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Issues in Indian Economy

SEMESTER-III

ECONOMICS

BLOCK- 2

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BLOCK INTRODUCTION

This is the second block of the course “Issues in Indian Economy”. In the previous block, we already studied the first seven units of the course. This block contains the remaining seven unis of the course, i.e., from Unit 8 to Unit 14. 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-side 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 the units.

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?

.....

.....

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

.....

.....

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

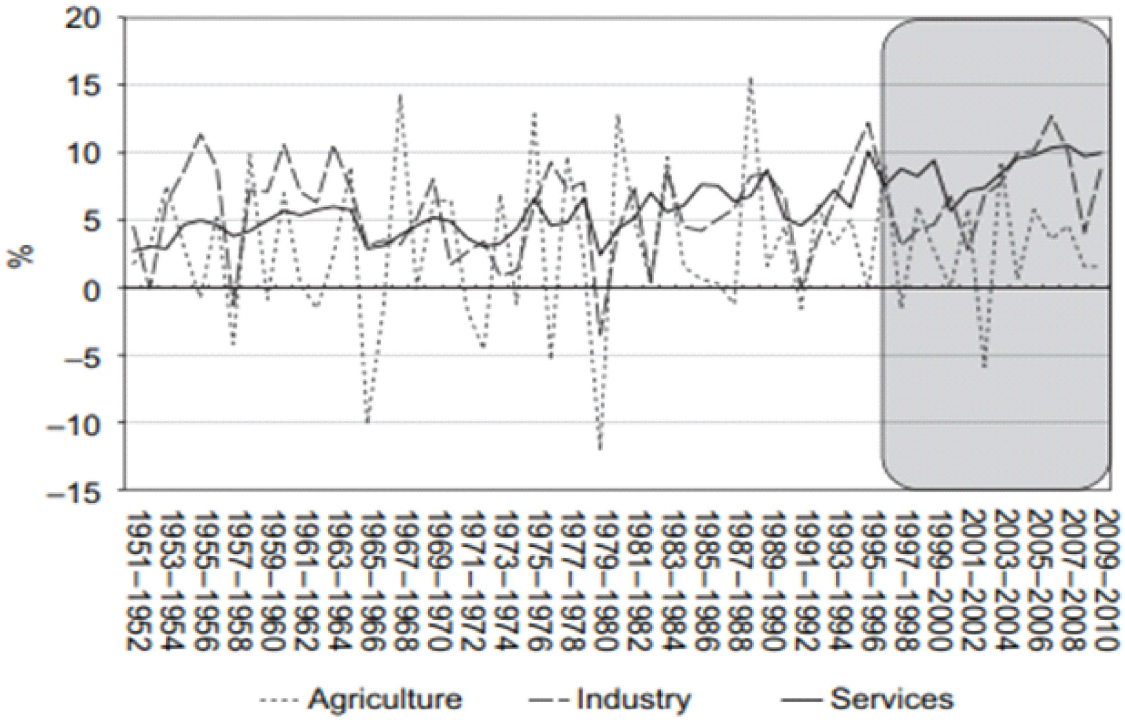
Source: Asian Development Bank (2013)

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.

.....

.....

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

.....

.....

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.

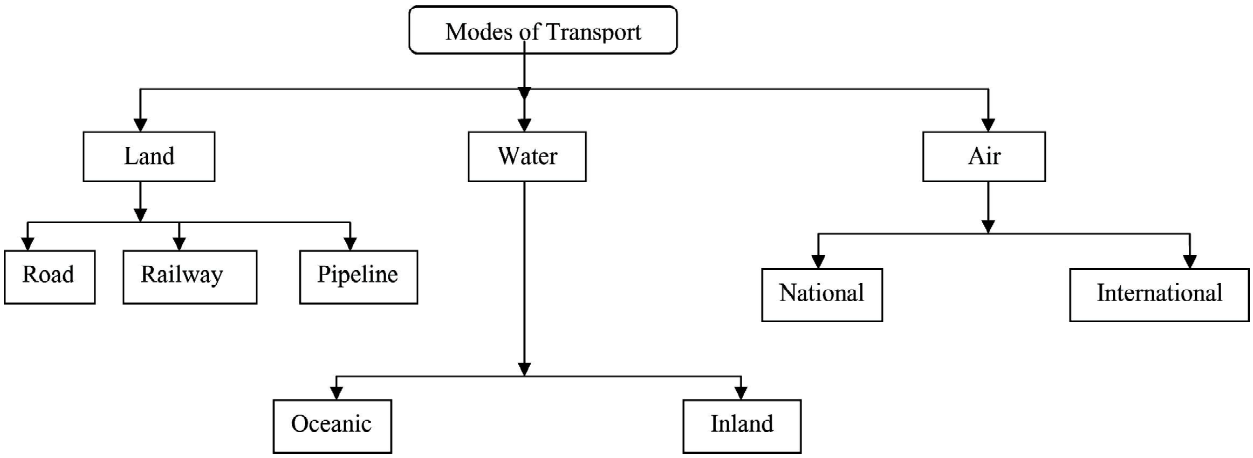
9.4 TRANSPORT SYSTEM

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)

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Q4: What are the types of waterways?

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

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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?

.....

.....

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.

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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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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

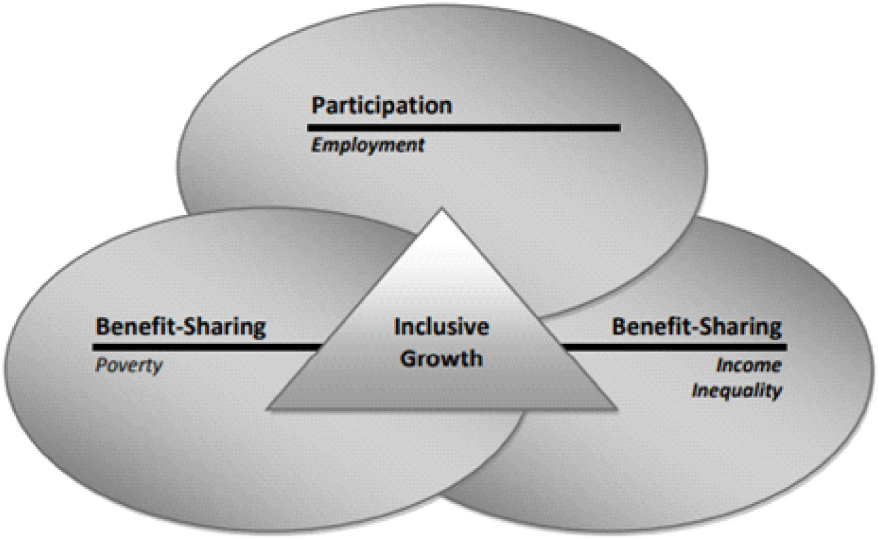
a consensus on what constitutes inclusive growth. The term, however, witnessed widespread usage based on the shared intuition that it refers to improvements in peoples' lives without discrimination, although involving diverse conceptualisations.

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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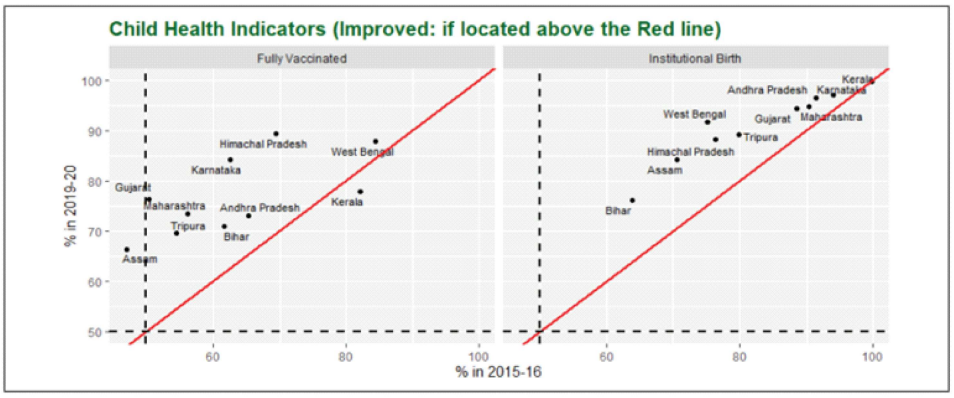
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Disparity in Other Social Sector Indicators:

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

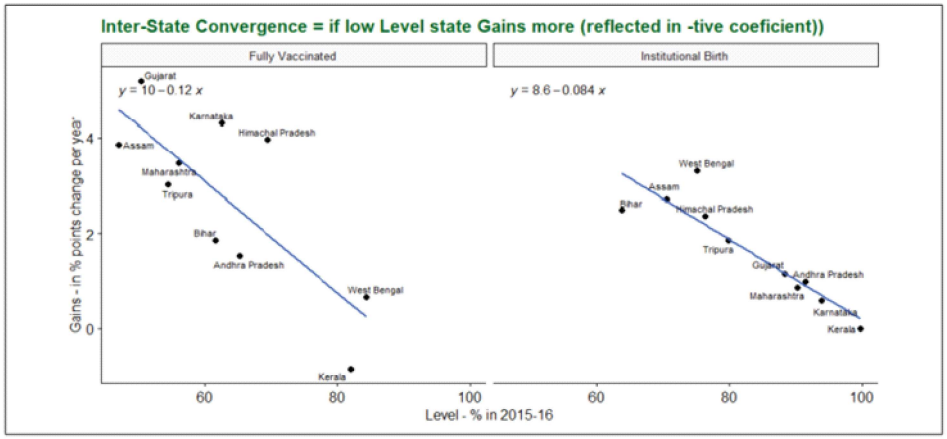
indicators like immunisation coverage for children, infant mortality rate (IMR), Under five mortality rate (U5MR) etc. Based on Phase I data of Fifth National Family Health Survey (NFHS-5), the report posits that immunisation coverage for children has increased for all 10 States except Kerala. The cash 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)*

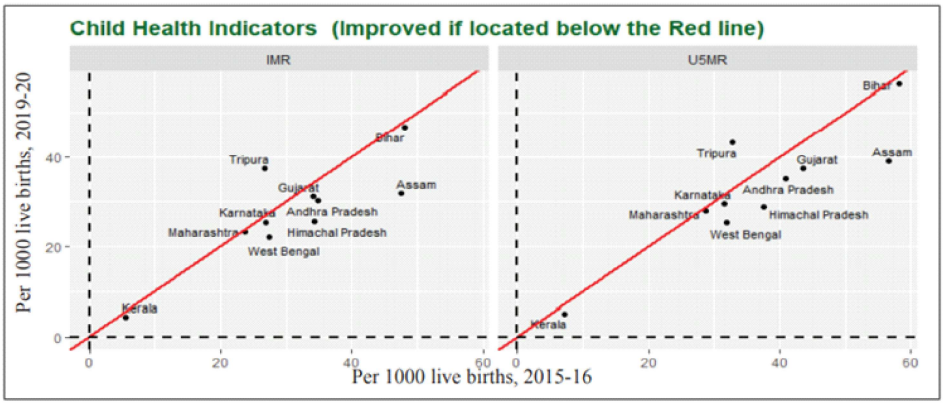
Figure 11.3: Inter-State difference in Child Vaccination and Institutional Birth



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

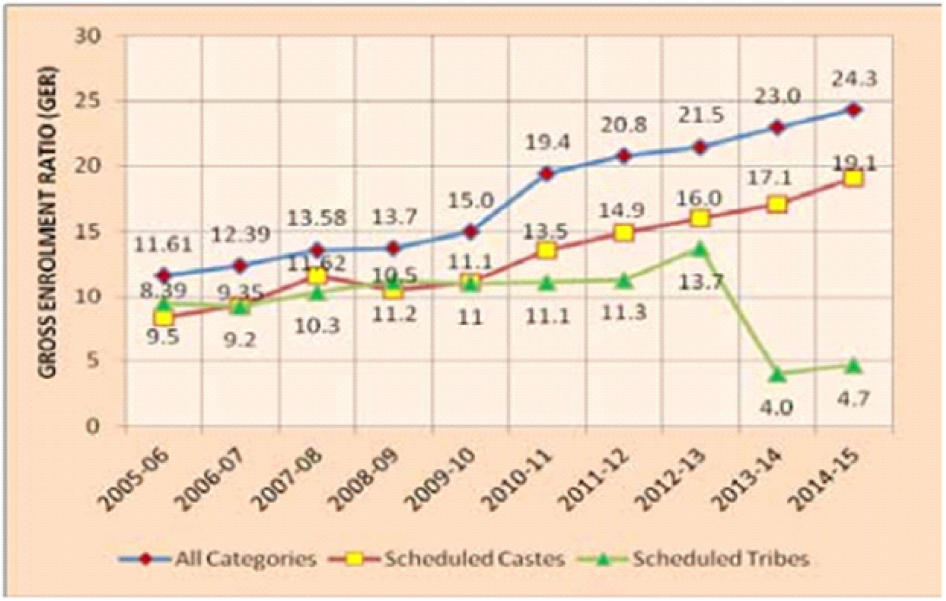
Category	Number of students (In lakh)						Pass percentage		
	Appeared*			Passed#					
	Boy	Girl	Total	Boy	Girl	Total	Boy	Girl	Total
All categories	58.6	45.5	104.1	42.9	37.1	80.0	73.2	81.5	76.8
SC Students	8.4	6.1	14.5	5.6	4.6	10.2	67.1	75.8	70.8
ST Students	3.5	2.4	5.9	2.3	1.7	4.0	65.4	69.7	67.2

* 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.

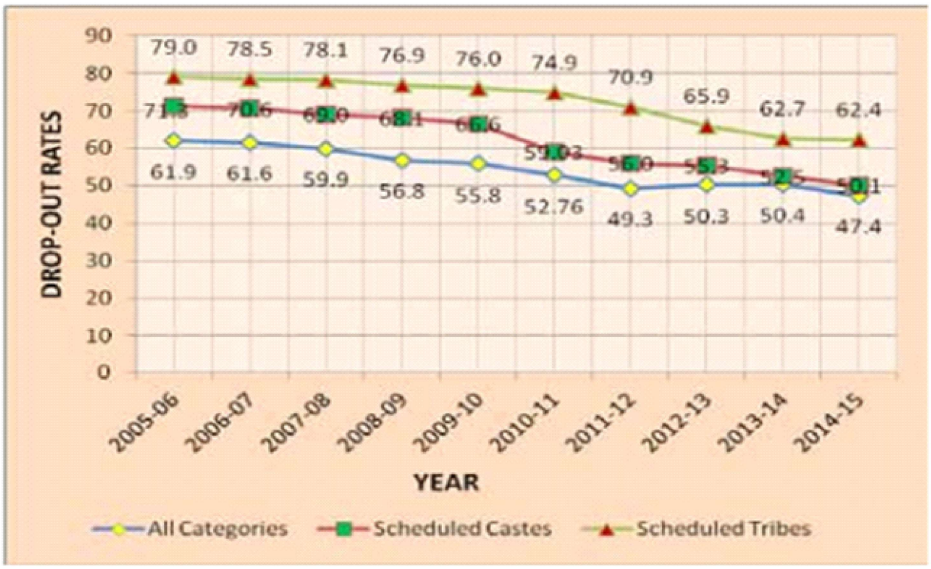
Figure 11.6: Gross Enrolment Ratio (GER) of all Categories, Scheduled Castes (SCs) and Scheduled Tribes (STs) for 18-23 Years (Higher Education) during 2005-06 to 2014-15



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).

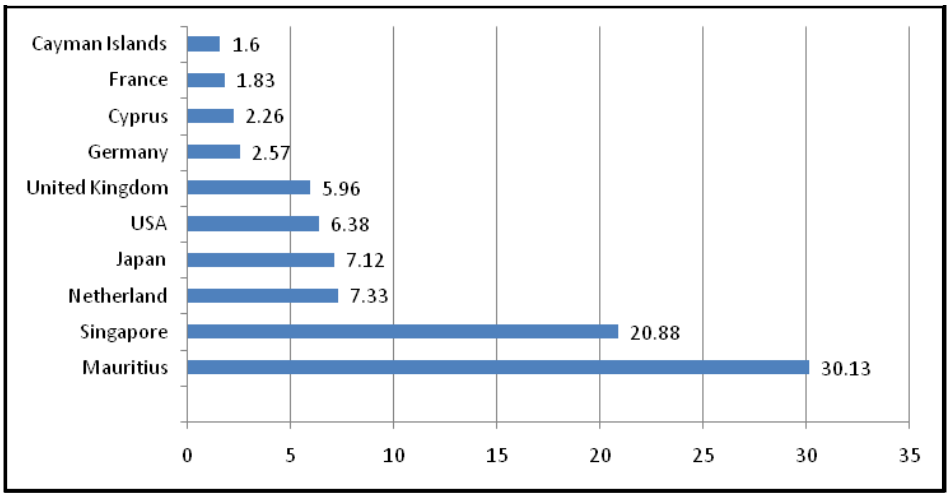
Since the mid-eighties, the average annual growth rate of India's FDI inflows remained quite high. During post reforms period, India registered a rapid increase in FDI inflows except in 1996-2000 when the growth of FDI was only 16.23 percent. Though India's FDI inflows are still low but increasing very 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).

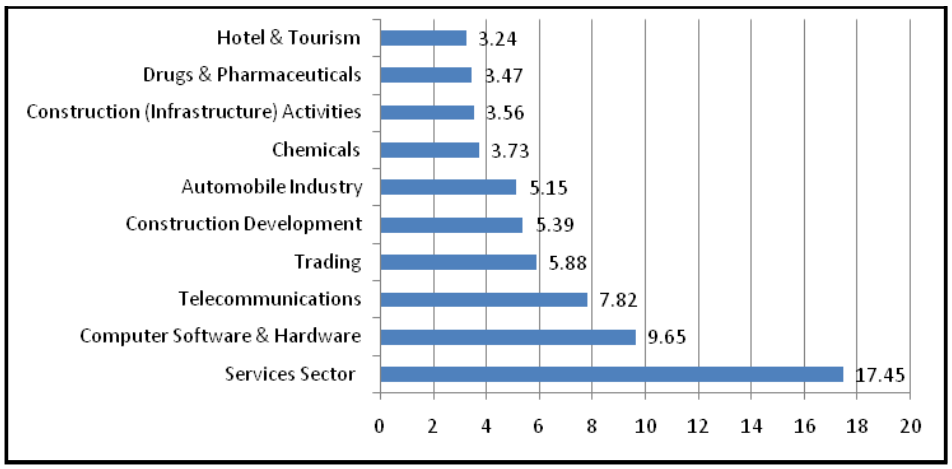
Figure 12.1: Country-wise FDI Inflows in India from April 2000 to June 2020 (% share in total Inflows)



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.
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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)

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Q.6 Examine the progress of the FRBM Act. (100 words)

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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

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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:

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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.