States	Low FDI States
Maharashtra, Dadra Nagar Haveli, Daman & Diu, Delhi, Haryana, Tamil Nadu, Pondicherry, Karnataka, Gujarat, Andhra Pradesh	West Bengal, Sikkim, Andaman &Nikobar islands, Rajasthan, Chandigarh, Punjab, Haryana, Himachal Pradesh, Madhya Pradesh, Chattisgarh, Kerala, Lakshadweep	Goa, Orissa, UP, Uttaranchal, Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Bihar and Jharkhand.

Source:https://dipp.gov.in/sites/default/files/FDI_ Factsheet _ March20_28 May_2020.pdf

In Table 11.4, states have been categorised as High FDI, Medium FDI and Low FDI states based on inflow of foreign direct investment (FDI). Notably, from April 2000 to June 2014 those states having Investment above Rs 40000 crore has been categorised as High FDI States, states having FDI to the tune between Rs 4500 corers to Rs 40000 crores are classified as medium investment states and states having FDI less than 4500 crores have been categorised as low FDI states. Thus, it can be seen that states like Maharashtra, Delhi, Tamil Nadu, Karnataka, Gujarat and Andhra Pradesh have high inflow of investment. Medium FDI states include West Bengal, Rajasthan, Sikkim, Himachal Pradesh and Madhya Pradesh while states like Goa, Manipur, Meghalaya, Tripura, Nagaland, Orissa, Mizoram and Arunachal Pradesh are among the low FDI states. FDI have a major contribution in industrial development and employment generation.

Table 11.5 shows the tune of FDI in the Indian states during October, 2019 to March, 2020. It can be seen that the state of Maharashtra alone takes the lion's share of 30 percent of the total FDI inflows to India.

Table 11.5: Flow of FDI in Major Indian States in 2019-20

State	Cumulative inflows (October 2019 – March 2020) (In US$ terms)	% to total inflows
Maharashtra	52,073 (7,263)	30%
Karnataka	30,746 (4,289)	18%
Delhi	28,487 (3,973)	17%
Gujarat	18,964 (2,591)	11%
Jharkhand	13,208 (1,852)	8%
Tamil Nadu	7,230 (1,006)	4%
Haryana	5,198 (726)	3%
Telangana	4,865 (680)	3%
Uttar Pradesh	1,738 (243)	1%
Andhra Pradesh	1,476 (206)	0.9%

Note: (i) Cumulative State-wise/UT-wise FDI equity inflows (from October, 2019 to March, 2020) are at – Annex-'C'. (ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only. (iii) Figures are provisional. (iv) Figures within brackets in column II indicates figures in US $ terms.

*Source:*https://dipp.gov.in/sites/default/files/FDI_Factsheet_March20_28May_2020.pdf



CHECK YOUR PROGRESS

Q 2: Which state in India has the highest per capital net state domestic product?

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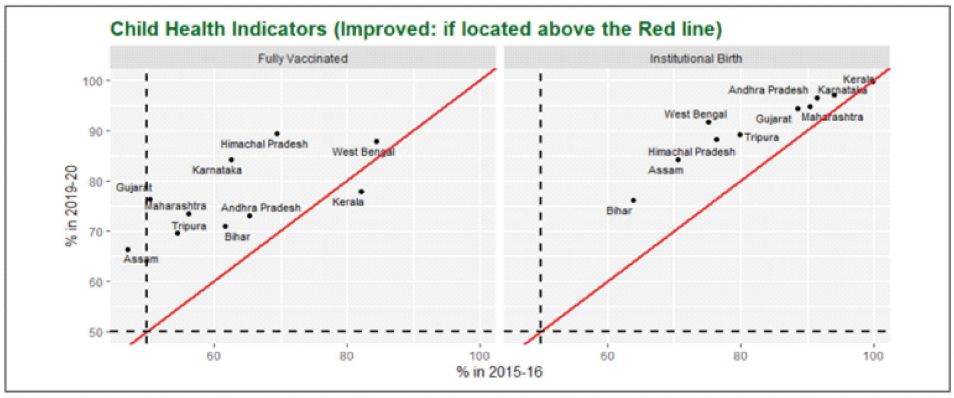
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Disparity in Other Social Sector Indicators:

The Economic Survey of India (2020-21, Volume II) has made reference to the recent progress made by some Indian states in certain child health

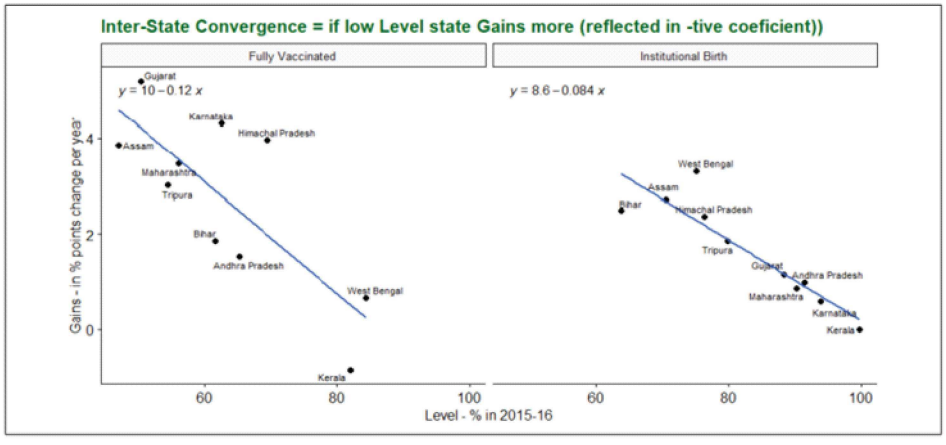
indicators like immunisation coverage for children, infant mortality rate (IMR), Under five mortality rate (U5MR) etc. Based on Phase I data of Fifth National Family Health Survey (NFHS-5), the report posits that immunisation coverage for children has increased for all 10 States except Kerala. The cash incentives for institutional delivery of pregnant women and ASHAs under Janani Suraksha Yojana (JSY) and conditional cash transfer under Pradhan MantriMatruVandanaYojana (PMMVY) aim to reduce maternal and infant mortality rates. NFHS-5 shows significant improvement in the institutional birth in selected states (Figure 11.2). The inter-State difference on immunisation and institutional birth has come down in NFHS-5 in those States showing low level of immunisation and institutional birth in NFHS-4 (Figure 11.3).

Figure 11.2: Child Health Indicators: Vaccination and Institutional Birth



Source: *Economic Survey 2020-21 (Volume II)*

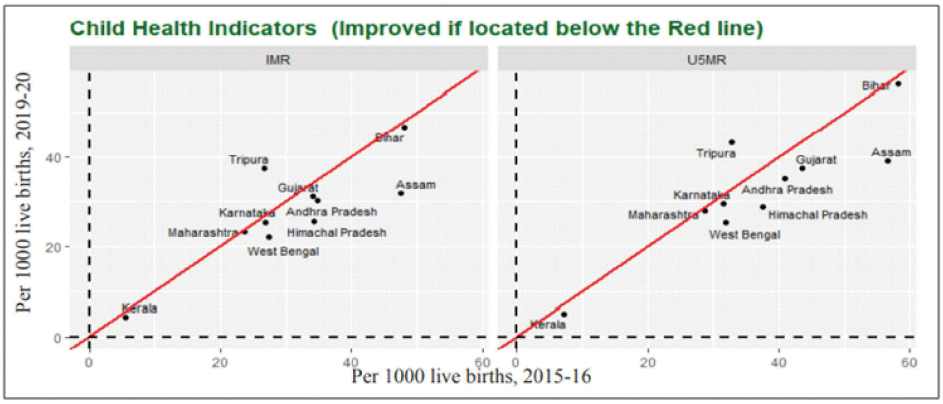
Figure 11.3: Inter-State difference in Child Vaccination and Institutional Birth



Source: *Ibid.*

Similarly, IMR and U5MR rate have declined in most of the selected States in NFHS-5 compared to NFHS-4 (Figure 11.4). However, inter-State difference in mortality rates remained quite large. The findings also show mixed picture on stunting, wasting and anaemia among children. It is observed that compared to NFHS-4, stunting has declined in Andhra Pradesh, Assam, Bihar and Karnataka in NFHS-5. Similarly, Andhra Pradesh, Bihar and Karnataka have done better in reducing underweight children during the same period. Wasting has also declined in Andhra Pradesh, Gujarat and Karnataka during NFHS-5 (Figure 11.5). To address the problem of malnutrition in the country, Anganwadi Services, Pradhan MantriMatruVandanaYojana and Scheme for Adolescent Girls under the Umbrella Integrated Child Development Services Scheme (ICDS) employ targeted interventions by the Government. Further, PM Overarching Scheme for Holistic Nutrition (POSHAN) Abhiyan was launched on March 8, 2018 to address the problem of malnutrition in a mission mode.

Figure 11.4: Child Health Indicators: IMR and U5MR



Source: *Ibid.*

Figure 11.5: Child Health Indicators: Anaemic children, Wasted, Severe Wasted, Stunted, and Underweight Children



Source: *Ibid.*

11.5 INTER-COMMUNITY EXCLUSION IN INDIA

India is a composite population of different social groups. Analysis of development indicators by social groups often reveal some stark realities of overall social inequalities prevailing across the groups. Below, we have discussed inter-community exclusion in India under the broad major heads of education and health.

Educational indicators

Literacy:

India has attained a literacy level of almost 96 per cent at the elementary school level. As per National Sample Survey (NSS), the literacy rate of persons of age 7 years and above at the All India level stood at 77.7 per cent but the differences in literacy rate attainment among social-religious groups, as well as gender still persists (Table 11.6). Female literacy remained below national average across all social and religious groups.

Table 11.6: Percentage of Literates (age 7 years & above) in India by Social/ Religious Groups in 2017-18

Category	Rural + Urban		Category	Rural + Urban	
Social Group	Male	Female	Religious Groups	Male	Female
ST	77.5	61.3	Hinduism	85.1	70.0
SC	80.3	63.9	Islam	80.6	68.8
OBC	84.4	68.9	Christianity	88.2	82.2
Others	90.8	80.6	Sikhism	87.3	75.9
All	84.7	70.3	All^	84.7	70.3

Note: ^ All includes Jainism, Buddhism, Zoroastrianism and others

Source: *Ibid.*

If we analyse the number of students appeared, passed in the HSLC Examinations by social groups, there is an indication that the SC and ST students are lagging behind (Table 11.7). Similar indication has also been noticed in the Higher Secondary education level also (Table 11.8).

Table 11.7: Number of Students Appeared, Passed and Pass Percentage in High School Examination by Background Characteristics in India - 2010

Category	Number of students (In lakh)						Pass percentage		
	Appeared*			Passed#					
	Boy	Girl	Total	Boy	Girl	Total	Boy	Girl	Total
All categories	93.7	73.5	167.2	68.6	56.8	125.4	73.2	77.4	75.0
SC Students	15.2	11.7	26.9	10.2	8.3	18.5	67.2	71.3	69.0
ST Students	6.1	4.8	10.9	3.8	2.9	6.7	62.4	61.5	62.0

* Includes Regular & Private Students. # Includes Students Passed in Annual & Supplementary Examinations. Note: Percentages may not tally exactly due to rounding off.

Source: Government of India (Ministry of Social Justice and Empowerment. (2018). *Handbook on Social Welfare Statistics*

Table 11.8: Number of Students Appeared, Passed and Pass Percentage in Higher Secondary Examination by Background Characteristics in India - 2010

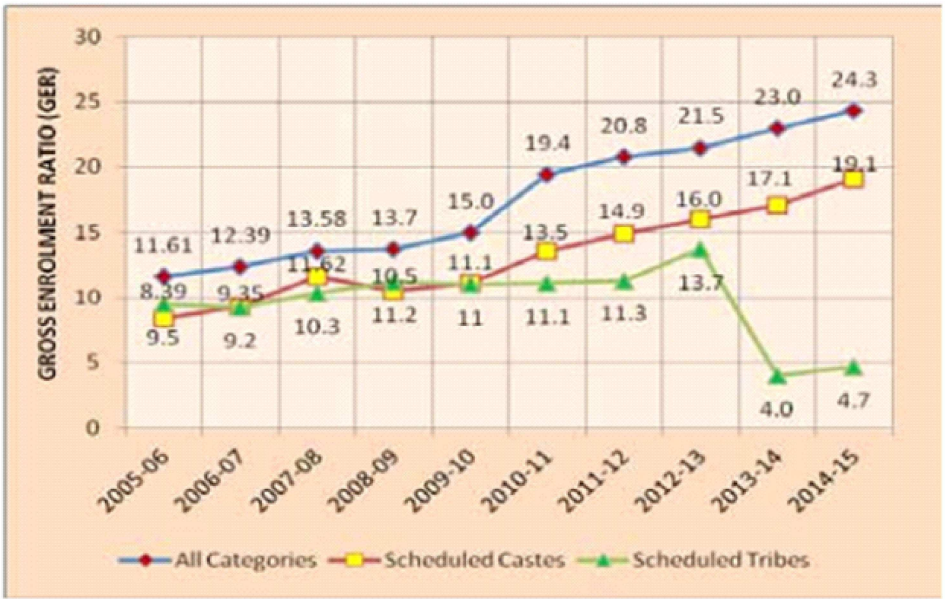
Category	Number of students (In lakh)						Pass percentage		
	Appeared*			Passed#					
	Boy	Girl	Total	Boy	Girl	Total	Boy	Girl	Total
All categories	58.6	45.5	104.1	42.9	37.1	80.0	73.2	81.5	76.8
SC Students	8.4	6.1	14.5	5.6	4.6	10.2	67.1	75.8	70.8
ST Students	3.5	2.4	5.9	2.3	1.7	4.0	65.4	69.7	67.2

* Includes Regular & Private Students. # Includes Students Passed in Annual & Supplementary Examinations. Note: Percentages may not tally exactly due to rounding off.

Source: Government of India (Ministry of Social Justice and Empowerment. (2018). *Handbook on Social Welfare Statistics*

Another important indicator in the education sector has been Gross Enrolment Ratio. Figure 11.6 presents the GER of all categories, SCs, STs for 18-23 years populaiton in India in higher educationfor the period 2005-06 to 2014-15. The data indicates that while the GER in higher ecucation as a whole is improving, in case of SCs and more particularly the STs, GER in higher education is not catching up. Further, it has been seen that in general (for all categories), GER in higher education has shown a constant upward trend, but there has been some ups and down in case of the two social groups, viz., SCs and STs. In fact, since 2012-13, GER in case of STs has shown a sharp decline form 13.7 percent in 2012-13 to 4.0 percent in 2013-14, which marginally improved to 4.7 in 2014-15.

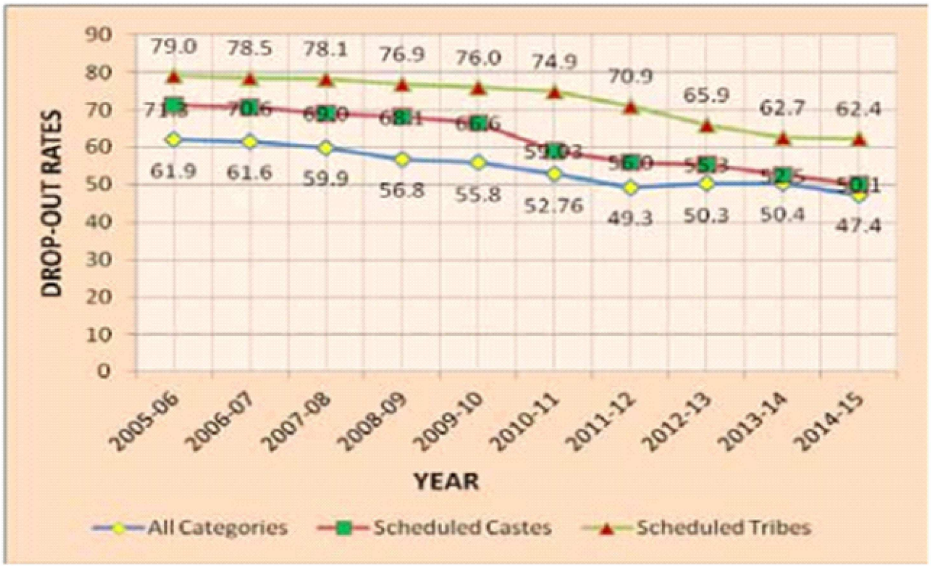
Figure 11.6: Gross Enrolment Ratio (GER) of all Categories, Scheduled Castes (SCs) and Scheduled Tribes (STs) for 18-23 Years (Higher Education) during 2005-06 to 2014-15



Source: *Ibid*

Contrary to the GER, Drop-out rates has been seen as one of the major causes of concerns in the field of education. The drop-out rate shows the percentage of students who drops out from the system of education at a particular stage of education. Figure 11.7 shows the drop-out rates in Class (I-X), i.e., before completing the HSLC. The figure indicates that drop-out rates are higher in case of SCs and STs, as compared to all categories, in general. However, since 2005-06, there has been a gradual decline of drop-out rates across all social groups.

Figure 11.7: Drop-Out Rates in Classes (I-X) of all Categories, Scheduled Castes (SCs) and Scheduled Tribes (STs) during 2001-02 to 2013-14



Source: *Ibid*



CHECK YOUR PROGRESS

Q 3: Briefly state the trend of GER in higher education in India with respect to different social groups. (Answer in about 60 words)

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Health indicators

In the section 11.4, we discussed the progress made in child vaccination and a few related child health indicators. These indicators are important indication of the efficient delivery of healthcare services. Here, we shall discuss a few outcome indicators of the health sectors like prevalent of anaemia in women and children as well as a few early childhood mortality rates by social groups, which can provide us some indication of inter-group disparities in the health scenario.

From Tables 11.8 it can be seen that prevalent of anaemia in women is higher in the social groups like SCs, STs compared to the country average as a whole. Similar trend is noticed in case of children (6-59 months) as well. Prevalence of anaemia is an indicator of nutritional and iron deficiency.

Table 11.8: Percentage Prevalence of Anaemia in Women by Social Groups in India (2015-16)

Social Groups	Anaemia status by haemoglobin level			
	Mild (10.0 – 11.9 g/dl)	Moderate (7.0-9.9 g/dl)	Severe (< 7.0 g/dl)	Any anaemia (<12.0 g/dl)
SCs	40.8	13.9	1.2	55.9
STs	43.6	14.9	c	59.8
OBCs	38.9	12.2	1.1	52.2
Others	38.3	10.5	0.7	49.6
Don't Know	38.4	15.6	1.0	55.0
Total	39.6	12.4	1.0	53.0

Source: *Ibid*

Table 11.9: Percentage Prevalence of Anaemia in Children aged 6-59 months by Social Groups in India (2015-16)

Social Groups	Anaemia status by haemoglobin level			
	Mild (10.0 – 11.9 g/dl)	Moderate (7.0-9.9 g/dl)	Severe (< 7.0 g/dl)	Any anaemia (<12.0 g/dl)
SCs	28.2	30.7	1.6	60.5
STs	28.5	33.2	1.4	63.1
OBCs	27.8	29.2	1.6	58.6
Others	27.2	25.3	1.4	53.9
Don't Know	27.7	32.4	1.8	61.9
Total	27.8	29.1	1.5	58.4

Source: *Ibid*

Table 11.10 shows a few early childhood mortality indicators, viz., neo-natal mortality (NN), post-neonatal mortality (PNN), infant mortality (IMR) and under-five mortality rate (U5MR) by social group and location (i.e. all India as well as in rural and urban areas). From the table, we can see that in the country a whole, the early childhood mortality rates are higher among thesocial groups like SCs, STs and OBCs. Similar trend has also been seen in the rural areas as well. In the urban areas as well, the same trend is noticed, except only in the cases of post neonatal and post-neonatal mortality, rates, in which the ST social groups perform better than the national average.

Table 11.10: Early Childhood Mortality Rates (ECMR) per 1000 Live Births during 2015-16 by Social Groups in India-2015-16

India				
Social Groups	Neonatal mortality (NN)	Post-Neonatal mortality (PNN)	Infant mortality (IMR)	Under-five mortality (U5MR)
SCs	33.0	12.2	45.2	55.8
STs	31.3	13.1	44.4	57.2
OBCs	30.5	11.6	42.1	50.8
Others	23.2	8.9	32.1	38.5
Don't Know	30.4	10.5	40.9	52.2
Total	20.5	11.3	40.7	49.7
Rural				
Social Groups	Neonatal mortality (NN)	Post-Neonatal mortality (PNN)	Infant mortality (IMR)	Under-five mortality (U5MR)
SCs	36.8	12.7	49.6	61.1
STs	33.4	13.9	47.3	61.3
OBCs	33.4	12.6	46.0	55.9
Others	27.7	10.5	38.2	45.4
Don't Know	36.5	9.6	46.1	56.0
Total	33.1	12.4	45.5	55.8
Urban				
Social Groups	Neonatal mortality (NN)	Post-Neonatal mortality (PNN)	Infant mortality (IMR)	Under-five mortality (U5MR)
SCs	20.7	10.4	31.1	38.9
STs	16.5	7.1	23.5	27.8
OBCs	23.1	9.0	32.1	37.7
Others	16.2	6.5	22.6	27.8
Don't Know	21.0	12.1	33.1	46.3
Total	20.1	8.4	28.5	34.4

Source: *Ibid*

11.6 INCLUSIVE GROWTH STRATEGIES ADOPTED IN THE FIVE YEAR PLANS (FYP)

Pre-Globalisation Period:

First Five Year Plan (1951-56): There was no explicit mention about the removal of regional disparity in the first FYP. The emphasis was rather laid

on strengthening and expanding the economic base of the country. However, it observed that "in any comprehensive plan of development, it is axiomatic that special needs of the less developed areas should receive due attention".

Second Five Year Plan (1956-61): The need to correct regional imbalances was explicitly recognised the second FYP. This plan emphasised establishment of decentralised industrial production, location of new enterprises, whether public or private, keeping in view the need for developing a balanced economy. These approaches were also reflected in the Industrial Policy Resolution of 1956, which charted out to ensure location of basic industries/projects in less developed areas as a means of achieving regional development. Accordingly, industries like Rourkela Steel Plant (Odisha), Bhilai Steel Plant (Chhattisgarh), Durgapur (West Bengal) and projects like the Hirakud, Kosi, Chambal, Rihand, Damodar Valley Corporation, Bhakra Nangal, Koyna and Nagarjunasagar were taken up in the poorly developed areas.

Third Five Year Plan (1961-66): The third FYP made the attempts to reduce regional imbalance and laid emphasis on the multi-activity approach to development of backward States and regions. The Plan focused attention for the adoption of "Regional or Area Development Plans". This Plan "calculated and allocated the size and pattern of plan outlays for different States" with a view to reduce inter-state disparities in development.

Fourth Five Year Plan (1969-74): The fourth FYPlaid primary attention on "Multi-Dimensional Area Development Approach" in order to accelerate the development of backward areas. Central plan assistance to States shifted from project-based assistance to bulk assistance under Gadgil formula, based on the criteria of population and economic backwardness.

Fifth Plans (1974-79): This Plan classified the backward areas into two broad categories: (a) areas with unfavourable physio-geographic conditions, terrain, and regions including drought-prone, tribal areas and hill areas; and (b) economically backward areas, marked by adverse land man ratios, lack of infrastructure and inadequate development of resource potential. Programmes like Drought Prone Area Programme (DPAP), Tribal Area Development Programme (TADP), Hill Area Development Programme

(HADP) etc., were introduced during this plan with provision of earmarked funding.

Sixth Five Year Plan (1980-85): The sixth FYP introduced some significant steps in addressing the problem of regional disparities as it introduced the Integrated Rural Development Programme (IRDP). Another important initiative was the constitution of a "High level National Committee for Development of backward Area". This committee was set up to (a) examine and identify backward areas and (b) review the working of existing schemes for stimulating industrial development in backward areas.

The Seventh Five Year Plan (1985-90): The seventh FYP primarily focussed on employment generation and poverty alleviation programmes. It pointed out that increase in agricultural productivity in rice, coarse cereals like Barley and Ragi pulses and oilseeds in the eastern region and in the dry land and rain fed areas throughout the country, along with area development for drought prone, desert, hill and tribal areas, would ultimately be helpful in reducing regional disparities.

However, the seventh FYP ended up with major economic crisis followed by economic reforms that affected a policy shift towards market oriented development strategy.

Post-Globalisation:

Eighth Five Year Plan (1992-97): In the aftermath of economic reform measures, India introduced market driven development strategy in the eighth FYP. The plan recognised that planning process has to manage the flow of resources across regions for accelerated removal of "regional disparities". With greater freedom and choice of location available to industry under reform regime, it was more likely that some states would be able to attract more private investment than others.

Ninth Five Year Plan (1997-2002): The Ninth plan emphasised that the states operate in a spirit of cooperative federalism and to arrive at a set of public policy and action in which state-level initiatives are adopted to attract private investment in a competitive manneras well asto protect the interests of backwards areas.

Tenth Five Year Plan (2002-07): The Tenth FYP was most explicit on regional disparity as it called for setting the State specific GSDP growth targets for the first time. The plan panel recognised the fact that national targets do not necessarily translate into balanced regional development. The potentials and constraints that exist at the state-level vary significantly and needs to be addressed accordingly. Therefore, for the first time, the national growth target was disaggregated to the state-level growth targets in consultation with State governments. NAREGA was introduced during this plan to guarantee the "Right to work".

The Eleventh Five Year Plan (2007-12): The eleventh FYP adopted an explicit target of Inclusive Growth. Redressing regional disparities is not only adopted as a goal in itself but has been accepted as essential for maintaining the integrated social and economic fabric of the country without which the country may face situations of discontent, anarchy and breakdown of law and order. The plan listed 13 out of 27 monitorablestate wisetargets. These targets include, among others, GSDP growth target, growth target for agricultural, new work opportunities, poverty ratio. These targets were supposed to help the States to have some policy introspection of their own and focused attention on the extent to which progress can be achieved in the relatively backward States and districts.

Twelfth Plan (2012-17): This Plan attempted for a faster, sustainable and more inclusive growth. During this plan, the special attention was given to the laggard states to accelerate their economic growth. In order to achieve this, it required strengthening of States own capacities to plan, to implement and to bring greater synergies within their own administration and with the Central Government. An important constraint on the growth of backward regions in the country is the poor state of infrastructure. Therefore, the twelfth plan paid attention to improvement in infrastructure which is important component of regionally inclusive development strategy.



CHECK YOUR PROGRESS

Q 4: Which FYP introduced the Integrated Rural Development Programme?

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11.7 LET US SUM UP

- The concept of Inclusive Growth may be traced back to post World War II development theories, when it was thought that development followed a pre-determined path. The idea was that income growth not only produced but also needed inequality, which would eventually decline as economies grow.
- The biggest inequality in India that has led to social inequality is the slow progress in social indicators and human development despite high economic growth.
- One example is that nearly 40 per cent of our children suffer from malnutrition in 2015-2016. Quality of employment, health, and education are major concerns
- India has a composite population of different social groups.
- Analysis of development indicators across the social groups often reveals some stark realities about overall social inequalities across the groups.
- Government has adopted various policy measures to bring about social equality through the various Five Year Plans.



11.8 FURTHER READING

1. Datt, G. & Mahajan, A. (2020). Datt&Sundharam's Indian Economy. New Delhi: S. Chand & Co. Ltd.
2. Dhar, P.K. (2017). Indian Economy: Its Growing Dimensions. New Delhi: Kalyani Publishers

3. Kapila, U. (Ed.) (2020). Indian Economy: Performance and Policies. New Delhi: Academic Foundation
4. Mishra, P. K. &Puri, V. K. (2020). Indian Economy. New Delhi: Himalaya Publishing House.



11.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: Inclusive growth may be defined as the kind of growth that promotes development, where development entails comprehensive improvements in multiple dimensions, including both living conditions as well as empowerment.

Ans to Q No 2: Currently, Goa has the highest per capita net state domestic product among the states of India.

Ans to Q No 3: GER in higher ecucation as a whole is improving. However, in case of SCs and more particularly the STs, it is not catching up. Further, though in general (for all categories), GER in higher education has shown a constant upward trend, but there has been some ups and down in case of the two social groups, viz., SCs and STs. In fact, since 2012-13, GER in case of STs has shown a sharp decline form 13.7 percent in 2012-13 to 4.0 percent in 2013-14, which marginally improved to 4.7 in 2014-15.

Ans to Q No 4: The sixth FYP introduced the integrated rural development plans.



11.10 MODEL QUESTIONS

Answer the following questions in about 300-500 words.

Q 1: Discuss the concept and rationale of inclusive growth.

Q 2: Explain a few aspects of inter-regional exclusion in India.

Q 3: Discuss some of the important aspects of inter-community exclusion in India

Q 4: Explain the different policy measures adopted by the Government through the Five Year Plans to bring about social equality in India.

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UNIT 12: ECONOMIC REFORMS - I

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 An Overview of Macroeconomic Management since 1991

- 12.3.1 Macroeconomic Management in India since 1991: The Background
- 12.3.2 Macroeconomic Management in India since 1991: Key Components

12.4 Reforms in Indian Capital Market

- 12.4.1 Structure of Indian Capital Market
- 12.4.2 Key Reforms in Indian Capital Market

12.5 Inflow of FDI and FPI in India and its Implication for the Domestic Economy

- 12.5.1 Trends in FDI and FPI Inflow in India since 1991
- 12.5.2 Implications of FDI and FPI Inflows for the Domestic Economy

12.6 Let Us Sum Up

12.7 Further Reading

12.8 Answers to Check Your Progress

12.9 Model Questions

12.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- derive the meaning of macroeconomic management
- appreciate the of macroeconomic management in India in 1991
- highlight the components of macroeconomic management
- explain major reforms in the Indian capital market
- describe major trends in FDI and FPI inflow in India
- highlight key implications of FDI and FPI for Indian Economy

12.2 INTRODUCTION

Indian economy, since its independence, has adopted economic planning for achieving growth and development at the earliest possible. It has adopted a development strategy based on heavy industry with import substitution. The mixed economy model was executed givingthe public sector major role. Private sector was also given an important role to play in the process of economic growth especially in the case of agriculture and small-scale industries. India has achieved significant developments in the fields of agriculture, industrial and service sector development during the period 1951-91. At the same time, it had experiencedseveral critical times also. During the 1960s, Indian government has to take plan holidays. As a result, three one-year plans in 1966-67, 1967-68, and 1968-69 were introduced. Starting with thelate 1980s, India experienced a serious macroeconomic crisis. As a result, macroeconomic management has to be executed by the Indian government for emerging out of the crisis. The following section discusses the meaning, definition, and key components of macroeconomic management that the country adopted since 1991.

12.3 AN OVERVIEW OF MACROECONOMIC MANAGEMENT SINCE 1991

12.3.1 Macroeconomic Management in India since 1991: The Background

Following the strategy of heavy industry led development through state support accompanied by the philosophy of inward orientation and import substitution, India was caught in a serious fiscal crisis during the late 1980s. The Gulf War of 1990 and the political instability at the turn of the decade, further, aggravated the situation and all these resulted in the balance of payments crisis of 1991. Inflation was rising, industrial production was declining, foreign exchange reserves at one billion US dollars were at the lowest level ever, and the possibility of international default was real. The expectations of the devaluation of the rupee and the decline in confidence led to the

withdrawal of deposits in the Indian banks by non-resident Indians and the withdrawal of capital by other external investors. Foreign exchange reserves dwindled to a level that was less than the cost of two weeks' worth of imports. The specter of default on short-term external loans becomes imminent and consequently India's credit rating was downgraded. To overcome the impending economic crisis, the government of India had two ways:

i) to take foreign debt and make such an arrangement so that there would be an increasedinflow of foreign exchange and exports.

ii) to establish fiscal discipline in the country.

Both required a substantial change in the development strategy from inward-oriented import substitution to outward-oriented export promotion. The Government approached International Monetary Fund (IMF) for getting foreign debt and IMF provided assistant to the country under the structural adjustment programme (SAP).IMF recommended a bundle of macroeconomic policies for effective macroeconomic management. Thus, macroeconomic management was introduced in Indian economy through New Economic Policy, 1991 covering all important sectors such as industry, public sector, financial sector, external sector, and fiscal sector.

12.3.2 Macroeconomic Management in India since 1991: Key Components

In response to the 1990-91 crisis the government decided to introduce widespread economic reforms under the macroeconomic management process. The major thrust of the macroeconomic management of 1991 addressed the macro-economic and balance of payments crisis through fiscal consolidation and limited tax reforms, removal of controls on industrial investment and imports, reduction of import tariffs and creation of a more favourable environment for attracting foreign capital. These reforms also

included an initial devaluation and subsequent prudent management of movements in the exchange rate while allowing market forces to play a major role in its determination, making the rupee convertible for current account transactions, and finally, opening the energy and telecommunication sectors for private investment. The macroeconomic management in India since 1991 comprises of following reforms in majors sectors of the economy:

- **Industrial Policy Reforms:** Industrial policy reforms were mainly concerned with introducing liberalisation in the economy for which de-licensing and de-reservation of existing industries operating under the public sector were recommended. Under this, the number of reserved industries for public sector was reduced to 7 from 37. Industries with strategic and environmental concerns are left with the reservation for Public sector. Moreover, investment limits provided by MRTP Act, 1969 were abolished. Technology imports were allowed which were subject to restriction earlier. Policy regarding disinvestment of loss-making public sector enterprises was also proposed.
- **Reforms in External Sector:** Reforms in external sector aimed to integrate the Indian economy with the rest of the world to get the benefit of export promotion and outward orientation. For this, the existing structure on quantitative and qualitative trade barriers was refurbished. Both tariffs and non-tariff barriers were reduced substantially. Measures for export promotion were introduced.
- **Financial Sector Reforms:** Financial sector reforms were introduced to make the financial sector efficient following practices and standards of banks in developed countries. Under this, government control on fixing interest rates was withdrawn and was left to free-market operations. Moreover, responsibilities of the banking sector in terms of priority sector lending, social banking, and lead banking were substantially declined. Banks were asked to follow capital adequacy and prudency norms for being at par with banks of developed nations. The Narasimham

committee recommended all the reforms under itin 1991 and 1998. Special provisions were given regarding increasing Non-performing Assets (NPAs) of nationalised banks. Indian capital market and money market have also experienced reforms in their infrastructural development and governance. Securities Exchange Board of India (SEBI) was established in 1992 as a statutory body for regulation and supervision of Indian capital market, which has initiated the number of reforms in Indian primary and secondary issue markets. In the insurance sector, private sector companies have been permitted to start and expand their business. Moreover, Indian financial sectors have opened for private and foreign sector banks.

- **Fiscal Sector Reforms:** In the second round of reform process called as second-generation reforms, fiscal sector reforms were introduced which aimed at ensuring fiscal consolidation of the nation. Under this, Fiscal Responsibility and Budget Management Act was passed in 2003.A fiscal deficit of 3 per cent of GDP was recommended to achieve at centre and state government budgets. Moreover provisions for reducing government expenditure and the introduction of Value Added Tax (VAT) were also proposed.
- **Social Sector Reforms:** Social sector also experienced some reforms like the introduction of New Pension Scheme and establishment of National Labour Commission. Private and foreign investment was allowed in all spheres of education and health.
- **Reforms in Infrastructure:** A major reform under this sector is the development of infrastructure under Public Private Partnership (PPP) Model. Earlier private sector was not contributing to infrastructural development.
- **Foreign Investment Reforms:** There has been acomplete change in the policy of the Indian government towards foreign investment in the economy. Under the reform process,

government introduced measures to attract foreign investment. Earlier foreign investment was subject to Foreign Exchange Regulation Act (FERA) which was replaced by FEMA in 1998. Moreover, the capping of Foreign Direct Investment (FDI) in several sectors has been increased even up to 100 percent from 49 percent during pre-reforms period.



CHECK YOUR PROGRESS

Q.1: Macroeconomic Management comprises of reforms in several major sectors of any economy.

Ans. (a) True (b) False

Q.2: Write a brief note of India's Development process since 1951.

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Q.3: Enlist the major sectors covered under Macroeconomic Management in India since 1991.

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12.4 REFORMS IN INDIAN CAPITAL MARKET

12.4.1 Indian Capital Market: Brief Overview

Indian Capital market is a market facilitating the buying and selling of long-term financial instruments. In particular, there are two categories of financial instruments through which capital markets provide long-term finance. These are equity securities, which are often known as stocks, and debt securities, which are often known as bonds. Capital markets involve the issuing of stocks and bonds for medium and long term, general terms of one year or more. Indian capital market has four important segments namely government securities market, industrial security market, development finance institutions, and financial intermediaries. For the smooth functioning of the capital market, proper coordination among its various

organizations and segments is a prerequisite. In order to regulate, promote, and direct the progress of the Indian Capital Market, the government has set up 'Securities and Exchange Board of India' (SEBI). SEBI is the supreme authority governing and regulating the Capital Market of India. Indian capital market was prone to several weaknesses during the pre-reform period. For correcting those weaknesses, several reforms in primary and secondary capital markets were undertaken.

12.4.2 Key Reforms in Indian Capital Market

To improveefficiency, increase transparency, integration of national markets, and prevent unfair practices regarding trading, a package of measures has been introduced to liberalise, regulate and develop capital markets in India. Since 1992, reform measures have mainly been focused on regulatory effectiveness, boosting competitive conditions, reducing information asymmetries, instigating transaction costs, and controlling speculation in the securities market. As the regulator, SEBI has put in place a well-designed disclosure-based regulatory regime. Information technology is extensively used in the securities market. Apart from infrastructural developments, the following developments are taken place in capital markets so far the governance and regulation are concerned.

Primary Market Reforms

- The Capital Issues Control Act 1947 was repealed and with effect from May 29, 1992, the Capital Issue Controller (CCI) office was abolished. After receiving clearance from SEBI, companies are now able to enter the capital market.
- Companies that issue capital in the primary market are now expected to report their ventures with all relevant information and unique risk factors. They can also include details about the basis of the premium estimate, leaving the companies to fix the premium.

- The recent reform of SEBI with regards to the stock market includes *interalia*, the strengthening of the rolling settlement system, which was done during 2000-01. The bulk of reforms from 1996 to 2000 encompass the electronic trading system, clearance, and settlement system.
- SEBI has also introduced a code of advertisement for public issues for ensuring truthful disclosures.
- In order to encourage Initial Public Offers (IPO), SEBI has permitted companies to determine the par value of shares issued by them.
- To reduce the cost of issue, SEBI has made the underwriting of issue optional subject to the condition that if any issue was not underwritten and was not able to collect 90 per cent of the amount offered to the public, the entire amount collected to be refunded to the investors.
- SEBI has raised the minimum application size and the proportion of each issue allowed for firm allotment to the institution such as mutual funds.
- Merchant banking has been statutorily brought under the regulatory framework of SEBI.
- In order to induce companies to exercise, greater care and diligence for timely action in matters relating to the public issue of capital, SEBI has advised stock exchanges to collect from companies making public issue, a deposit of one per cent of the issue amount which could be forfeited in case of non-compliance of the provisions of the listing agreement and non-dispatch of refund orders and shares certificates by registered post within the prescribed time.
- SEBI scrutinises offer documents to ensure that all disclosures have been made by the company in the offer documents.
- The Government of India has allowed Indian companies to access international capital markets through dollar (in form of Global Depository Receipts) and Euro Equity Shares.

- The Government of India has liberalised investment norms for NRIs so that NRIs and Overseas corporate bodies can buy shares and debentures without prior permission of RBI subject to an upper limit of 10 per cent by one FII in an Indian Entity.

Secondary Market Reforms

- Under the provisions of the SEBI Act, 1992, SEBI began the process of registration of intermediaries, such as stockbrokers and sub-brokers.
- Regulations on insider trading under the provisions of SEBI Act 1992 have also been notified.
- To make the governing bodies of stock exchanges broad-based, the governing body of the stock exchange should have five elected members, not more than four members nominated by the government as public representatives.
- SEBI has constantly reviewed the traditional trading systems in Indian Stock Exchanges. It is simplifying procedures and achieving transparency in costs and prices at which customers' orders are executed, speeding up clearing and settlement, and finally transfers of shares in the names of buyers.
- The Indian government has allowed institutional investors such as pension funds, investment trusts, and portfolio management companies, etc. to invest in Indian capital market provided they are registered with SEBI.
- To prevent excessive speculation and volatility in the stock exchange, SEBI has introduced rolling settlements from July 2001 under which settlements has to be made every day.
- Reforms were introduced in Insurance sector. Insurance Regulatory and Development Authority (IRDA) Act has ended the monopoly of the government of India in the insurance sector. The government has given licenses to the private sector companies to do insurance business.
- SEBI has been empowered and strengthened with more regulatory powers pertaining to filing the complaint in the courts

and imposing monetary penalties on the capital market intermediaries and participants for a listed range of violations.

- Further, the organisation's strengthening of SEBI and suitable empowerment through compliance and enforcement powers including search and seizure powers were given through an amendment in SEBI Act in 2002. Although dematerialization started in 1997, the legal foundations for electronic bookkeeping were provided and depositories created. The regulator mandated gradually that trading in most of the stocks take place only in dematerialised form.
- To improve the governance mechanism of stock exchanges by mandating demutualisation and corporatisation of stock exchanges and to protect the interest of investors in securities market, the Securities Laws (Amendment) Ordinance was promulgated on 12th October 2004. The Ordinance has been replaced by a Bill.
- The most advanced and scientific risk management systems are also employed by stock exchanges.
- The Securities Contracts (Regulation) Amendment Bill, 2007 was enacted in May, 2007 which provides a legal framework for trading of securitized debt.
- Globalisation of the stock exchange is now on way. The electronic age has come to the stock market. Nearly 100 percent of all transaction is executed through electronic media online trading system. There are 23 exchanges in India and all of them follow a systematic settlement period.

The recent years witnessed significant reforms in the capital market. It is well known that trading platform has become automatic, electronic, anonymous, order-driven, nationwide, and screen based. In terms of different parameters such as operational and systematic risk management, settlement system, disclosure norms, and accounting standards, the Indian capital market is at par with the best in the world. The liberalisation policies implemented in India in

the 1990s have resulted in radical changes in the conduct of capital market in general and of stock exchanges in particular. Rising globalisation, deregulation, and foreign portfolio investments made the Indian stock exchanges competitive and efficient in their functioning. Following the implementation of reforms in the securities market during the last decade and responding to global developments, Indian stock markets have stood out in the world ranking as well as in the developed and emerging markets. With the growing equity culture across the globe, more and more investors are participating in equity markets. The development of the Indian capital markets coupled with an effective regulatory framework has come up to global standards.



CHECK YOUR PROGRESS

Q.4: With the objective of improving market efficiency, increasing transparency, integration of national markets, and prevention of unfair practices regarding trading, a package of measures has been introduced.

Ans. (a) True (b) False

Q.5: Why were reforms introduced in Indian Capital Market?

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Q.6: Give a brief description of the role of SEBI in Indian Capital market.

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12.5 INFLOW OF FOREIGN DIRECT INVESTMENT (FDI) AND FOREIGN PORTFOLIO INVESTMENT (FPI) AND ITS IMPLICATIONS FOR THE DOMESTIC ECONOMY

Developing countries generally lacks capital for their development project. FDI and FPI inflow can beuseful sources for financing these development

projects. In India, FDI and FPI have been playing an important development role. Major Trends in FDI/FPI inflows and their implications to the domestic economy are discussed in the following sections.

12.5.1 Trends in Inflow of FDI and FPI in India since 1991

During the reforms period, India put their doors wide open for the Foreign Direct Investment (FDI) inflows. In fact, India did not seek a higher share of relatively more stable FDI and instead opted for more volatile Foreign Portfolio Investment (FPI). The reason was that in India, since the independence days, an influential class of private capitalists was present which received protection from stringent import control regime for forty years till 1990-91 and this class of capitalists did not want FDI in competing areas but advocated it mostly through the joint venture route and in areas like physical infrastructure where it would be complementary.

Table 12.1: FDI Stock in India as a Percentage of Total World FDI Stock and as Percentage of India's GDP

Year	FDI Stock in India as a Percentage of Total World FDI Stock	FDI Stock in India as Percentage of GDP
1990	0.08	0.52
1995	0.16	1.55
2000	0.22	3.55
2005	0.38	5.25
2010	1.04	12.31
2015	1.07	13.17
2018	1.20	14.07

Source: World Investment Report, UNCTAD (Various Issues).

FDI Stock in India as a Percentage of Total World FDI Stock has been consistently increasing from 0.8 percent in 1990 to 1.20 percent in 2018. Similarly, FDI Stock in India as Percentage of GDP also increased from 0.52 percent in 1990 to 14.07 percent in 2018 (Table 1).

Table 12.2: Level and Average Annual Growth of Foreign Direct Investment Inflows: India

Years	India[1] (US $ Million)	Average Annual Growth
1981-85	59	118.98
1986-90	182	40.89
1991-95	797	96.54
1996-00	2906	16.23
2001-10	17843	30.99

Note: 1. Figures are in average.

Source: World Investment Report, UNCTAD (Various Issues).

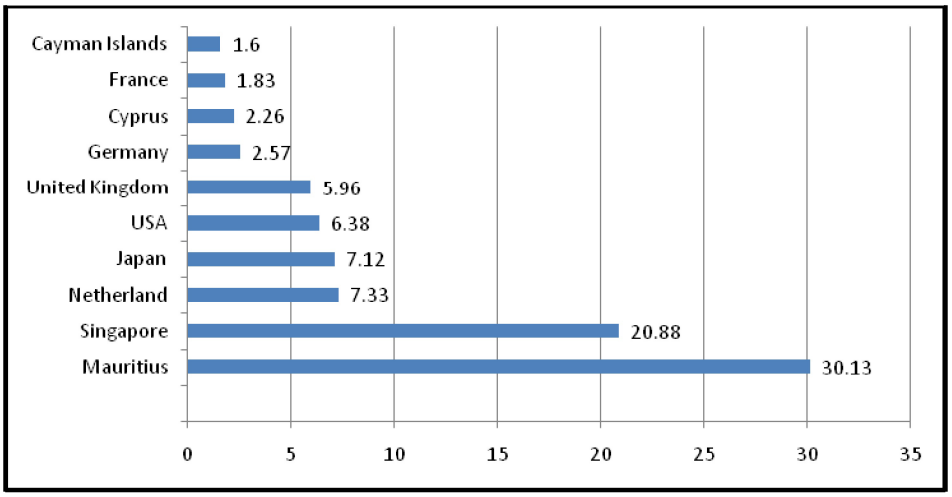
Since the mid-eighties, the average annual growth rate of India's FDI inflows remained quite high. During post reforms period, India registered a rapid increase in FDI inflows except in 1996-2000 when the growth of FDI was only 16.23 percent. Though India's FDI inflows are still low but increasing very rapidly (Table 2).

Table 12.3: Foreign Investment Inflows from 2010-11 to 2018-19

Year	FDI to India	FDI by India	Net FDI
	(US $ Million)	(US $ Million)	(US $ Million)
2010-11	29,029	17,195	11,834
2011-12	32,952	10,892	22,061
2012-13	26,953	7,134	19,819
2013-14	30,763	9,199	21,564
2014-15	34,426	1,799	32,627
2015-16	44,907	8,886	36,021
2016-17	42,215	6,603	35,612
2017-18	39,431	-9,144	30,286
2018-19	43,302	12,590	30,712

India has also experienced a consistent increase in FDI inflows during the period from 2010-11 to 2018-19. (Table 3).

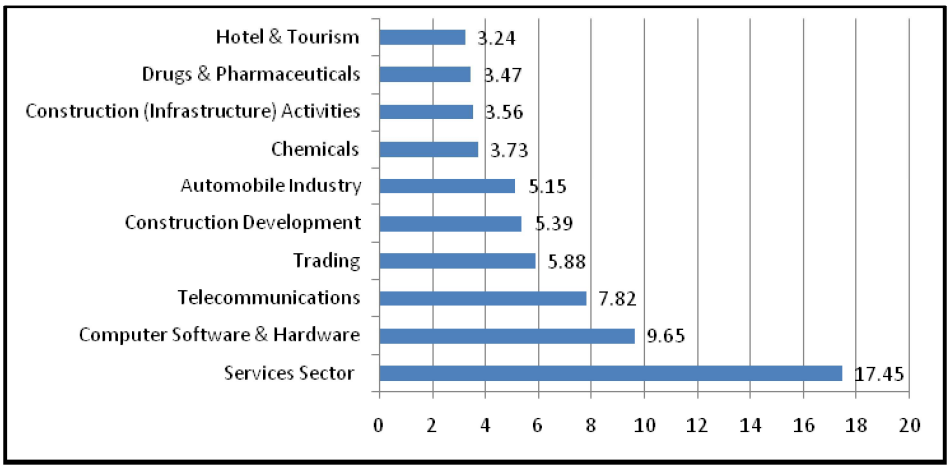
Figure 12.1: Country-wise FDI Inflows in India from April 2000 to June 2020 (% share in total Inflows)



Source: Indiastat.com

Figure 1 shows the country-wise distribution of FDI flows in India from April 2000 to June 2020. Mauritius occupies 1st place among the FDI source countries for India and constitutes 30.13 percent of total FDI inflows. It is followed by Singapore (20.88 percent), Netherlands (7.33 percent), Japan (7.12 percent), USA (6.39 percent), and UK (5.96 percent). Germany (2.57 percent), Cyprus (2.26 percent), France (1.83 percent), and the Cayman Islands (1.6 percent) are other major investors in India during this period.

Figure 12.2: Sector-wise Foreign Direct Investmen (FDI) Inflows in India from April 2000 to June 2020 (% share in total Inflows)



Source: Indiastat.com

Figure 2 shows the sector-wise distribution of FDI flows in India during the periodApril 2000 to June 2020. The service sector is the highest FDI-recipient sector in India having a 17.45 percent share in total FDI inflows followed by computer software & hardware (9.65 percent), telecommunications (7.82 percent), trading (5.88 percent), constructions development (5.39 percent). Automobile, Chemical, Construction development, Drug and Pharmaceutical, and Hotel and tourism are among the top 10 highest FDI recipient sectors of India.

Table 12.4: Trends in Foreign Portfolio Investment

Period	Gross Purchases (Rs. crore)	Gross Sales (Rs. crore)	Net Investment (Rs.crore)	Net Investment* (US $ million)	Cumulative Net Investment* (US $ million)
2010-11	992,595	846,158	146,438	32,226	121,559
2011-12	921,284	827,559	93,725	18,923	140,482
2012-13	904,842	736,477	168,365	31,047	171,529
2013-14	1,021,008	969,359	51,650	8,876	180,405
2014-15	1,521,346	1,243,886	277,460	45,698	226,103
2015-16	1,324,418	1,342,593	-18,175	-2,523	223,580
2016-17	1,507,028	1,458,617	48,411	7,600	231,180
2017-18	1,728,360	1,583,679	144,681	22,466	253,645
2018-19	1,640,810	1,679,741	-38,931	-5,499	248,147

Source: Handbook of Statistics, SEBI (Various Issues).

India has also experienced a high level of FPI inflows during the period from 2010-11 to 2018-19. It has registered a net investment of US$ 32226 million in 2010-11 which has declined to US$ 8876 million in 2013-14, however increased to US$ 45698million in the next year. In the year 2018-19, a negative net investment of US$ 5499 million through FPI has been registered to India. Thus, FPI inflows in India are, however, higher than FDI inflows, but are subject to high fluctuations in volume on yearly basis. This is due to the nature of FPI investment as these investments travelled to those destinations where returns are high (Table 4).

12.5.2 Implications of Foreign Investment for Domestic Economy

Positive Implications

- FDI offers capital that is traditionally lacking in the target country. Long-term capital is sufficient for economic growth. International

investors have a greater and often cheaper opportunity to fund their investment ventures. International companies introduce new workplaces.

- FDI is developing new innovations, which are not normally available in the target country. As emerging innovations typically spread beyond foreign companies, there are empirical evidencesshowingspill over effects. In the target nation, international companies bring new know-how and management skills. Again, spill over effects arise when individuals exit the organisations they leave with the information and know-how they have gained.
- International companies are giving foreign markets greater access. For instance, even for their domestic subcontractors, foreign companies may have useful contacts.
- International companies can help to improve the target country's economic structure. Governments will draw businesses from promising and disruptive sectors with a successful economic policy.
- Through the "Crowding in" effect, international companies often bring additional investors into the target country.
- If they enforce ethical business or rules of conduct, foreign companies can improve the business environment of the target country.
- New clean "technologies are being implemented by international companies that help to change environmental conditions.
- In the target economy, international companies typically help to raise the amount of salaries.
- Usually, multinational companies have beneficial impacts on the trade balance.

Negative Implications

- In order to shut it down and obtain a monopoly, foreign corporations can purchase a local business. If international firms target the domestic market, domestic businesses cannot

compete with these companies. In this way, foreign investment has a negative impact on domestic companies despite the "crowding out" effect.

- International firms may cut Job positions such as privatisation agreements or mergers & acquisition transactions.
- International companies prefer to use their regular suppliers, which may contribute to higher imports. Repatriation of earnings may also stress the balance of payments.
- Similar growth in domestic companies can be affected by high wage growth in international corporations, which are unable to cover this growth with productivity growth. The effect is the decreasing competitiveness of domestic businesses
- Missing tax revenue- If tax holidays or similar provisions are obtained by international companies
- The development of a dual economy: the existing international market and the underdeveloped domestic sector would be part of the economy.
- There is a risk of potential harm to the environment by giant multinational firms.
- "Incentive tourism" can result in foreign investment, in which large foreign companies can invest in any country for short-term gains, especially in the case of FPI.



CHECK YOUR PROGRESS

Q.7: FDI and FPI are not a good source for financing development projects of any nation. Ans. (a) True (b) False

Q.8: Write a brief note of growth of FDI flows in India.

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Q.9: Enlist the negative implications of FDI and FPI inflow for India.

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12.7 LET US SUM UP

- The serious macroeconomic crisis of late 1980s prepares the move of Indian economy towards Macroeconomic Management. New Economic Policy comprising was introduced at the instigation of IMF under structural adjustment program to remove crisis from the economy.
- A series of economic reforms in the external sector, industrial sector, fiscal sector, financial sector, etc. have been introduced under the new economic policy. Reforms have influenced the economy in various ways and at different levels.
- The financial system plays a key role in the economic development of nations. It constitutes financial markets, institutions, instruments, and services. It fulfilsthe short and long run needs of individuals, companies, and governments in the country.
- For getting long-run, finance one has to approach capital market. In India, capital markets are playing important role in providing long run finance to the individual, corporation, and governments. Indian capital markets constitute government security market, industrial security market, development financial institutions, and financial intermediaries.
- Indian capital markets were not well-developed, regulated, and supervised before 1990s. Several reforms in the primary issue market and secondary issue market are implemented so as to remove inefficiency and frauds in Indian capital markets since 1991. Due to the development of the capital market continuously coupled with an effective regulatory framework, Indian capital market has come up to global standards.
- During the reform period, FDI and FDI inflow has increased rapidly. Mauritius occupies 1st place among the FDI source countries for India and constitutes 30.13 percent of total FDI inflows. The service

sector is the highest FDI-recipient sector in India having a 17.45 percent share in total FDI inflows.

- India has also experienced a high level of FPI inflows during the period from 2010-11 to 2018-19.
- Both FDI and FPI inflow have positive as well as implications for India's domestic economy.



12.8 FURTHER READING

1. Datt, Rudar and Sundharam, K.P.M (2014), Indian Economy. S. Chand, New Delhi
2. Bharti V. Pathak (2006). The Indian Financial System, Pearson Education India Ltd. 2nd Edition.
3. Security Exchange Board of India Act 1992, Part-III, Functions of SEBI in Respect of Matters Specified in Section 11. Annual Report 2002-2003.
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5. Dhar, P.K. Indian Economy: Its Growing Dimensions. Kalyani Publishers, New Delhi.
6. Economic Survey, Ministry of Finance, Government of India. Retrieved from: http://indiabudget.nic.in/survey.asp. Accessed on 11/10/2016 at 7:10 PM.



12.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (a) True

Answer of Q.2: Indian economy, since its independence in 1950, has adopted economic planning for achieving economic growth and development in the earliest possible. It has adopted heavy industry development strategy with inward orientation import substitution. Mixed economy model was executed giving role of Commanding-heights to

public sector. Private sector was also given important role to play in the process of economic growth especially in case of agriculture and small scale industries. India has achieved impressive developments in the fields of agriculture, industrial and service sector development during the period 1951-91. On the other hand, it had experienced several critical economic times also. During 1960s, Indian government has to take plan holiday. As a result, three one year plans of 1966-67, 1967-68 and 1968-69 were introduced. During late 1980s, India experienced serious macroeconomic crisis. As a result, macroeconomic management has to be executed by the Indian government for emerging out of the crisis.

Ans to Q No 3: (i). Industrial Policy Reforms (ii). Reforms in External Sector (iii). Financial Sector Reforms (iv). Fiscal Sector Reforms (v). Social Sector Reforms (vi). Reforms in Infrastructure (vii). Foreign Investment Reforms

Ans to Q No 4: (a) True

Ans to Q No 5: With the objective of improving market efficiency, increasing transparency, integration of national markets and prevention of unfair practices regarding trading, a package of measures has been introduced to liberalize, regulate and develop capital markets in India. Since 1992, reforms measures have mainly being focused on regulatory effectiveness, boosting competitive conditions, reducing information asymmetries, instigating transaction costs and controlling of speculation in securities market.

Ans to Q No 6: SEBI is established for effective regulation of Indian capital market. As the regulator, SEBI has put in place a well-designed disclosure-based regulatory regime. Information technology is extensively used in the securities market. Apart from infrastructural developments, following developments are taken place in capital markets so far as the governance and regulation is concerned.

Ans to Q No 7: (a) False

Ans to Q No 8: FDI Stock in India as a Percentage of Total World FDI Stock has been consistently increasing from 0.8 percent in 1990 to 1.20

percent in 2018. Similarly, FDI Stock in India as Percentage of GDP from 0.52 percent in 1990 to 14.07 percent in 2018 (Table 1).Since the mid-eighties, the average annual growth rate of India's FDI inflows remained quite high. During post reforms period, India registered rapid increase in FDI inflows except in 1996-2000 when growth of FDI was only 16.23 per cent. Though India's FDI inflows are still low but increasing very rapidly (Table 2).

Ans to Q No 9: Followings are negative implications of FDI and FPI for domestic economy:

- There is a tendency for multinational companies to use their normal suppliers, which can contribute to increased imports. Repatriation of earnings on the balance of payments can also be frustrating
- Similar growth in domestic companies can be affected by high wage growth in international corporations, which are unable to cover this growth with productivity growth. The effect is the decreasing competitiveness of domestic businesses
- Missing tax revenues- If the foreign corporations receive tax holidays or similar provisions
- The emergence of a dual economy- The economy will contain a developed foreign sector and an underdeveloped domestic sector
- There is possibility of possible environmental damage by the giant foreign corporations
- Foreign investment may result "Incentive tourism" under which large foreign firms may invest in any country for short run gains particularly in case of FPI.



12.10 MODEL QUESTIONS

Short Questions (Answer each question in about 150 words):

Q 1: Why was Macroeconomic management introduced in India? Explain.

Q 2: Describe in detail reforms in India's fiscal sector.

Q 3: Outline role of Securities Exchange Board of India in regulating Indian Capital market.

Q 4: Portray the trends in FDI and FPI inflows in India.

Essay-type Questions (Answer each question in about 300-500 words)

Q 1: Give a detailed description of macroeconomic management in India since 1991.

Q 2: Write a detailed note on reforms in Indian Capital Market since 1991.

Q 3: Demonstrate trends in FDI and FPI inflows in India. Also discuss their implications for India's domestic economy in detail.

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UNIT 13: ECONOMIC REFORMS -II

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Financial Sector reforms

- 13.3.1 Reforms in the Money Market
- 13.3.2 Reforms in the Capital Market

13.4 Fiscal Reforms

13.5 Fiscal Responsibility and Budget Management Act (FRBM) 2003

- 13.5.1 Objectives
- 13.5.2 Main Features
- 13.5.3 Implications of the Act

13.6 Second Generation Reforms

13.7 Let Us Sum Up

13.8 Further Reading

13.9 Answers to Check Your Progress

13.10 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- describe the financial sector reforms implemented in the country in 1991
- discuss the factors responsible for the implementation of the banking sector reforms in the country
- enumerate the recommendations of the Narsimham Committee 1991 and 1998 and their implementation
- discuss the weaknesses of the capital market and the reforms implemented to remove them
- evaluate the working and role of SEBI as a regulator of capital market

- critically evaluate the FRBM Act and its implications on the economy
- explain the need for second generation reforms in the economy

13.2 INTRODUCTION

In unit 12 you would have learnt about how macroeconomic management of the economy had taken place in 1991 and how the New Economic Policy 1991 was implemented. It was through this that Indian economy had loosened its controls from the economy. Previously too much control were imposed by the government in various areas of economy such as administered price policy, trade restrictions in the form of quotas, licensing, tariffs, custom duties etc.,and there were controls for the private sector so that the private producers had to take several permissions and licenses for making any changes in their business. Public sector was also spread up in too many activities so that very few activities were left open for the operation of private sector.These gave rise to numerous problems and, hence, government had to introducemany new policies and measures. These policies eased out controls in many sectors like foreign trade, foreign capital, public sector, money market, capital market etc. These measures are known as reforms and previous unit provides a broad overview of various reforms undertaken in the early nineties.

In this unit you will come to learn about the reforms introduced in the financial sector of the economy.

13.3 FINANCIAL SECTOR REFORMS

The financial sector comprises of the money market and the capital market which cater to the credit needs of the economy for short term and long term investments. The financial system of India refers to borrowing and lending of funds of all individuals, institutions, companies and the government. It comprises of banking system, insurance companies, mutual funds, investment funds, and other institutions promoting savings, collecting savings and transferring it to actual investors in the form of credit. The investors are individuals, industrial and trading companies and the

government. The financial sector reforms of the 1991 comprise of the reforms in the banking sector as well as the capital market. Prior to the reforms, the banking sector was characterised high statutory SLR and CRR limits for the banks, which left the banks with near zero excess reserves to be used for credit creation for income generation. The government had also directed the public sector banks to take up priority sector lending to agriculture, small scale sector, weaker sections, exporters etc. Not only this, the government also channelizedthe bank funds for its directed credit program meant for financing its social sector programs. This pre-emption of bank funds by the government adversely affected the profitability of the public sector banks.

The capital market was also characterised by lack of transparency and accountability of financial institutions, cropping up of large number of non-bank financial intermediaries without any specific regulatory mechanisms for them, non-transparent and unregulated working of the stock market, insider trading, misuse of funds etc which were responsible for several scams in the financial market, the biggest among them was the Harshad Mehta scam of 1992.

These weaknesses of the financial sector were greatly analysed by the committee headed by Mr M. Narsimham. The committee gave its recommendations in the form of two reports, Financial Sector reforms 1991 and Banking sector reforms 1998. The financial sector reforms,in general, comprise of the implementation most of these recommendations.



LET US KNOW

Statutory Liquidity Ratio(SLR) - All the banks are required by law to maintain a certain percentage of its deposits in the form of gold, cash and other approved securities.

Cash Reserve Ratio(CRR)- All the banks are required by law to keep a certain percentage of deposits in the form of cash with the central bank .

SLR and CRR are responsible to reduce the excess reserves used for creating credit by banks. Raising these ratios reduces the credit creation capacity of the commercial banks.

13.3.1 Reforms in the Money Market

The Narsimham committee was of the view that resources of banks come from the public and hence government had no rights to use it on its own free will. Thus, most of the reforms were directed to free the banks from unnecessary controls and regulations to increase their profitability and liquidity and also to release the locked-up funds for use by the industrial and other sectors.

- Statutory liquidity Ratio (SLR) and Cash reserve Ratio (CRR) reduced to 25 per cent and 5.5 percent respectively.
- Interest rates on domestic term loans were decontrolled.
- Interest rates of bank loans above 2 lacs were fully decontrolled
- Banks were given autonomy to set rates subject to minimum floor rates and ceiling rates.
- Books of the commercial banks were to be maintained according to international norms, called prudential norms.
- Banking Companies (Acquisition & Transfer of Undertakings) was amended to enable the banks to access market for capital funds through public issues.
- Capital adequacy norms were fixed at 8 percent.
- Banks were given freedom to open new branches on the basis of profitability and also to close non-viable branches.
- More private sector banks were opened and these banks were allowed to raise capital through Financial Institutional Investors (FII) upto 20 percent and NRIs upto 40 percent.
- New private local area banks with jurisdiction of three districts were set up tin Andhra Pradesh, Karnataka, Rajasthan, Punjab and Gujarat, to mobilise savings and channelize investment.
- Board of Financial Supervision (BFS) were set up for target appraisal of portfolios and for discriminatory approach to supervision from sound banks to problem banks.

- Six Special recovery Tribunals were set up at Kolkata, New Delhi, Jaipur, Ahmedabad, Bangalore and Chennai to facilitate quick recovery of debts within six months. An Appellate Tribunal was set up in Mumbai.
- Review and amendment of RBI Act, Banking Regulation Act, SBI Act and Banks Nationalization Act were done.



LET US KNOW

Capital Adequacy Ratio- (CAR) is a measurement of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. It is a measure to ensure that banks have enough capital to absorb losses before it becomes insolvent.

$$CAR = \frac{tier1 + tier2\ capital}{risk\ weighted\ assets}$$

Tier 1 capital- consists of equity capital, ordinary share capital, intangible assets and audited revenue reserves. Tier-1 capital is used to absorb losses and does not require a bank to cease operations.

Tier-2- capital comprises unaudited retained earnings, unaudited reserves and general loss reserves. This capital absorbs losses in the event of a company winding up or liquidating.

Risk-weighted assets are used to determine the minimum amount of capital that must be held by banks and other institutions to reduce the risk of insolvency.

13.3.2 Reforms in the Capital Market

The reforms in the capital market were directed to remove direct government control and replace it by a regulatory framework based on transparency and disclosure supervised by an independent regulator. The capital Issues Control Act 1947 which was an act to govern capital issues in India was repealed and the office of Capital Control of Indiawas abolished. In its place, Securities and Exchange Board of India (SEBI), which was initially established as a non-

statutory body in 1988, was raised to a complete capital market regulator with statutory powers in 1992. The other reforms in the capital market were:

Primary market:

- Companies were allowed to approach capital market after clearance from SEBI for raising capital.
- Merchant banking were brought under regulations of SEBI. The merchant banks were to adopt capital adequacy norms, abide by code of conduct, and were made more accountable so as to ensurehigh degree of responsibility towards investors.
- Stock exchanges were to collect from companies a deposit of 1 percent of issue amount in case of non-compliance of provisions of listed agreements.
- Unit Trust of India was brought under the jurisdiction of SEBI; Mutual Funds were allowed to underwrite public issues.
- Companies were required to disclose all material facts and risk factors with their projects. Stock exchanges were to ensure that a listed company furnishes all annual statements showing financial projections and actual utilisation of funds so as to enable shareholders to make a comparison between promises made by the company and the performances made.
- SEBI introduced a code of conduct of advertisement for public issues for fair and truthful disclosures.
- Permission was given to FIIs to access Indian capital markets after getting registered with SEBI.
- Investment norms for were liberalised for NRIs and overseas corporate bodies to buy shares with prior permission of RBI.
- Permission was given to Indian companies to access international markets through Euro equity shares.
- Commencement and operation of Over-The-Counter Exchange of India (OCTEI) and National Stock Exchange (NSE) started with nationwide stock trading and electronic display, clearing and settlement facilities.

Secondary market:

- Registration of intermediaries such as stock brokers and sub brokers was made mandatory.
- SEBI was empowered to impose penalties on intermediaries for violation of norms and also to file complaints in courts.
- SEBI notified regulations on insider trading to help inspire investor confidence.
- Governing bodies of stock exchanges were made broad based to have five elected members, four nominated by government and three nominated as public representatives.



LET US KNOW

Primary market- is the market for raising of new capital through floating of new shares of the companies

Secondary market- it is the market for trading of the old shares of the company. It is the stock exchange.

Underwrite- underwriting is an agreement to subscribe the shares of the company when the existing shareholders fail to subscribe to them.

Over-The-Counter Exchange of India (OCTEI)- is the automated stock market operating at national level to allow trading of securities through computers.

National Stock Exchange(NSE)- is model stock exchange established under Companies Act 1956 to provide nationwide electronic screen based, floor less trading.



CHECK YOUR PROGRESS

Q.1: State whether True or False:

(a) Capital market comprises of market where machines are made and sold. (True/False)

(b) Narsimham committee recommended the reforms for the banking sector. (True/False)

Q.2: Describe the reforms introduced for the banking sector under financial sector reforms. (100 words)

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Q.3: Discuss the role of SEBI in regulating the capital market in India. (100 words)

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13.4 FISCAL REFORMS

The economic reforms of were introduced at a time when the country was facing huge crisis in both internal and external fronts. In external front there was huge Balance of Payments deficit whereas on internal front there was growing fiscal deficit of the government which was putting pressures on the financial aspects of the government and was also the cause of rising inflation. Hence a set of fiscal reforms were also introduced. The initial objective was to reduce the overall public sector deficit from an estimated 12.5 percent to about 4 per cent of GDP. For achieving this target, the government was to control its public expenditure and increase their tax and non-tax revenues. Both the Central and the State Government were to practice strict fiscal discipline. The state governments were also encouraged to streamline the work of State Electricity Boards and State Road transport Corporations. The budgetary support to Central Public enterprises were also to be lessened and they were expected to be more accountable and efficient and were to be vested with more autonomy in the decision making.

13.5 FISCAL RESPONSIBILITY AND BUGET MANAGEMENT(FRBM) ACT 2003

The Fiscal Responsibility and Budget Management Act (FRBM) 2003 was passed to bring fiscal discipline for the government and to implement a prudent fiscal policy. The primary objective was to eliminate revenue deficit and to reduce the budget deficit. The other objectives for the same were:

13.5.1 Objectives

- To bring efficient and accountable fiscal management of the government
- Ensuring proper and effective debt management
- To establish fiscal stability in the long run

13.5.2 Main Features

The main commitments of the government as proposed in the Act were:

- Revenue deficit was to be removed completely by 2008-09 by reducing it by 0.5 per cent every year starting 2004-05.
- Fiscal deficit was to be reduced every year by 0.3 per cent starting 2004-05 so that it drops to less than 3 percent by 2008-09.
- The borrowing of the government by RB through the medium of bonds was to be stopped by 2006-07.
- Total debt was to be reduced to 9 percent of the GDP.
- The Finance Minister was supposed to make a quarterly review of the trends of revenue and expenditure of the government and present this analysis before the both Houses of the Parliament.
- The government should submit in its Fiscal Policy for four fiscal indicators namely: revenue deficit as percentage of GDP, fiscal deficit as percentage of GDP, Tax revenue as percentage of GDP and total tax liabilities as percentage of GDP.
- It was specified that if there is any national emergency,national security or natural calamity of any other exceptional grounds as specified by the Central Government, then in such cases fiscal and revenue deficit may exceed the specified limits to meet that emergency.



LET US KNOW

Revenue Deficit- Revenue deficit arises when the government's revenue expenditure exceeds the total revenue receipts. This represents that the government's own earnings are not sufficient to meet the day-to-day operations of its departments.

Fiscal Deficit- Fiscal Deficit is the difference between the total income of the government (total taxes and non-debt capital receipts) and its total expenditure. A fiscal deficit situation occurs when the government's expenditure exceeds its income.

13.5.3 Implications of the Act

The FRBM Act in a way tried to bring the government fiscal behaviour well within the legal framework. This was done to bring some responsibility in managing of finances by the government. It brought to light the fact that the efficient fiscal management included not just the efforts to increase only the revenues of the government, but that it also involved reduction of unnecessary expenditure of the government.

Although the FRBM Act was a sincere effort to impose fiscal prudence on the government yet, the Act missed several of its targets after its implementation. The deadlines to curtail and end the fiscal deficit and the revenue deficit respectively was extended. The act was paused several times to meet certain exigencies. Several ups and downs have been witnessed both good and bad, since the passing of the act. A positive development was that some transparency was noticed in the budget making as there were disclosure of gender budget, revenue forgone due to exemptions etc. The Government had managed to cut the fiscal deficit to 2.7 per cent of GDP and revenue deficit to 1.1 percent of GDP in 2007-08. In 2010-11 the term Effective Revenue Deficit was started to be used in budget documents.

However, global depression in 2008 adversely affected the fiscal management of the government. The depression sharply brought down the GDP growth rate. Coupled by the deficient monsoons which brought down production further, the crisis was aggravated further. The government was forced to follow expansionary fiscal policy to bail the economy out of depression. Added to this the decline in GDP had brought forth reduced tax collections which worsened any fiscal prudence of the government. While there were fall in deficits, however, these deficits were achieved by decline in critical sectors of the economy, especially social sectors such as health, education, poverty alleviation etc. Both the development expenditures of Union and State governments declined, which created an adverse impact on the social sector of the economy which was not very good for the development programs of the country.

The overall fiscal performance of the government can be divided into two phases in the 1990s.The first half of 1990s i.e. 1991-92 to 1996-97 was characterised by improved fiscal discipline and fiscal correction and a reduced fiscal deficit for most of the years during the period. However, the fiscal deficit increased again in the later part of the decade till 2002-03, when it showed some improvement again.

Due to the global financial crisis and its severe nature, the government of India also had to introduce monetary and fiscal reforms with a set of financial incentives to bail out the economy from the crisis. This stimulus package for the economy resulted in a higher fiscal burden impacting both the revenue and expenditure sides adversely. The revenue and fiscal deficit increased to 4.6 percent and 6.2 per cent of GDP respectively. In a nutshell these measures indicated a postponement of the FRBM Act measures for future.



CHECK YOUR PROGRESS

Q.4: State True or False:

(a) FRBM Act was announced to take care of the industrial sector. (True/False)

(b) The Revenue deficit is part of the government budget. (True/False)

Q.5: What are the key features of the FRBM Act? (100 words)

.....

.....

Q.6 Examine the progress of the FRBM Act. (100 words)

.....

.....

13.6 SECOND GENERATION REFORMS

Basically, the reforms that were introduced in 1991 did not serve the desired results. Hence the government launched the second-generation reforms in the year 2000-01. The first generation of reforms were mostly the crisis driven reforms and the reforms were to a large extent been able to bail out the economy out of the crisis situation. Hence the government felt the need to shift the focus of reforms now to development driven reforms. The first generation reforms were narrow, in that they only focussed on the growth of industrial sector. However, the second-generation reforms were to be mainly driven for the development of labour absorbing sectors such as small-scale industries and agriculture. The major reforms initiated were in following areas:

- Dismantling of the Administered Price Policy of some important products such as petroleum, diesel, lubricants etc. Only kerosene and LPG remained under the administered pricing system.
- Public sector reforms focussed on areas like greater functional autonomy, leverage to capital market, international tie-ups and green field investments.

- Legal reforms were set in by introducing reforms in the Indian Penal Code, Labour Laws, Cyber laws, Company Laws etc.
- Reforms were introduced in critical areas such as agriculture, infrastructure, health education, poverty alleviation etc.



13.7 LET US SUM UP

- The New Economic Reforms were introduced to free the economy from too much of regulations, controls, licensing, restrictions etc.
- Financial sector reforms were introduced to bring reforms in the money market and the capital market.
- Money market is the market for short term funds.
- Capital market is the market for medium term and long-term loans.
- Reforms in the money market were done to remove the losses of banks and increase their profitability and liquidity.
- Interest rates were deregulated, CRR and SLR were reduced, banks given more autonomy in opening of branches and provision of funds.
- International system of book keeping was to be followed in banks.
- Reforms in the capital market were brought to bring more accountability for financial institutions and to bring in investor confidence.
- Securities and Exchange Board of India (SEBI) was made a statutory body and was given the regulatory body for the capital market.
- Mutual Funds, Non-bank financial intermediaries were brought under the control of SEBI.
- Stock market was reformed to reduce the unusual delays, remove insider trading and to build in investor confidence.
- The companies had to follow the directives of SEBI with regard to floating of shares, disclosure of their financial positions, and compliance of the norms made by the SEBI.
- FRBM Act was passed to bring in more responsibility and accountability in government spending of funds.

- The Act targeted to reduce the fiscal deficit and to eliminate the revenue deficit completely.
- The implementation of the Act suffered a blow several times when the Act was passed to meet the exigencies in the global market in the form of recession in 2008.
- Second generation reforms were meant to bring in more reforms in the social sector namely health, education, poverty alleviation, labour market, infrastructure, small scale industries, agriculture etc.
- The second-generation reforms were more development driven unlike the first-generation reforms which were crisis driven.



13.8 FURTHER READING

1. Datt, Gaurav & Mahajan, Ashwini (2016). *Datt&Sundaram's Indian Economy*. New Delhi: S. Chand & Co.
2. Misra, S.K.& Puri, V.K. (2015). *Indian Economy*. New Delhi: Himalaya Publishing House.
3. Prakash, B.A. (2011). *The Indian Economy Since 1991: Economic Reforms & Performance*. New Delhi: Pearson.



13.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: (a) False (b) True

Ans to Q No 2: The SLR and CRR were reduced to 25 percent and 5.5 percent respectively. Interest rates were decontrolled and banks were given more autonomy in matters related to opening of branches, credit creation and setting of interest rates. They were allowed to access capital market for more funds. There were radical changes introduced in the work culture of the banks; CEOs were to be appointed without any political considerations and there was removal of duality of control between RBI and Banking division of Ministry of Finance. RBI was made primary body to govern the banks.

Ans to Q No 3: Securities and Exchange board of India (SEBI), Securities and Exchange Board of India (SEBI) was made a statutory body and was given the regulatory body for the capital market. Mutual Funds, Non-bank financial intermediaries were brought under the control of SEBI. Stock market was reformed to reduce the unusual delays, remove insider trading and to build in investor confidence. The companies had to follow the directives of SEBI with regard to floating of shares, disclosure of their financial positions, and compliance of the norms made by the SEBI. Permission was given to Indian companies to access international markets through Euro equity shares. The operation of Over-The-Counter Exchange of India (OCTEI) and National Stock Exchange (NSE) had started.

Ans to Q No 4: (a) False (b) True

Ans to Q No 5: The Fiscal Responsibility and Budget Management Act (FRBM) 2003 was passed to bring fiscal discipline for the government and to implement a prudent fiscal policy. Revenue deficit was to be removed completely by 2008-09 by reducing it by 0.5 per cent every year starting 2004-05.The fiscal deficit was to be reduced every year by 0.3 per cent starting 2004-05 so that it drops to less than 3 percent by 2008-09.The borrowing of the government by RB through the medium of bonds was to be stopped by 2006-07. The total debt was to be reduced to 9 percent of the GDP.

Ans to Q No 6: The FRBM Act was a sincere effort to impose fiscal prudence on the government yet, the deadlines to curtail and end the fiscal deficit and the revenue deficit respectively was extended several times. Although initially the Government had managed to cut the fiscal deficit and revenue deficit in 2007-08. However, global depression in 2008 adversely affected the fiscal management of the government. The depression sharply brought down the GDP growth rate. Coupled by the deficient monsoons which brought down production further, the crisis was aggravated further. The government was forced to follow expansionary fiscal policy to bail the economy out of depression.



13.10 MODEL QUESTIONS

Short Answers (Answer eachquestion in about 150 words)

Q.1: Discuss the fiscal reforms implemented with the New Economic Reforms 1991.

Q.2: Discuss the recommendations of Narsimham Committee 1991 and 1998.

Essay Type Answers (Answer each question in about 200 words)

Q.1: 'The FRBM Act was successful to a larger extent in bringing the fiscal discipline and accountability in Government spending.' Discuss the statement.

Q.4: Critically evaluate the need for second generation reforms in the economy focussing on the social sector reforms.

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UNIT 14: INDIA'S EXTERNAL SECTOR

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Direction of India's Foreign Trade

14.4 Composition of India's Foreign Trade

14.4.1 Composition of India's Exports

14.4.2 Composition of India's Imports

14.5 India's Foreign Trade Policy

14.5.1 Evolution of Foreign Trade Policy in India

14.5.2 Recent Foreign Trade Policy of India

14.6 Balance of Payment: Role of Private Transfer, Software Services and Foreign Capital in BOP

14.7 Current and Capital Account Convertibility

148 WTO and its Impact of the Indian Economy

14.9 Let Us Sum Up

14.10 Further Reading

14.11 Model Questions

14.1 LEARNING OBJECTIVES

After going through this unit, you will be able to –

- discuss the composition and direction of India's foreign trade
- discuss the concepts of current and capital account convertibility
- explain the direction of India's foreign trade
- discuss India's foreign trade Policy
- discuss a recent foreign trade policy of India
- discuss the role played by private transfer, software services and foreign capital in the balance of payment of India
- evaluate the progress made by India in current and capital account convertibility
- assess the major impacts by WTO on the Indian economy.

14.2 INTRODUCTION

This is the concluding unit of the course on Indian economy. In this unit, we shall discuss some of the major aspects of the external sector of the Indian economy. This unit will be helpful in acquiring knowledge about the direction and composition of India's foreign trade, concepts of current and capital convertibility, India's trade policy, as well as the impact of WTIO on the Indian economy. Apart from these, the role played by private transfer, software services and foreign capital in the balance of payment of India has also been taken up.

14.3 DIRECTION OF INDIA'S FOREIGN TRADE

By direction of India's foreign trade, we mean the countries with which India keeps international trade relations. It also helps us to understand the diplomatic relations maintained by India with other countries in direction of trade.

Prior to independence, when India was under British rule, much of India's trade was done with Britain. Therefore, UK used to hold the first position in India's foreign trade. However, after Independence, new trade relationships were established. Now USA has emerged as the most important trading partner followed by Germany, Japan and UK. India is also making efforts to increase the exports to other countries. In the following, we shall examine the direction of India's foreign trade as exports and imports.

14.3.1 Direction of India's Exports

For the purpose of direction of trade, the countries to which India exports are broadly divided into five groups, viz., OECD, OPEC, Eastern Europe, Developing Countries and Others. Thus, while discussing direction of India's foreign trade, the rest of the world (trading partners are) are as follows:

- Organisation for Economic Co-operation & Development (OECD) comprising of USA, Canada, European Union (EU), Australia and Japan.

- Organisation of Petroleum Exporting Countries (OPEC) which includes Kuwait, Iran, Iraq, Saudi Arabia and others.
- Eastern Europe which includes Romania, Russia and others.
- Developing Nations which includes China, Hong Kong, South Korea, Singapore and Malaysia.
- And others include the rest of the countries.

Table 14.1 reveals that the direction of India's exports to principal countries, particularly in the post-reform period. Thus, it has been seen that during the entire post-reform, OECD countries were the main destination for the India's exports. For most of the years these countries constitute more than 50 per cent of total exports of India. In the year 1992-93, the share of these countries to total exports of India was 62.07 per cent which was the maximum among all the years of the post-reform. In the year 2007-08 this group registered a low percentage among all the years, i.e. only 38.45 per cent only. In the initial years developing countries were in the second place of India's exporters and reduced in the recent years to very meagre amount i.e. less than 4 per cent after 2008-09. In the initial years of post-reform period, OPEC countries were only next to the developing countries i.e., in the third place. Yet their share continuously increased. After 2008-09, their share becomes to the second place next to the OECD countries. The share of other countries was less than one per cent except 2001-02 and 2002-03. Eastern European countries share in India's total exports was continuously reduced from 1990-91 to till 2012-13. It is revealed from the analysis that OECD countries were the major destination for India's exports and also there is a slight change in the direction of India's exports also.

Table 14.1: Direction of India's Exports in the Post-reform Period

(As percentages of Total Value of Exports)

Year/ Country	OECD	OPEC	Developing Countries	Eastern Europe	Others	Total
1990-91	58.16	5.79	17.58	18.40	0.06	100.0
1991-92	59.23	8.95	20.56	11.19	0.07	100.0
1992-93	62.07	9.90	23.45	4.51	0.07	100.0
1993-94	57.91	10.91	26.54	4.59	0.05	100.0
1994-95	59.60	9.38	26.89	4.08	0.06	100.0
1995-96	56.49	9.83	29.34	4.28	0.06	100.0
1996-97	56.48	9.82	30.47	3.16	0.07	100.0
1997-98	56.23	10.20	29.74	3.70	0.13	100.0
1998-99	58.15	10.75	27.81	3.18	0.12	100.0
1999-00	57.32	10.58	28.41	3.51	0.18	100.0
2000-01	52.68	10.88	29.20	2.96	4.28	100.0
2001-02	49.34	11.92	30.88	2.86	5.00	100.0
2002-03	50.04	13.06	33.88	2.37	0.65	100.0
2003-04	46.41	14.95	35.69	2.44	0.52	100.0
2004-05	43.69	15.81	37.82	2.13	0.55	100.0
2005-06	44.46	14.79	38.55	1.92	0.29	100.0
2006-07	41.16	16.38	40.17	1.99	0.30	100.0
2007-08	38.45	16.37	42.71	2.08	0.39	100.0
2008-09	61.78	35.08	2.85	0.08	0.20	100.0
2009-10	60.85	35.71	3.15	0.08	0.20	100.0
2010-11	58.68	37.67	3.08	0.09	0.49	100.0
2011-12	61.43	34.47	3.55	0.09	0.47	100.0
2012-13	59.41	36.34	3.93	0.12	0.20	100.0

Source: *Maheshwari, T. (2017)*

14.3.2 Direction of India's Imports

Table 14.2 reveals that the direction of India's imports from principal countries. It is revealed that during the post-reform period, like exports, OECD countries were the main source for the India's imports. For most of the years these countries constitute more than 50 per cent of total exports of India. In the year 1993-94, the share of these countries to total imports of India was 56.14 per cent which was the maximum among all the years of the post-reform. In the year 2006-07 this group registered a low percentage among all the years, i.e. only 34.48 per cent only. In the initial years developing countries and OPEC countries were more or less in the same position with almost equal share in India's total imports. But in the recent

years, the share of developing countries to India's total imports was very meagre amount i.e. less than 3 per cent after 2008-09. Eastern European countries registered less share among all the years when compared to OECD and OPEC countries. Others constitute less than one per cent except the period from 2000-01 to 2005-06 and it is to be noted than during the same period the share of OPEC countries were reduced tremendously. It is revealed from the analysis that OECD countries were the major source for India's imports and also there is a change in the direction of India's imports.

Table 14.2: Direction of India's Imports in the Post-reform Period

(As percentages of Total Value of Imports)

Year/ Country	OECD	OPEC	Developing Countries	Eastern Europe	Others	Total
1990-91	57.22	16.30	18.65	7.82	0.01	100.0
1991-92	54.21	19.69	20.99	5.11	0.01	100.0
1992-93	56.07	21.83	19.56	2.53	0.00	100.0
1993-94	56.14	22.40	19.03	2.42	0.01	100.0
1994-95	51.41	21.12	24.08	3.38	0.01	100.0
1995-96	52.38	20.86	22.20	4.56	0.01	100.0
1996-97	49.72	25.95	21.50	2.82	0.01	100.0
1997-98	47.98	24.32	24.81	2.88	0.01	100.0
1998-99	44.44	21.04	32.17	2.34	0.01	100.0
1999-00	42.95	25.84	29.20	2.00	0.01	100.0
2000-01	39.89	5.32	22.08	1.68	31.03	100.0
2001-02	40.15	5.77	24.85	1.84	27.39	100.0
2002-03	37.94	5.67	25.55	1.86	28.99	100.0
2003-04	37.84	7.18	26.32	2.08	26.58	100.0
2004-05	35.86	8.99	25.65	2.25	27.25	100.0
2005-06	34.72	7.49	25.40	2.54	29.84	100.0
2006-07	34.48	30.19	32.19	2.70	0.44	100.0
2007-08	34.78	30.26	32.07	2.09	0.80	100.0
2008-09	48.51	49.06	2.24	0.15	0.03	100.0
2009-10	49.21	48.28	2.32	0.15	0.03	100.0
2010-11	46.52	51.00	2.29	0.11	0.08	100.0
2011-12	44.87	52.69	2.30	0.12	0.02	100.0
2012-13	40.78	56.55	2.50	0.14	0.03	100.0

14.4 COMPOSITION OF INDIA'S FOREIGN TRADE

Composition of foreign trade indicates the goods and services of imports and exports of a country. In other words, it tells about the commodities of imports and the commodities of exports of a country. In this section, we shall discuss the composition of India's foreign trade under two broad classifications of exports and imports.

14.4.1 Composition of India's Exports

Table 14.3 presents the composition of exports in India during the post-reform. The share of primary products to total exports was 23.83 per cent in 1990-91 and it was 15.37 per cent in 2012-13. It attained the maximum in the year 1996-97 i.e. 24.01 per cent. It is revealed that the share of primary products exports to total exports has reduced sharply and continuously during the post-reform. Manufactured products exports share in total exports also reduced continuously from 71.63 per cent in 1990-91 to 61.13 per cent. Still it maintains its place in the total exports. The share of manufactured exports to total exports was at maximum in 1999-2000 i.e. 80.7 per cent. The share of petroleum products to total exports was only 2.88 per cent in 1990-91 and increased tremendously to 20.04 per cent in 2012-13. After 2004-05, the petroleum products exports share to total exports increased at the faster rate. Petroleum products exports reap it importance in the recent years at the same time primary products and manufactured goods loss their importance in the total exports. Other exports constitute only 1.66 per cent in 1990-91 and it reached its maximum in 2010-11 with 7.34 per cent. It also acquired important place in the total exports.

Table 14.3: Composition of Total Exports of India

Year	Percentage Share in Total Exports				
	Primary Products	Manufactured Goods	Petroleum Products	Others	Total
1990-91	23.83	71.63	2.88	1.66	100.0
1991-92	23.13	73.60	2.32	0.95	100.0
1992-93	22.16	74.35	2.52	0.97	100.0
1993-94	22.10	74.90	1.79	1.21	100.0
1994-95	19.80	77.49	1.58	1.13	100.0
1995-96	22.82	74.69	1.43	1.06	100.0
1996-97	24.01	73.54	1.44	1.01	100.0
1997-98	21.96	75.83	1.01	1.20	100.0
1998-99	20.86	77.64	0.27	1.23	100.0
1999-00	17.72	80.70	0.11	1.47	100.0
2000-01	15.99	77.05	4.20	2.76	100.0
2001-02	16.47	75.74	4.60	3.19	100.0
2002-03	16.51	76.34	4.89	2.26	100.0
2003-04	15.51	75.96	5.59	2.94	100.0
2004-05	16.22	72.70	8.37	2.71	100.0
2005-06	15.89	70.39	11.29	2.43	100.0
2006-07	15.58	67.20	14.78	2.44	100.0
2007-08	16.91	63.21	17.41	2.47	100.0
2008-09	13.86	67.37	14.68	4.09	100.0
2009-10	14.81	64.63	15.72	4.84	100.0
2010-11	12.97	62.38	17.31	7.34	100.0
2011-12	15.01	60.62	18.28	6.09	100.0
2012-13	15.37	61.13	20.04	3.46	100.0

Source: *Ibid.*

Composition of exports of primary products of India:

Table 14.4 reveals that the composition of exports of primary products in India during the post-reform. The share of agriculture and allied product to total agriculture exports was 77.58 per cent in 1990-91 and it was 87.97 per cent in 2012-13 which is the maximum among all the years. It is to be noted that its share does not lower below the 60 per cent. It reveals that in the primary products exports agriculture and allied products has prominent place than the ores and minerals. Ores and minerals exports share in primary products exports increased continuously from 3.12 per cent in 1990-91 to 32.82 per cent in 2009-10. After that it started to decline due to more share of agriculture and allied products to primary products exports. Still it

maintains its place in the total primary products exports. The share of ores and minerals to total primary product exports reached its maximum in the year 2005-06 with 37.63 per cent.

Table 14.4: Composition of Exports of Primary Products of India

(As percentage shares in exports of primary products)

Year	Agriculture And Allied Products	Ores and Minerals	Primary Products
1990-91	77.58	3.12	100.0
1991-92	77.50	22.50	100.0
1992-93	74.95	17.59	100.0
1993-94	81.94	18.07	100.0
1994-95	81.04	18.95	100.0
1995-96	83.81	16.19	100.0
1996-97	85.41	14.59	100.0
1997-98	86.20	13.80	100.0
1998-99	87.10	12.90	100.0
1999-00	85.96	14.04	100.0
2000-01	83.82	16.18	100.0
2001-02	82.37	17.65	100.0
2002-03	77.07	22.93	100.0
2003-04	76.08	23.92	100.0
2004-05	62.53	37.47	100.0
2005-06	62.37	37.63	100.0
2006-07	64.43	35.57	100.0
2007-08	66.90	33.10	100.0
2008-09	69.21	30.79	100.0
2009-10	67.18	32.82	100.0
2010-11	73.70	26.30	100.0
2011-12	81.60	18.40	100.0
2012-13	87.97	12.03	100.0

Source: *Ibid.*

Composition of exports of manufactured products of India:

Table 14.5 presents the composition of exports of manufactured products in India during the post-reform. The share of leather and manufactured to total manufactured exports was continuously reduced from 11.15 per cent in 1990-91 to 2.65 per cent in 2012-13. The share of chemicals and related products to total exports was continuously increasing from 13.3 per cent in 1990-91 to 21.73 per cent in 2012-13. Like that the share of engineering goods to total exports was also increasing tremendously from 17.32 per cent in 1990-91 to 36.58 per cent in 2011-12 and reduced to 35.55 per cent,

yet it has 1/3 share in total manufactured exports. In the initial years, textile and textile product has important place in total manufactured exports and later its importance has been reduced. The share of textile and textile products to total manufactured exports was 30.11 per cent in 1990-91 and reduced to 14.88 per cent in 2012-13. The share of Gems and Jewellery in total manufactured exports is consistent over the post-reform. It was 22.01 per cent in 1990-91 and 23.66 per cent in 2012-13. The share of Handicrafts in total manufactured exports was also reduced from 1.65 per cent in 1990-91 to 0.11 per cent in 2012-13. Like that the share of other manufactured exports in total manufactured exports was also reduced from 4.46 per cent in 1990-91 to 1.42 per cent in 2012-13.

Table 14.5: Composition of Exports of Manufactured Products of India

Year	Percentage Share in Exports of Manufactured Products							
	Leather & Manufactured	Chemicals & Related Products	Engineering Goods	Textile & Textile Products	Gems & Jewllery	Handicrafts	Other Manufactured Goods	Total
1990-91	11.15	13.3	17.32	30.11	22.01	1.65	4.46	100.0
1991-92	9.65	14.21	17.14	35.69	20.82	1.84	0.65	100.0
1992-93	9.1	12.72	17.67	35.67	21.88	1.97	0.99	100.0
1993-94	7.8	14.27	18.24	32.85	23.99	1.91	0.94	100.0
1994-95	7.89	15.03	17.19	34.88	22.06	1.89	1.06	100.0
1995-96	7.38	15.15	18.49	33.82	22.21	1.83	1.12	100.0
1996-97	6.53	15.9	20.16	35.09	19.31	1.93	1.08	100.0
1997-98	6.24	16.56	20.1	34.09	20.14	1.98	0.89	100.0
1998-99	6.44	15.54	17.31	33.38	23.98	2.46	0.89	100.0
1999-00	5.35	15.84	17.34	33.06	25.25	2.25	0.91	100.0
2000-01	5.66	17.14	19.86	32.87	21.51	1.93	1.03	100.0
2001-02	5.72	18.14	19.59	32.39	21.2	1.9	1.06	100.0
2002-03	4.59	18.52	22.44	28.87	22.44	1.85	1.29	100.0
2003-04	4.46	19.48	25.58	26.38	21.8	1.03	1.27	100.0
2004-05	3.99	20.49	28.57	22.32	22.66	0.62	1.35	100.0
2005-06	3.72	20.35	29.93	22.6	21.4	0.64	1.36	100.0
2006-07	3.55	20.41	34.82	20.46	18.81	0.36	1.59	100.0
2007-08	3.4	20.58	36.28	18.86	19.11	0.49	1.28	100.0
2008-09	2.89	18.44	38.4	16.25	22.7	0.24	1.08	100.0
2009-10	2.92	19.89	33.23	17.24	25.17	0.2	1.35	100.0
2010-11	2.48	18.27	36.8	15.33	25.62	0.16	1.34	100.0
2011-12	2.59	20.01	36.58	15.12	24.18	0.15	1.37	100.0
2012-13	2.65	21.73	35.55	14.88	23.66	0.11	1.42	100.0

Source: *Ibid.*

14.4.2 Composition of India's Imports

Table 14.6 shows that the composition of imports in India during the post-reform. The share of bulk-imports to total imports was 45.06 per cent in 1990-91 and it was 46.7 per cent in 2012-13. It attained

the maximum in the year 1994-95 i.e. 50.51 per cent. Its share to total imports is more or less consistent over the post-reform, as its main component in the initial years was basic consumption goods and later on petroleum products took that place. The share of non-bulk-imports to total imports was 54.94 per cent in 1990-91 and it was 53.3 per cent in 2012-13. It attained the maximum in the year 1998-99 i.e. 68.79 per cent. Its share to total imports is also more or less consistent over the post-reform, its main component in the initial years was capital goods which required for development programmes and later on gold has more important place in this category of imports.

Table 14.6: Composition of Total Imports of India

Year	Percentage Share in Total Imports		
	Bulk-imports	Non-bulk Imports	Total
1990-91	45.06	54.94	100.00
1991-92	44.11	55.89	100.00
1992-93	44.09	55.91	100.00
1993-94	39.10	60.90	100.00
1994-95	50.51	49.49	100.00
1995-96	39.03	60.97	100.00
1996-97	41.82	58.18	100.00
1997-98	35.65	64.35	100.00
1998-99	31.21	68.79	100.00
1999-00	39.55	60.45	100.00
2000-01	41.19	58.81	100.00
2001-02	39.41	60.59	100.00
2002-03	39.57	60.43	100.00
2003-04	37.70	62.30	100.00
2004-05	38.02	61.98	100.00
2005-06	40.95	59.05	100.00
2006-07	45.46	54.54	100.00
2007-08	44.84	55.16	100.00
2008-09	45.65	54.35	100.00
2009-10	43.47	56.53	100.00
2010-11	40.88	59.12	100.00
2011-12	43.93	56.07	100.00
2012-13	46.70	53.30	100.00

Source: *Ibid.*

Composition of bulk-imports in India:

Table 14.7 shows that the composition of bulk-imports in India during the post-reform. The share of bulk-imports to total imports was 45.06 per cent in 1990-91 and it was 46.7 per cent in 2012-13. It attained the maximum in the year 1994-95 i.e. 50.51 per cent. Its share to total imports is more or less consistent over the post-reform, as its main component in the initial years was basic consumption goods and later on petroleum products took that place. The share of non-bulk-imports to total imports was 54.94 per cent in 1990-91 and it was 53.3 per cent in 2012-13. It attained the maximum in the year 1998-99 i.e. 68.79 per cent. Its share to total imports is also more or less consistent over the post-reform, its main component in the initial years was capital goods which required for development programmes and later on gold has more important place in this category of imports.

Table 14.7: Composition of Bulk-imports in India

Year	Percentage Share in Bulk-Imports			
	Petroleum and Crude Products	Bulk Consumption Goods	Other Bulk Items	Total
1990-91	55.57	5.12	39.31	100.0
1991-92	62.19	3.21	34.61	100.0
1992-93	61.34	5.25	33.40	100.0
1993-94	63.14	3.59	33.27	100.0
1994-95	33.51	6.47	60.02	100.0
1995-96	52.58	6.78	40.65	100.0
1996-97	61.33	7.42	31.25	100.0
1997-98	55.20	10.08	34.72	100.0
1998-99	48.36	19.08	32.56	100.0
1999-00	64.19	12.30	23.50	100.0
2000-01	75.18	6.93	17.88	100.0
2001-02	69.09	10.08	20.82	100.0
2002-03	72.59	9.92	17.49	100.0
2003-04	70.48	10.43	19.09	100.0
2004-05	70.39	7.32	22.29	100.0
2005-06	71.97	4.53	23.50	100.0
2006-07	67.68	5.09	27.24	100.0
2007-08	70.64	4.08	25.28	100.0
2008-09	66.93	3.65	29.42	100.0
2009-10	69.44	7.21	23.34	100.0
2010-11	70.07	5.86	24.06	100.0
2011-12	72.11	5.42	22.47	100.0
2012-13	73.74	6.20	20.06	100.0

Source: *Ibid*



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Top 10 Export Commodities	**Top 10 Import Commodities**
1. Petroleum Products	1. Petroleum: Crude
2. Pearl, Precious, Semiprecious Stones	2. Gold
3. Drug Formulations, Biologicals	3. Petroleum Products
4. Gold and Other Precious Metal Jewellery	4. Coal, Coke and Briquettes, etc.
5. Iron and Steel	5. Pearl, Precious, Semiprecious Stones
6. Electric Machinery and equipment	6. Electronic Components
7. Organic Chemicals	7. Telecom Instruments
8. RMG Cotton including Accessories	8. Organic Chemicals
9. Motor Vehicles/ Cars	9. Industrial Machinery for Dairy etc.
10. Marine Products	10. Iron and Steel
Top 10 Countries to which India exports the most	**Top 10 Countries from which India imports the most**
1. U S A	1. China PRP
2. UAE	2. USA
3. China PRP	3. UAE
4. Hong Kong	4. Saudi Arabia
5. Singapore	5. Iraq
6. United Kingdom	6. Switzerland
7. Netherland	7. Hong Kong
8. Germany	8. Korea RP
9. Bangladesh PR	9. Singapore
10. Nepal	10. Indonesia

14.5 INDIA'S FOREIGN TRADE POLICY

India's Foreign Trade Policy also known as Export Import Policy (EXIM) in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favourable balance of payments position. Foreign Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). Foreign Trade Policy or EXIM Policy is a set of guidelines and instructions established by the DGFT (Directorate General of Foreign Trade) in matters related to the import and export of goods in India.

Broad Objectives of FTP (EXIM) Policies in India:

The broad objectives of the foreign trade policies in India are:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented

vibrant economy and to derive maximum benefits from expanding global market opportunities.

- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

14.5.1 Evolution of Foreign Trade Policy in India

In a broader sense, after independence for almost forty years or so India adopted inward oriented strategy. The basic rationale behind it was that it would help rapid industrialization through import substitution and at the same time save valuable foreign exchange. This strategy covers the period from First Five Year Plan (1951 – 56) to the Seventh Five Year Plan (1985 – 90). This period is considered as the period of "Licence – Quota Raj" wherein there was a controlled and restrictive environment.

However, the decade of 1990 is marked with a near U turn as India adopted gradually a path of economic liberalization. It followed the policy of Liberalization, Privatization and Globalization (LPG) to solve its BOP and related problems. A series of economic reforms were introduced in various sectors to tackle the BOP and other problems. Hence, the Indian economy which was a closed economy for almost forty years now became relatively more open posing challenges for macroeconomic management. Thus, from 1990 onwards India adopted an outward oriented strategy which can be considered as a

significant turnaround from the earlier period. The adoption of outward oriented strategy was a major departure from the relatively protectionist trade policies pursued in earlier years.

There is no doubt that in the broader sense of the term India followed an inward - oriented trade policy after independence till 1990. However, an in depth analysis of India's trade policy shows that there were certain shifts in policy stance from time to time. Taking this into account trade policy of India can be broadly divided into the following phases:

- Phase I: Import Restriction and Import Substitution (From 1950's to 1970s),
- Phase II: Export Promotion & Import Liberalisation (From 1970s to 1990s) and
- Phase III: Outward Orientation (From 1990 onwards).

Phase I: Import Restriction and Import Substitution (From 1950's to 1970s)

India entered into planned development era in 1950's and at that time Import Substitution was a major element of India's trade and industrial policy. Thus, during this phase, import control and import substitution measures were incorporated and vigorous export promotion drive was launched through the diversification of exports. In this phase, the trade policy was reviewed by Mudaliar Committee.

Further, during this phase, when the Government failed to achieve a good result in export promotion, the Government took resort to devaluation of currency in June 1966 in order to control imports and to boost its exports. Although the policy was not successful initially but started to show results since the Fourth five year plan.

Phase II: Export Promotion & Import Liberalisation (From 1970s to 1990s)

The PC Alexander Committee (1978) was the first committee to review and recommend on Import –Export Policies and

Procedures. This committee recommended the simplification of the Import Licensing procedure and provided a framework involving a shift in the emphasis from "control to development". In 1980 Tandon Committee gave recommendations on export strategies in eightees. In the Export Import policy of 1978-79, for the first time in India's history decentralization of some licensing functions took place and the powers of regional licensing authorities was enhanced.

Export Oriented Units were set up under the EOU scheme introduced in early 1981. The export and Import Bank of India (EXIM Bank) was set up in 1982 to take over the operations of international finance wing of the IDBI (Industrial Development Bank of India).

In the Trade Policy of 1985-88 some measures were taken based upon the recommendation of Abid Husain Committee, 1984. This committee envisaged "Growth Led Exports, rather than Export Led Growth". The recommendation of this committee stressed upon the need for harmonizing the foreign trade policies with other domestic policies. This committee recommended announcement of foreign trade policies for longer terms.

The export import pass book scheme was introduced in 1985 as per recommendation of Abid Hussain Committee. In 1985 VishvanathPratap Singh Government developed a 3 year Exim Policy. Again, during this phase, Tax Reform Committee chaired by Raja J. Chelliah suggested minimizing the role of quantitative restrictions and reducing the tariff rates substantially. Export Processing Zones were set up to push up exports. They are now known as Special Economic Zone (SEZ).

Phase III: Outward Orientation – (From 1990 onwards).

As discussed the massive trade liberalisation measures adopted after 1991 mark a major departure from the relatively protectionist trade policies pursued in earlier years to a more outward orientation. Accordingly, Substantial simplification and

liberalisation has been carried out in the reform period. Foreign Trade Policy (FTP) or Export Import Policy (EXIM) is believed to be an important step towards the economic reforms of India. In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian EXIM Policy on April 1, 1992.

In the light of the reform policy objectives, successive governments have been taking various trade reforms. Successive annual Union Budgets have also extended a number of tax benefits and exemptions to the exporters. These include the following:

- Reduction in the peak rate of customs duty to 15 per cent;
- Significant reduction in duty rates for critical inputs for the Information Technology sector, which is an important export sector;
- Grant of concessions for building infrastructure by way of 10-years tax holiday to the developers of SEZs; Facilities and tax benefits to exporters of goods and merchandise;
- Reduction in the customs duty on specified equipment for ports and airports to 10 per cent to encourage the development of world class infrastructure facilities, etc.

14.5.2 Recent Foreign Trade Policy of India

Foreign Trade Policy, 2015-2020: The Union Commerce and Industry Ministry announced Foreign Trade Policy (FTP), 2015-20 on 31st March, 2015, to be effective for the period 1st April, 2015 upto 31st March, 2020. However, due to the Covid-19 pandemic, its validity was extended by another year, up to 31st March, 2021.

Some major aspectsof the Foreign Trade Policy 2015-2020 are:

- India to be made a significant participant in world trade by 2020.

- Commerce Minister announced two new schemes in Foreign Trade Policy 2015-2020. Two New Schemes announced in FTP are: MEIS & SEIS, namely "Merchandise Exports from India Scheme (MEIS)" and "Services Exports from India Scheme (SEIS)". These schemes (MEIS and SEIS) replace multiple schemes earlier in place, each with different conditions for eligibility and usage.
- Merchandize exports from India (MEIS) to promote specific services for specific Markets Foreign Trade Policy. Rewrite the line as the meaning is not clear
- For services, all schemes have been replaced by a 'Services Export from India Scheme'(SEIS), which will benefit all exporters of services in India.
- FTP would reduce export obligations by 25 per cent and give boost to domestic manufacturing.
- Incentives (MEIS & SEIS) to be available for SEZs also. FTP benefits from both MEIS & SEIS will be extended to units located in SEZs. Both MEIS and SEIS firms and service providers can now get subsidized office spaces in SEZ (Special Economic Zones), along with other benefits. With a view to boost the Special Economic Zones, Government has decided to extend both the incentive schemes for export of goods and services to units in SEZs.
- e-Commerce of handicrafts, handlooms, books etc., eligible for benefits of MEIS. e-Commerce exports up to Rs.25000 per consignment will get SFIS benefits.
- As part of Digital India vision, mobile apps would be created to ease filing of taxes and stamp duty, automatic money transfer using Internet Banking have been proposed. Online procedure to upload digitally signed document by Chartered Accountant/Company Secretary/Cost Accountant to be developed.

- Agricultural and village industry products to be supported across the globe at rates of 3 per cent and 5 per cent under MEIS. Higher level of support to be provided to processed and packaged agricultural and food items under MEIS.
- Industrial products to be supported in major markets at rates ranging from 2 per cent to 3 per cent.
- Branding campaigns planned to promote exports in sectors where India has traditional Strength.
- Business services, hotel and restaurants to get rewards scrips under SEIS at 3 per cent and other specified services at 5 per cent.
- Duty credit scrips to be freely transferable and usable for payment of customs duty, excise duty and service tax.
- Debits against scrips would be eligible for CENVAT (Central Value Added Tax) credit or drawback also.
- Nomenclature of Export House, Star Export House, Trading House, Premier Trading House certificate changed to 1, 2, 3, 4, 5 Star Export House. Some major overhauling of nomenclature and naming have been done. For instance, Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House. The allocation of the status will now be based on US dollars, instead of Indian Rupees.
- The criteria for export performance for recognition of status holder have been changed from Rupees to US dollar earnings. A new position called 'Status Holder' have been formulated, which will recognize and reward those entrepreneurs who have helped India to become a major export player. All IT and ITES (IT enabled services) firms, Outsourcing companies and KPOs can rejoice.
- Manufacturers who are also status holders will be enabled to self-certify their manufactured goods as originating from

India. Tax and duty on Indian manufacturers have been reduced, to boost Make in India vision.

- Inter-ministerial consultations to be held online for issue of various licences.
- No need to repeatedly submit physical copies of documents available on Exporter Importer Profile.

14.6 INDIA'S BALANCE OF PAYMENT: ROLE OF PRIVATE TRANSFERS, SOFTWARE SERVICES AND FOREIGN CAPITAL

The balance of payments position of the country reflects its economic health. It is a comprehensive and systematic accounts of all the different transactions occurred between the residents of a country and the rest of the world during a particular period of time.

The balance of payments is broadly classified into current account and capital account. The current account includes: visible exports and import; invisible items relating to receipts and payments for various services like banking, insurance, shipping, travel etc. and other unilateral transfer of payments like donations, grants, taxes etc. The capital account of balance of payments include all the current economic transactions for the country's international financial position resulting changes in the foreign financial assets and liabilities. The capital transaction includes both private, banking and official transactions.

In this section, we shall primarily discuss three items of balance of payments: private transfers, software services and foreign capital.



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Private transfers include grants, gifts etc., which do not have any quid pro quo. Without any quid pro quo means that it need not be compensated or reciprocated. Once it is received it need not be repaid. It is to be noted that private transfers make a major contributions under the invisible account of the balance of payments. Major sources of the private transfersare the remittances made by the non-resident Indians staying at different parts of the world.

In Table 14.8, we can see the key indicators of India's balance of payments during the years 2005-06 to 2014-15. Similarly, in Table 14.9 we have shown the net balances of invisibles. Following observations can be made from these tables with respect to private transfers, software services and foreign capital.

In the invisibles item (Table 14.8), private transfers play the major role in terms of net foreign income earnings. It can be seen that during 2005-06, it earned US $ 24,687 million (58.8 per cent of all invisibles), which has gone up to US$ 66,275 in 2014-15 (57.01 per cent of all invisibles). Thus, it can be said that private transfers continue to be one of the major items of foreign income receipts for India.

Software services (Table 14.9), has also played a major role in terms of net foreign income earnings. It can be seen that during 2005-06, it earned US $ 22,262 million (53.0 per cent of all invisibles), which has gone up to US$ 68,691 in 2014-15 (59.01 per cent of all invisibles). Thus, it can be said that software services are continuing to be one of the major items of foreign income receipts for India. However, in the recent times, China has emerged as a major competitor in the sector.

Inflow of foreign plays a major rolein a country's economic growth. There are the items like foreign investment, external assistance (net), commercial borrowings (net), Rupee debt services, NRI deposits (net) and other capital that contributes to foreign capital. However, among these items, foreign investment has been the major contributor. It can be seen (Table 14.8) that foreign investment has increased from US $ 15,528 million in 2005-06 to US $ 75,348 in 2014-15.

Thus, from this analysis, we have seen that private transfers, software services and foreign capital are playing a major role in the Indian economy in the recent times.

Table 14.8: Balance of Payments 2005-06 to 2014-15: Key Indicators

(In US$ million)

		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Exports (f.o.b)	105,152	1,28,888	1,66,162	1,89,001	1,82,235	2,50,468	3,09,774	3,06,582	3,18,607	3,16,741
2.	Imports (c.i.f)	157,056	1,90,670	2,57,629	3,07,651	3,00,609	3,30,935	4,99,533	5,02,237	4,66,216	4,60,920
3.	**Trade Balance**	**-51,904**	**-61,782**	**-91,467**	**-1,18,650**	**–1,18,374**	**–130467**	**–1,89,759**	**–1,95,655**	**–1,47,609**	**–1,44,179**
4.	Invisibles (net)	42,002	52,217	75,731	89,923	79,991	86,186	1,11,605	1,07,493	1,15,212	1,16,242
	a. Services	23,170	29,469	38,853	49,631	35726	47,664	64,098	64,915	72,965	75,683
	b. Income	-5,855	-7331	-5,068	-4,507	–8040	–14863	–15,987	–21,455	–23,028	–24,983
	c. Private transfers	24,687	30,079	41,995	44,798	52305	53,368	63,469	64,342	65,481	66,275
5.	**Current Account Balance**	**-9,902**	**-9,565**	**-15,757**	**-28,728**	**–38383**	**–44,281**	**–78,154**	**–88,162**	**–32,397**	**–27,937**
6.	Capital Account	25,470	45,203	1,06,585	67,685	53,397	59,747	65,324	91,988	47,906	89,344
	A. Foreign Investment	15,528	14,753	43,326	3,467	51167	37,434	50,363	54,723	35,792	75,348
	B. External assistance, net	1,766	1,787	2,119	2,639	2893	4,941	2,451	1,268	1,231	2,053
	C. Commercial borrowings, Net	2,759	16,443	22,640	6,648	3,339	11,599	9,140	8,583	10,716	1,391
	D. Rupee debt service	-572	-162	-122	-100	–97	–69	–79	–58	–52	–81
	E. NRI deposits, net	2,789	4,321	178	4,289	+3792	3239	11,918	14,842	47,906	14,057
	F. Other Capital	-3,183	-5,961	10,969	-3,990	–13016	–10440	–8,468	12,632	35,792	–3,424
7.	Overall Balance	15,052	36,606	92,164	-20,080	–13441	13,050	–12,832	3,826	15,508	61,406
8.	F.E. Reserve Use (Increase - /Decrease)	-15,052	-36,606	-92,164	20,080	+13441	13,050	12,832	–3,826	–15,508	–61,406
	As per cent of GDP										
	Exports	13.0	13.84	13.5	15.6	14.4	14.9	16.8	16.3	18.4	16.8
	Imports	19.4	20.05	21.0	25.4	23.1	22.6	27.0	26.7	26.9	24.4
	Trade Balance	–6.4	–6.8	–7.4	–9.8	–8.7	–7.7	–10.2	–10.4	–8.5	–7.6
	Invisible Balance	+5.2	+5.7	+6.2	+7.4	+7.0	+5.0	+6.0	+5.6	6.7	6.2
	Current Account Balance	-1.2	-1.1	-1.3	-2.4	3.1	–2.7	–4.2	–4.8	–1.8	–1.5

Source: *Datt&Sundharam's Indian Economy, 2020.*

Table 14.9: Analysis of Invisible Account (Net balance) *(In US$ million)*

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
A. Services	23,170	29,469	38,853	53,916	30,016	48,816	64,098	64,915	72,965	75,683
	(55.2)	(56.4)	(51.3)	(58.9)	(37.5)	(57.7)	(57.4)	(60.4)	(63.3)	(65.1)
1. Travel	1,215	2,439	2,091	1,469	2,516	4,167	4,700	6,175	6,112	5,028
	(2.89)	(4.67)	(2.76)	(1.6)	(3.1)	(4.9)	(4.2)	(5.7)	(5.3)	(4.3)
2. Transportation	–2,120	-94	-1,500	–1,510	–755	391	1,859	2,528	2,588	1,299
	(–5.0)	(-0.2)	(-2.0)	(–1.6)	(–0.9)	(0.5)	(1.7)	(2.3)	(2.2)	(1.1)
3. Software Services	22,262	26,721	37,712	54,068*	34,033*	43,995*	56,707*	55,631	63,750	68,691
	(53.0)	(51.2)	(49.8)	(59.0)	(42.5)	(52.0)	(50.8)	(51.7)	(55.3)	(59.1)
4. Miscellaneous	1,707	403	550	–	–	–	–	–	–	665
	(4.1)	(0.8)	(0.7)							(0.5)
B. Transfers	24,687	30,079	51,945	44,799	52,045	53,140	63,494	64,034	65,276	65,542
	(58.8)	(57.6)	(68.6)	(48.9)	(65.0)	(62.8)	(56.9)	(59.6)	(60.3)	(56.4)
C. Income	-5,855	-7,331	-5,067	–7,110	–8,039	–17,310	–15,987	–21,455	–23,028	–24,983
	(-13.9)	(-14.0)	(-6.7)	(–7.8)	(–10.0)	(–20.4)	(–14.3)	(–20.0)	(20.0)	(–21.5)
Total (A+B+C)	42,002	52,217	75,731	91,605	80,022	84,648	1,11,604	(1,07,493)	1,15,212	1,16,242
	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

** Includes miscellaneous.* **Source:** *Ibid.*

14.7 CURRENT AND CAPITAL ACCOUNT CONVERTIBILITY

"My hope is that we will get to full capital account convertibility in a short number of years," said Raghuram. G. Rajan, ex-governor of the Reserve Bank of India (RBI) on 10 April 2015. The International movement of capital is not always free; countries restrict flows of capital as and when needed to safeguard their markets from erratic flows of capital. In India, for example, there are restrictions on the movement of foreign capital and the rupee is not fully convertible on capital account.

Current account convertibility refers to the freedom to convert the Indian rupees into other internationally accepted currencies and vice versa without any restrictions whenever someone makes payments. Similarly, capital account convertibility means the freedom to conduct investment transactions without any constraints.

Thus, capital account convertibility means the freedom to convert rupee into any foreign currency (Euro, Dollar, Yen, Renminbi etc.) and foreign currency back into rupee for capital account transactions. In very simple terms, it means, Indians having the freedom to convert their local financial assets into foreign ones at market determined exchange rate. Capital account convertibility will lead to a free exchange of currency at a lower rate and an unrestricted movement of capital.

Distinction between Current Account Convertibility and Capital Account Convertibility:

Current Account Convertibility allows free inflows and outflows of foreign currency for all purpose including resident Indians buying foreign goods and services (imports), Indians selling foreign goods and services (exports), Indians receiving and sending remittances, accessing foreign currency for travel, study abroad, medical tourism purpose etc.

On the other hand, Capital Account Convertibility is widely regarded as the hallmark of developed countries. It is also seen as the major comfort factor for foreign investors since it allows them to reconvert local currency back into their own currency and move out from India.

To attract foreign investment, many developing countries went in for Capital Account Convertibility in the 1980s, not realising that free mobility of capital leaves countries open to both sudden and huge inflows and outflows, both of which can be potentially destabilising. More important, unless you have the institutions, particularly financial institutions capable of dealing with such huge flows, countries may not be able to cope as was demonstrated by the East Asian crisis of the late 90s.

Present Situation in India: In India, the Tarapore committee had laid down a three-year road-map, ending 1999-2000, for Capital Account Convertibility. It also cautioned that this time-frame could be speeded up, or delayed, depending on the success achieved in establishing the pre-conditions primarily fiscal consolidation, strengthening of the financial system and low rate of inflation. With the exception of the last, the other two pre-conditions have not been achieved.

The Capital Account Convertibility in India will depend on how fast the country meets the pre-conditions put forward by Tarapore Committee, viz., fiscal consolidation, inflation control, low level of non-performing assets, low current account deficit and strengthen financial markets. Sound policies, robust regulatory framework promoting a strong and efficient financial sector, and effective systems and procedures for controlling capital flow greatly enhanced the chances of ensuring that such flows fostered sustainable growth and did not lead to disruption and crisis.

Current Account Convertibility: Current account is today fully convertible (operationalized on August 19, 1994). It means that the full amount of the foreign exchange required by someone for current purposes will be made available to him at the official exchange rate and there could be an un-prohibited outflow of foreign exchange (earlier it was partially convertible). India was obliged to do so as per Article VIII of the IMF which prohibits any exchange restrictions on current international transactions.

Capital Account Convertibility: After the recommendations of the S.S. Tarapore Committee (1997) on Capital Account Convertibility, India has been moving in the direction of allowing full convertibility in this account, but with required precautions. India is still a country of partial convertibility (40:60) in

the capital account, but inside this overall policy, enough reforms have been made, and to certain levels of foreign exchange requirements, it is an economy allowing full capital account convertibility. Following steps have been taken in the direction of capital account convertibility.

- Indian corporate is allowed full convertibility in the automatic route up to $ 500 million overseas ventures (investment by Ltd. companies in foreign countries allowed).
- Indian corporate is allowed to prepay their external commercial borrowings (ECBs) via automatic route if the loan is above $ 500 million.
- Individuals are allowed to invest in foreign assets, shares, etc., up to the level of $ 2,50,000 per annum.
- Unlimited amount of gold is allowed to be imported (this is equal to allowing full convertibility in the capital account via current account route, but not feasible for everybody) which is not allowed now.

The Second Committee on the Capital Account Convertibility (CAC) again chaired by S.S. Tarapore handed over its report in September 2006 on which the RBI/the government is having consultations. However, in 2015, former deputy governor of the RBI, HR Khan had said that India is not yet ready for full capital account convertibility of rupee. This is because the Indian economy is expanding and it needs stability on the external front.

14.8 WTO AND ITS IMPACT ON THE INDIAN ECONOMY

India is one of the founding members of WTO along with 134 other countries. By participating in an increasingly rule-based system of International trade, India stands to gain. Various trade disputes of India with other nations have been settled through WTO. India has also played an important part in the effective formulation of major trade policies. Several WTO member countries are now trading with India which is giving a boost to production, employment, standard of living and an opportunity to maximize the use of the world resources.

Benefits for India : We may point out the following benefits that India can reap by being an active member of the WTO:

- Membership of WTO will take India towards globalization in an effective manner. This brings the potential of accelerated economic growth, gains from trade and increased capital inflows.
- Membership of WTO is likely not only to strengthen the traditional export markets, but also to bring in new destinations of Indian exports and sources of required imports.
- A well established organisation ratified by the world community is sure to be able to establish a rule based mechanism in international transactions. With an integral component of dispute settlement system , the WTO is bound to benefit economically all its members, including India, and contribute positively towards world economic welfare.

Hurdles at WTO: But there are several hurdles facing the Multilateral Trade Agreements under WTO. These are briefly delineated below:

- Predominance of developed nations in negotiations and their tendency to extract more benefits from developing and least developed countries.
- Resource and skill limitations of smaller countries to understand and negotiate under rules of various agreements under WTO.
- Incompatibility of developed and developing countries resource sizes that is hampering implementation of various decisions.
- Questionable sincerity and effectiveness in the implementation of agreements reached in past.
- Non-tariff barriers being created by developed nations.
- Regional cooperation groups posing threat to utility of WTO agreement itself, which is multilateral and encompassing all member countries.
- Poor implementation of Doha Development Agenda.
- Agriculture seems to be the bone of contention for all types of countries where France, Japan and some countries are just not willing to budge downwards in matter of domestic support and export assistance to farmers and exporters of agriculture produce.

- Dismantling of MFA (Multi Fiber Agreement) and its likely impact on countries like India.
- Under TRIPS question of high cost of Technology transfer, Bio Diversity protection, protection of Traditional Knowledge and Folk arts, protection of Bio Diversities and geographical Indications of origin, for example Basmati, Mysore Dosa or Champagne. The protection has been given so far in wines and spirits that suit US and European countries.

Strategies to Overcome the Problems: In view of the above problems, it seems prudent that India puts in place certain essential safeguards against adverse impacts of WTO so that it can work towards attaining the most desirable results. Such a strategy may include the following features:

- Indian economic reforms must be in accordance with the resilience of the economy. This will best exploit the potential strength of our economy.
- Social sector reforms should be given due priority. This will save millions from uncertainties and fluctuations of fortune in a market economy.
- India must continue to be the voice of the developing countries of the world safeguarding their interest and must continue to work towards creating a level playing field.
- India must get on to a higher growth trajectory of 10% and emerge as an influential player in the international market. It must increase the competitiveness of its exports, be a favoured destination of international capital and increase its overall productive efficiency.
- India must build up world-class infrastructure like roads, ports and electricity supply. It should also focus on original knowledge generation in important fields like Pharmaceutical molecules, textiles, information technology high end products, processed food, installation of cold chain and agricultural logistics to tap the opportunities of globalization under WTO regime.



14.8 LET US SUM UP

- By direction of trade we mean the countries with which India keeps international trade relations. It also helps us to understand the diplomatic relations maintained by India with other countries in direction of trade.
- Prior to our Independence when India was under British rule, much of our trade was done with Britain.
- For the purpose of direction of trade, the countries to which India exports are broadly divided into five groups, viz., OECD, OPEC, Eastern Europe, Developing Countries and Others
- During the entire post-reform, OECD countries were the main destination for the India's exports. OECD countries include European Union countries, North American countries and Asia Oceania countries.
- During the post-reform period, like exports, OECD countries were the main source for the India's imports.
- Composition of foreign trade means a study of the goods and services of imports and exports of a country. In other words, it tells about the commodities of imports and the commodities of exports of a country.
- India's Foreign Trade Policy also known as Export Import Policy (EXIM) in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position.
- In a broader sense, after independence for almost forty years or so India adopted inward oriented strategy. The basic rationale behind it was that it would help rapid industrialization through import substitution and at the same time save valuable foreign exchange.
- Trade policy of India can be broadly divided into the following phases:

- Phase I: Import Restriction and Import Substitution (From 1950's to 1970s),
- Phase II: Export Promotion & Import Liberalisation (From 1970s to 1990s), and
- Phase III: Outward Orientation (From 1990 onwards).

- The Union Commerce and Industry Ministry the announced Foreign Trade Policy, 2015-20 on 31st March, 2015, to be effective for the period 1st April, 2015 upto 31st March, 2020. However, due to the Covid-19 pandemic, its validity was extended by another year, up to 31st March, 2021.
- The balance of payments position of the country reflects its economic health. It is a comprehensive and systematic accounts of all the different transactions occurred between the residents of a country and the rest of the world during a particular period of time.
- The International movement of capital is not always free; countries restrict flows of capital as and when needed to safeguard their markets from erratic flows of capital. In India, for example, there are restrictions on the movement of foreign capital and the rupee is not fully convertible on capital account.
- India is one of the founding members of WTO along with 134 other countries. By participating in an increasingly rule-based system of International trade, India stands to gain. Various trade disputes of India with other nations have been settled through WTO. India has also played an important part in the effective formulation of major trade policies. Several WTO member countries are now trading with India which is giving a boost to production, employment, standard of living and an opportunity to maximize the use of the world resources.



14.9 FURTHER READING

1. Datt, G. & Mahajan, A. (2020). Datt&Sundharam's Indian Economy. New Delhi: S. Chand & Co. Ltd.
2. Dhar, P.K. (2017). Indian Economy: Its Growing Dimensions. New Delhi: Kalyani Publishers
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14.10 MODEL QUESTIONS

Short Questions. (Answer the following questions in about 150 words).

Q 1: Discuss the composition of India's exports.

Q 2: Discuss the composition of India's imports.

Q 3: Discuss the evolution of foreign trade policy of India.

Q 4: Briefly discuss the concepts of current and capital account convertibility.

Long Questions. (Answer the following questions in about 300-500 words).

Q 1: Explain the direction of India's foreign trade.

Q 2: Discuss the composition of India's foreign trade.

Q 3: Discuss India's foreign trade Policy since the 1970s.

Q 4: Discuss a recent foreign trade policy of India.

Q 5: Discuss the role played by private transfer, software services and foreign capital in the balance of payment of India.

Q 6: Discuss the progress made by India in current and capital account convertibility.

Q 7: Assess the major impacts by WTO on the Indian economy.

*** ***** ***



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Name of the Paper: Course Code:

Centre for Internal Quality Assurance (CIQA)
Krishna Kanta Handiqui State Open University
City Office, Housefed Complex, Guwahati- 06

Learner's Feedback on Course

Dear Learner,

Regarding the course as mentioned above, we would like to know your opinions and comments so as to improve the quality of self learning materials in future. Please respond to the following statements by ticking the number you feel most reflect your opinion. After completion of the additional comments, please detach the page and send/mail the same to us at the address given below.

The Director, Centre for Internal Quality Assurance, KKHandiqui State Open University
Housefed Complex, Dispur, Guwahati- 781006
(E-mail id: ciqa@kkhsou.in)

1. Approximately how many hours did you spend for studying the units in the course? | | | |
2. Please give your opinions (by √ mark) to the following items based on your reading of the block:

Sl. No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
I.	The SLMs of the course fulfil the learning objectives set out in the beginning of each unit					
II.	The units of the SLM could satisfy my academic needs and expectations					
III.	The Unit writers have excellent knowledge about the course contents					
IV.	Language and contents of the units were presented at a level which I could readily understand					
V.	Ample opportunity for participation in the activities provided in the units					
VI.	Used enough Illustrations (Diagrams, tables etc.) for conceptual clarity					
VII.	Quality of content is engaging, relevant, and up-to-date					
VIII.	The self check questions are very helpful					
IX.	The Possible/model questions and the answers to check my progress have benefited me a lot					

Additional Comments: *(Please feel free to provide your open comments)*

1. Which aspects of the SLM, according to you, worked well?

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2. What sort of changes/improvements do you feel KKHSOU could implement to improve the overall quality of the SLM?

Thank you for taking the time to complete this form.

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