



INDIAN ECONOMY

Edited By

Dr. Dilfraz Singh

Printed by
EXCEL BOOKS PRIVATE LIMITED
A-45, Naraina, Phase-I,
New Delhi-110028
for
Lovely Professional University
Phagwara

SYLLABUS

Indian Economy

Objectives:

- To enhance students understanding about the nature and pattern of Indian Economy.
- To hone students skills to create an understanding about the interplay of various sectors of Indian economy in context of globalization and liberalization..

Sr. No.	Topics
1.	Nature of Indian Economy: Basic characteristic and major issues of development.
2.	National Income of India: National Income estimates in India, Growth, Structure and Limitation of National Income estimation in India
3.	Planning and Economic Development in the era of globalization
4.	Capital Formation: Meaning and Concept, Trend of Saving and Capital Formation, Mobilisation of Domestic Savings, Relation between Saving Rate, Growth Rate and ICOR.
5.	Unemployment in India: Nature, Estimates, Various Schemes to reduce Unemployment.
6.	Agriculture in the National Economy: Role of Agriculture in the National Economy, Green Revolution, New thrust Areas in Agriculture, Crop Pattern in India since 1961.
7.	Indian Industries: Role and Pattern of Industrialization, Role of Small Scale Industries, Small Scale Industrial Policy, Policy Perspective to help Small and Tiny Enterprises.
8.	Foreign Trade of India: Importance, Composition and Direction, India's Balance of Payment on Current account and Export-Import Policy.
9.	Indian Currency System: Introduction, Sources, Reserve Money, Money Multiplier, India's Foreign Exchange Reserve, Convertibility of Rupee- Current and Capital Account.
10.	GATT, WTO and Indian Economy.

CONTENT

Unit 1:	Nature of Indian Economy <i>Dilfraz Singh, Lovely Professional University</i>	1
Unit 2:	Structure of Indian Economy <i>Tanima Dutta, Lovely Professional University</i>	11
Unit 3:	Planning and Economic Development in the Era of Globalisation <i>Dilfraz Singh, Lovely Professional University</i>	28
Unit 4:	Capital Formation <i>Dilfraz Singh, Lovely Professional University</i>	47
Unit 5:	Unemployment in India <i>Dilfraz Singh, Lovely Professional University</i>	60
Unit 6:	Agriculture in the National Economy <i>Tanima Dutta, Lovely Professional University</i>	80
Unit 7:	Indian Industries <i>Dilfraz Singh, Lovely Professional University</i>	103
Unit 8:	Foreign Trade of India <i>Dilfraz Singh, Lovely Professional University</i>	129
Unit 9:	Indian Currency System <i>Dilfraz Singh, Lovely Professional University</i>	143
Unit 10:	GATT, WTO and Indian Economy <i>Tanima Dutta, Lovely Professional University</i>	163
Unit 11:	Globalisation and Its Impact on India <i>Tanima Dutta, Lovely Professional University</i>	182
Unit 12:	Privatisation and Economic Reforms <i>Ashwani Panesar, Lovely Professional University</i>	195
Unit 13:	Small Scale Industrial Sector in India <i>Ashwani Panesar, Lovely Professional University</i>	216
Unit 14:	Tertiary Sector in the Indian Economy <i>Ashwani Panesar, Lovely Professional University</i>	230

Unit 1: Nature of Indian Economy

Notes

CONTENTS

Objectives

Introduction

- 1.1 Basic Characteristics of Indian Economy
- 1.2 Major Issues of Development in India
- 1.3 India — How Bad can Things get in India?
- 1.4 Nature of Indian Economy
- 1.5 Summary
- 1.6 Keywords
- 1.7 Review Questions
- 1.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the basic characteristics of Indian economy
- Describe the major issues of development in India
- Understand how bad can things get in India
- Evaluate the nature of Indian economy

Introduction

The Indian economy is estimated to have recorded a growth rate of 5.0 per cent in 2012–13 in terms of gross domestic product at factor cost at constant 2004–05 prices, following a growth of 6.2 per cent in 2011–12. Growth in 2011–12 and 2012–13 is on the lower side, with respect to the decadal average of 7.9 per cent during 2003–04 to 2012–13. This is attributable mainly to weakening industrial growth in the context of tight monetary policy followed by the Reserve Bank of India (RBI) through most of 2011–12, and continued uncertainty in the global economy.

With some moderation in headline WPI inflation, there has been a reduction in the repo rate by the RBI by 50 basis points in April, 2012 and by 25 basis points in January 2013. The impact of tight monetary policy has been reflected in the quarterly growth rates of GDP. Quarterly GDP growth declined in each of the successive quarters between the fourth quarter of 2010–11, and the fourth quarter of 2011–12. The slowdown in the economy, specifically in the industry sector has entailed a lower than budgeted growth in government revenues. However, measures undertaken as part of mid-course correction have helped in improving the expenditure outcome in 2012–13.

You must understand that the measures including the increase in the price of diesel by ₹ 5 per litre, allowing Oil Marketing Companies (OMCs) to raise diesel prices by small amounts regularly, and a cap on the number of subsidised LPG cylinders are expected to rein in the fiscal deficit. Growth of exports for most of the current year remained in negative territory, and with imports picking up in recent months, the trade deficit increased to US\$ 147 billion during

Notes

April-December 2012. The Current Account Deficit (CAD) at 4.6 per cent of GDP in the first half of 2012–13 is a cause for concern. The widening of the trade and current account deficits has been accompanied by a decline in the value of the Rupee since August 2011.

It is important for you to note that after attaining an all-time low of ₹ 57.22 per US\$ on June 27, 2012 the Rupee rebounded and was in the range of 53–55 per US\$ in the month of January 2013. WPI inflation, after remaining persistently high during 2010–11 and 2011–12, has shown signs of moderation since December 2011. However, it has remained sticky at around 7 to 8 per cent over the last 12 months. With widespread reform measures initiated in recent months and the global economy poised for a moderate recovery in 2013–14, the Indian economy is expected to witness an improved outlook in 2013–14.

1.1 Basic Characteristics of Indian Economy

In this section, you will learn about the basic characteristics of Indian economy. It is an under developed economy in which Agriculture is the back bone of Indian economic. 60% of India's population are on the below poverty line. Mineral resources are not fully utilised. We are selling iron ore by trucks and getting blades by packets. Majority of the people of India are leading a poverty line. Indian economic is affected by it. Countries which are on the part of progress and which have their potential for development are called developing economic. So India is termed as developing economy by modern views.

You need to remember that the important features of Indian Economy are as follows:

1. **Low Per Capita Income:** Under developed economy is characterised by low per capital income. India per capital income is very low as compared to the advanced countries. For example, the capital income of India was 460 dollar, in 2000. Whereas their capita income of U.S.A in 2000 was 83 times than India. This trend of difference of per capita income between under developed and advanced countries is gradually increasing in present times. India not only the per capita income is low but also the income is unequally distributed. This mal-distribution of income and wealth makes the problem of poverty in ore critical and acute and stands an obstacle in the process of economic progress.
2. **Heavy Population Pressure:** You must note that the Indian economy is facing the problem population explosion. It is clearly evident from the total population of India which was 102.67 cores in 2001 census. It is the second highest populated country China being the first. India's population has reached 110 cores. All the under developed countries are characterised by high birth rate which stimulates the growth of population; the fast rate of growth of population necessitates a higher rate of economic growth to maintain the same standard of living. The failure to sustain the living standard makes the poor and under developed countries poor and under developed.
3. **Pre-dominance of Agriculture:** It is important for you to note that the occupational distribution of population in India clearly reflects the backwardness of the economy. One of the basis characteristics of an under developed economy is that agriculture contributes a very large portion in the national income and a very high proportion of working population is engaged in agriculture.
4. **Unemployment:** There is larger unemployed and under employment is another important feature of Indian economy. In under developed countries, labour is an abundant factor. It is not possible to provide gainful employment the entire population. Lack of job opportunities disguised unemployed is created in the agriculture fields. There deficiency of capital formation.
5. **Low Rate of Capital Formation:** In backward economics like India, the rate of capital formation is also low. Capital formation mainly depends on the ability and willingness of

the people save since the per capita income is low and there is mal-distribution of income and wealth the ability of the people to save is very low in under developed countries for which capital formation is very low.

6. **Poor Technology:** The level of technology is a common factor in under developed economy. India economy also suffers from this typical feature of technological backwardness. The techniques applied in agriculture industries milling and other economic fields are primitive in nature.
7. **Backward Institutional and Social Framework:** The social and institutional framework in under developed countries like India is hopelessly backward, which is a strong obstacle to any change in the form of production. Moreover religious institutions such as caste system, joint family universal marriage affects the economic life of the people.
8. **Underutilization of Resources:** India is a poor land. So our people remain economically backwards for the lack of utilization of resources of the country.
9. **Price Instability:** Price instability is also a basis feature of Indian economy. In almost all the underdeveloped countries like India there is continuous price instability. Shortage of essential commodities and gap between consumption and productions increase the price persistently. Rising trend of price creates a problem to maintain standard of living of the common people.



Did u know? Punjab is also the second-largest producer of cotton and blended-yarn and the third-largest producer of mill-made fabrics in India. The advance estimates for 2008-09 projects Punjab state economy to be growing at the rate of 6.26%.



Caselet

Condition of Labourers in Malwa

Malwa is the prime agricultural belt of Punjab. In this region, agriculture is the principal source of livelihood. The role of the secondary and tertiary sector is minimal in providing alternative employment. The influx of migrant labour is also quite substantial in this region. It grew phenomenally during the 1980s and 1990s and has begun to cause unemployment among local agricultural labourers. The impact of mechanization, particularly the role of combine harvesters in paddy and wheat harvesting, also leads to unemployment among local agriculture labourers.

This region is different from the Majha and Doaba region. The phenomenon of Siri and attached labour is still strongly embedded in the agrarian structure of this region. Migrant labourers are gradually replacing locals as attached labourers.

Both the Siri and attached labourers are deeply indebted and find it difficult to extricate themselves from the debt trap. Indebtedness and impoverishment lead to a high incidence of suicides both among farmers, as well as agricultural labourers. The number of days of employment of a casual agricultural labour is limited to 70 days in Sangrur district and 152 days in Faridkot district. In the absence of alternative sources of employment, labourers become severely dependent on local landowners and moneylenders to meet their survival needs.

Source: <http://www.im4change.org/docs/49009-agriculture.pdf>

Notes

Self Assessment

Fill in the blanks:

1. Indian economy is an under developed economy in which is the back bone of Indian economic.
2. is also a basis feature of Indian economy.
3. of India's population are on the below poverty line.
4. The people of India remain for the lack of utilization of resources of the country.



Notes India is a country of mixed economy.

1.2 Major Issues of Development in India

In this section, you will learn about the issues that arise during the development of an economy. The major issues of development of India are the problems faced by Indian economy:

1. **Inflation:** Fuelled by rising wages, property prices and food prices inflation in India is an increasing problem. Inflation is currently between 6–7%. A record 98% of Indian firms report operating close to full capacity. With economic growth of 9.2% per annum inflationary pressures are likely to increase, especially with supply side constraints such as infrastructure. The wholesale-price index (WPI) rose to an annualised 6.6% in January 2007.
2. **Poor educational standards:** Although India has benefited from a high percentage of English speakers (important for call centre industry). Whereas, there is still high levels of illiteracy amongst the population. It is worse in rural areas and amongst women. Over 50% of Indian women are illiterate.
3. **Poor infrastructure:** Many Indians lack basic amenities like access to running water. Indian public services are creaking under the strain of bureaucracy and inefficiency. Over 40% of Indian fruit rots before it reach the market; this is one example of the supply constraints and inefficiency's facing the Indian economy.
4. **Balance of payments deterioration:** Although India has built up large amounts of foreign currency reserves the current account deficit has deteriorated in recent months. This deterioration is a result of the overheating of the economy. The aggregate supply of the economy is not able to meet aggregate demand so consumers are sucking in imports. Excluding workers remittances India's current account deficit is approaching 5% of GDP.
5. **High levels of debt:** Buoyed by a property boom the amount of lending in India has grown by 30% in the past year. However, there are concerns about the risk of such loans. If they are dependent on rising property prices it could be problematic. Furthermore, if inflation increases further, it may force the RBI to increase interest rates. If interest rates rise, substantially, it will leave those indebted facing rising interest payments and potentially reducing consumer spending in the future.
6. **Inequality has risen rather than decreased:** It is hoped that economic growth would help drag the Indian poor above the poverty line. However, so far economic growth has been highly uneven benefiting the skilled and wealthy disproportionately. Many of India's

Notes

rural poor are yet to receive any tangible benefit from the India's economic growth. More than 78 million homes do not have electricity. 33% (268 million) of the population live on less than \$1 per day. Furthermore, with the spread of television in Indian villages the poor are increasingly aware of the disparity between rich and poor.

7. **Large budget deficit:** India has one of the largest budget deficits in the developing world. Excluding subsidies it amounts to nearly 8% of GDP. Although it is fallen a little in the past year. It still allows little scope for increasing investment in public services like health and education.
8. **Rigid labour laws:** As an example Firms employing more than 100 people cannot fire workers without government permission. The effect of this is to discourage firms from expanding to over 100 people. It also discourages foreign investment. Trades Unions have an important political power base and governments often shy away from tackling potentially politically sensitive labour laws.

Self Assessment

Fill in the blanks:

5. has one of the largest budget deficits in the developing world.
6. Many of India's rural poor are yet to receive any from the India's economic growth.



Notes Punjab State is predominantly an agricultural state with two-third of its population directly or indirectly dependent on agriculture. And thus helps in increasing the Indian Economy.

1.3 India — How Bad can Things get in India?

Experts say a full-blown financial crisis like the one that devastated the so-called "Asian tigers" in 1997 is unlikely.

But some of India Inc's marquee names are in big trouble.

"You don't have the kind of [foreign] debts you had during the Asian Financial Crisis," Franklin Templeton's Mark Mobius told GlobalPost. "The balance of payments [problem in India] may be similar, but it's a different scenario. It's a matter of losing an opportunity rather than being hit by incredible debt that you can't pay."

During the Asian financial crisis of 1997, Thailand's short-term foreign debt eclipsed its foreign reserves by nearly \$10 billion, before it went to the International Monetary Fund for a bailout. Indonesia's forex reserves were only enough to cover about half of its short-term foreign debt. South Korea's cache of dollars dwindled to a measly 25 per cent of its \$100 billion in short-term borrowings – enough to cover just two weeks of imports.

Prime Minister Manmohan Singh sought to reassure the nation that India is not facing a similar situation, in the lead up to the release of official growth figures for the quarter ended in June and the fiscal deficit figures for July later in the day.

"Foreign exchange markets have a notorious history of overshooting. Unfortunately this is what is happening not only in relation to the rupee but also other currencies," Singh said in a speech before the parliament.

Notes

“While global factors... have caused general weaknesses in emerging market currencies, the rupee has been especially hit because of our large current account deficit and some other domestic factors. We intend to act to reduce the current account deficit and bring about an improvement in the functioning of our economy.”

The signs are indeed grim, despite those intentions. Later Friday, India's July deficit numbers revealed the government has already fallen two-thirds of the way toward its deficit target for 2013-14 in the first four months of the fiscal year, according to Reuters.

India's growth has slowed to 4-5 per cent, while inflation remains in double digits. The rupee has plummeted nearly 20 per cent since the beginning of the year. The stock market has dropped 10 per cent over the past three months, with foreign institutional investors dumping nearly \$1 billion worth of Indian stocks over the past eight trading sessions, according to India's Mail Today.

But there's a ways to go before it hits crisis levels, experts say.

India and Indonesia will face a rocky road in the coming months because their current account deficits — meaning the balance of funds flowing out versus in — are high. But “we don't think this is the Asian crisis all over again,” Standard & Poor's chief economist for Asia Pacific said in a recent report.

After rebounding 3.5 per cent to 66.6 against the dollar Thursday – its largest gain since January 1998 – on Friday the rupee was down slightly before Singh's speech, but was trading at 66.3 shortly before closing. The Bombay Stock Exchange's benchmark Sensex gained another 1.19 per cent on Friday after closing up 2.25 per cent the day before, while the National Stock Exchange's Nifty added 1.16 per cent after closing up 2.35 per cent Thursday.

Does that mean the worst is over? Maybe, and maybe not.

With short-term debt of around \$172 billion and forex reserves of around \$280 billion, India is in much better shape than the victims of the Asian financial crisis. Moreover, the rupee's free fall indicates that India's central bank is not making the same mistakes made by the Asian tigers in the 1990s, when Thailand, Indonesia and South Korea burned up their foreign exchange reserves in a doomed effort to defend their currencies.

“The external positions for the emerging Asian economies are much stronger [than in 1997]. The central banks are also not defending their exchange rates,” S&P's Paul Gruenwald said in a report titled “South and Southeast Asian Economies Grapple with Growth and External Financing Risks.”

The rocks in the road could be pretty big for some of India's most respected companies, however. “The fact of the matter is that 25 per cent of corporate India today technically does not have adequate money to make its interest payments, and 15 per cent of corporate India has negative cash flows,” Morgan Stanley's Ruchir Sharma told GlobalPost.

“When you look at that kind of territory you know that the corporate system is under a lot of stress.”

The numbers may be even worse than that.

A third of India's big corporations are already busted or on the brink of insolvency, according to India's Business Standard newspaper. And every point the rupee plunges makes their dollar debts that much more difficult to repay.

Citing data from the Capitaline database of Indian corporations, the paper reports that companies like Tata Steel, Hindalco Industries, Tata Power, Larsen & Toubro, Jaypee Associates, Adani Power, GMR Infra, GVK Power, JSW Steel, Reliance Infra, Indian Oil, HPCL, Shri Renuka Sugars,

Bajaj Hindusthan and Suzlon face dollar debts amounting to as much as double their market capitalization.

That means some of India's biggest blue chips are deep in the hole, and there's no way for them to tap the equity markets to raise money to finance projects or make their interest payments.

"Looking at valuations at that point doesn't really matter," said Morgan Stanley's Sharma. "If companies are making losses or don't have adequate money to cover their debts, it's just too bad."



Did u know? The India is one of the major milk producing country and per capita milk availability in Punjab is highest in country.

1.4 Nature of Indian Economy

Now, let us discuss about the nature of the Indian economy. You must take note that the nature of Indian economy is mixed, but its goal is socialist. The privatisation we see today was not a deliberate choice but we were left with no other option. Public enterprises failed to deliver and the government needed money to support its welfare programs so the only way out was privatisation. In 1990s, when economic liberalisation happened, most of the reforms came because IMF required them as a condition for loaning money to India in order to overcome the economic crisis that the country was facing then; not because of some ideological shift.

Even today, governments talk about 'inclusive growth' and people approve it; which is nothing but an alternate phrase for 're-distribution of wealth,' which in turn is a core principle of 'socialism'. Yes, we haven't seen the bloodshed that the communism is capable of, but that doesn't mean we don't have socialist leanings. We are in that grey zone, neither here, nor there—which is even worse than a purely communist state: a communist state will go down quickly. It gives an opportunity to build from the ruins, a capitalist state will rise up quickly, where as a mixed economy goes nowhere; it is just stagnant.

When people say, "The money that the productive parts pay as taxes is being mutualised by politicians," the major flaw in that is not 'misutilisation,' but productive parts having to pay taxes. Why do they need to pay? For producing? Worse, the more you produce the more you are penalised. Isn't it violating individual and property rights? Misutilisation is a subjective term. If the government spends on housing, a shelter less guy may appreciate it, but I, as a tax payer, who wants to see it spent on education will feel robbed. The government shouldn't be handling all this. All the problems arise when the government tries to intervene and control what should happen voluntarily.

When people say, "There is no political accountability," the question is, accountability to whom? The Public? The Public is nothing but a sum of groups and individuals with varied interests, intellects and standards so it is not possible to be accountable to each one. Hence, the Government choose groups which are majority in number (in India it is always the poor and unproductive) and feed them (thereby institutionalising poverty) so that they can win the next election (as democracy is merely about numbers and not reason or logic).

The US declaration of independence has these lines.

"Men are endowed by their Creator with certain unalienable Rights that among these are Life, Liberty and the pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed."

The Government's only purpose is to protect individual rights and every individual will be happy to pay to that extent. Nothing more nothing less.

Notes

But my issue is not with the form of the government or the economic ideology as I believe that they are merely an extension of the morality that exists in the society.

That morality which teaches you to live for others. And that which considers living for oneself is a sin. That which glorifies sacrifice and reprimands any act of self-interest. That which identifies only 'we' and turns a blind eye to 'I'. That which sees 'giving' as a value and 'earning' as an evil. When they say 'tax the rich' it is this morality that works. Philanthropy is praised, productivity/creativity is penalized. Which says that man has no right to exist for his own sake that service to others is the only justification of his existence, and that self-sacrifice is his highest moral duty. From family to businesses to governments, every system is plagued by this altruistic/collectivist morality. Not an ocean of tears nor all the guns in the world can let a man create something except freedom of the mind.

Self Assessment

Fill in the blanks:

7. "While global factors have caused general weaknesses in emerging market currencies, the rupee has been especially hit
8. The Public is nothing but a sum of groups and individuals with varied



Case Study

A Big Push Decision

Chief Minister of Gujarat Mr Narendra Modi may not know the theory of Big Push but he certainly knows how to give big push to industry and development in the state. He saw the opportunity for Gujarat in the issue of TATA. When TATA's Nano project was struggling to survive in West Bengal, Mr Modi appeared on the scene as a white knight and offered 1,110 acres of land to TATA to set up a plant in Gujarat.

The real estate business which was experiencing one of the worst recessionary periods received a sudden boost after TATA Motors move to set up a plant near Ahmedabad (Sanand). This has led to the exponential increase in the prices of land around the Nano plant site with the rate of an acre being quoted as high as ₹ 40 Lakh from ₹ 5 Lakh that prevailed a day before the Govt. allocation to Tata Motors. At a time when most property developers are going slow on luxury projects and promoting budget homes, an array of deluxe properties are coming up, which include multi-crore golf villa projects, large integrated townships and premium shopping plazas.

A leading builder Jateen Gupta, who has planned to set up a shopping mall, about 10Km from the Nano plant on the Ahmedabad Sanand Highway has already tied up with retailers, such as, Landmark, Star India Bazaar and Westside supermarkets, a part of the Tata Group. TATA Housing Development Co. Ltd., the property development arm of the TATA Group, wanted to develop a 100 acre plot for housing and retail space for Tata Motors' employees, who will work on the Nano Project.

The Government's decision to ramp up the infrastructure facilities around the Nano project too has helped property prices shoot up. To ease the flow of traffic between Ahmedabad and Sanand, the State Govt. has decided to widen the five Km stretch of the Sarkhej - Gandhinagar Highway between Thaltej Gurudwara and Sanand Crossroads. The 17 meter road will be widened to 24.5 metres to convert it into a six-lane stretch.

Contd...

Notes

Ancillary industry is also coming around the Nano Plant to meet the auto component requirements of the small car. TATA motors has decided to allot land to its 55-odd Nano parts vendors at Sanand, which will make 350,000 cars annually in a phased expansion. Among the SMEs that are coming up, is a unit of Durr India Pvt. Ltd. which will paint the body of the car using Robots, Avtec Ltd., which makes cylinder heads, cylinder blocks, connecting rods, crank shafts, hubs and synchro sleeves, round gears, shafts, transmission case and cover for Nano. Other major vendors like Bosch India, Exide, etc. are also coming.

Setting up of ancillary units around the Nano plant is said to have instigated the residents of seven villages adjoining the Nano project to oppose the State Government's move to acquire their land for setting up an industrial estate by the Gujarat Industrial Development Corporation (GIDC).

The land acquisition process was initiated by the State Govt. following inquiries by some of major industries like Bharat Forge and the US Based company, Alexandria, to set up auto component manufacturing units.

It was the setting up of a vendor park which was the centre of the main dispute at Nano's original site in West Bengal with Trinamool Congress opposing the move. Tata Motors had planned to have the vendor park adjacent to the production site to keep logistics expenses under control.

Questions

1. Discuss the political and social factors because of which TATA has to shift from Singur to Sanand.
2. Discuss how the decision of a State has changed the fate of a Region (Sanand/Singur), Company (TATA/Ancillaries), People (Sanand/Singur) and an Industry (Infrastructure and others).

Source: Business Environment, Dr Vivek Mittal, Excel Books

1.5 Summary

- India's economic freedom score is 55.2, making its economy the 119th freest in the 2013 Index. Its score is 0.6 point higher than last year, with improvements in the management of public finance and monetary freedom offsetting a continuing decline in freedom from corruption.
- India is ranked 23rd out of 41 countries in the Asia-Pacific region, and its overall score is below the world average.
- India's institutional shortcomings continue to undermine the foundations for long-term economic development. In the absence of a well-functioning legal and regulatory framework, corruption throughout the economy is becoming a more serious drag on the emergence of a more dynamic private sector.
- The state's presence in the economy remains extensive through state-owned enterprises and wasteful subsidy programs that result in chronically high budget deficits.
- Progress in structural reform has been uneven and often stalled. Plans to open up key service sectors have been reversed, and no significant reforms have been implemented effectively in recent years. Efforts continue, however.
- Reform measures aiming at reducing government subsidies and encouraging foreign direct investment were announced in 2012.

Notes

1.6 Keywords

Agriculture: The science, art, or occupation concerned with cultivating land, raising crops, and feeding, breeding, and raising livestock; farming

Agriculture Credit: Any of several credit vehicles used to finance agricultural transactions, including loans, notes, bills of exchange and banker's acceptances.

Cropping: Cultivated plants or agricultural produce, such as grain, vegetables, or fruit, considered as a group.

Financial Crisis: A loss of confidence in a country's currency or other financial assets causing international investors to withdraw their funds from the country.

Industrialization: The process in which a society or country (or world) transforms itself from a primarily agricultural society into one based on the manufacturing of goods and services.

Production: The action of making or manufacturing from components or raw materials, or the process of being so manufactured.

Productivity: Productivity is the ratio of output to inputs in production.

1.7 Review Questions

1. What are the issues that are faced by India as a developing country?
2. Explain the nature of the Indian economy.

Answers: Self Assessment

- | | |
|---|---------------------------|
| 1. Agriculture | 2. Price instability |
| 3. 60% | 4. economically backwards |
| 5. India | 6. Tang |
| 7. because of our large current account deficit and some other domestic factors | |
| 8. interests, intellects and standards | |

1.8 Further Readings



Books

Datt and Sundharam. (2008), *Indian Economy*, S Chand and Company, New Delhi
 Misra S.K and Puri (2009), *Indian Economy*, Himalaya Publication, New Delhi
 Kapila Uma (2008), *Indian Economy*, Academic Foundation Publication, New Delhi
 Gupta K.C. and Kaur Harinder, (2004), *New Indian Economy and Reform*, Deep and Deep Publication, New Delhi



Online link

<http://www.economicshelp.org/india/problems-indian-economy/>

Unit 2: Structure of Indian Economy

Notes

CONTENTS

Objectives

Introduction

2.1 National Income Estimate in India

2.1.1 Calculating National Income

2.2 Human Resource and Economic Development

2.2.1 Roles of Human Resources

2.2.2 Human Resources are Regarded as Vital for Economic Development

2.3 Infrastructure in the Indian Economy

2.3.1 Key Factors of Indian Infrastructure

2.3.2 Infrastructure in India: Key Developments

2.4 Methods of Calculating National Income

2.5 Factors Determining National Income Estimation

2.6 Limitations of National Income Estimation in India

2.7 Uses of National Income Statistics

2.8 Summary

2.9 Keywords

2.10 Review Questions

2.11 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the concept of national income of India
- Define human resources development
- Know the concept of infrastructure in the Indian economy

Introduction

Over the last 56 years, the Indian economy has undergone a gradual structural change. Though the pace of the structural transformation was more or less slow during the pre-reform period, it has become rapid after the launch of new economic reforms in the decade of the nineties. During independence, Indian economy was mainly rural and agricultural. At the initial years of the First Five-year Plan, the contribution of the primary sector (forestry, agriculture and logging, fishing) in GDP at factor cost was largest followed by tertiary sector and secondary sector respectively. Thereafter, the major drive towards diversification and modernisation of the Indian economy in the following plans resulted in increased shares of the secondary and tertiary sectors and declined share of the primary sector in the national product.

Notes

The share of the primary sector in GDP at factor cost declined from 54.56% in 1950-51 to 27.87% in 1999-00 whereas share of the secondary sector was 16.11% in 1950-51 and raised to 25.98% in 1999-00. The share of the tertiary sector increased from about 29% to 46% during this period. Indian economy also underwent a major structural change within the industrial sector as a consequence of the major drive for industrial diversification in the mid-fifties. When the share of the capital goods industries and the basic goods industries in the total industrial value added increased more or less rapidly, the share of the consumer goods in total industrial value added fell considerably over the years.

Nevertheless, the pace of transition of the Indian economy from an agricultural economy to an industrial one was quite slow since 1951. It was in the decade of the eighties the economy appeared from the phase of slow growth rate and deceleration. Ultimately, a major shift in the macroeconomic policies in the decade of the nineties enhanced the pace of the structural transformation of the Indian economy and set India on a high growth trajectory. In terms of average growth rate, the performance in the nineties (6.5%) was better than that recorded in the eighties (5.8%). While both the industrial and service sectors recorded relatively high growth rates during recent period, agriculture and allied activities experienced a relatively low rate of growth in comparison to the eighties. This underlines a major underlying shift in the Indian economy in recent years, with economic growth turning more vulnerable to the performance of industrial and service sectors and less to the performance of the agricultural sector. In order to keep the momentum of the structural transformation of the Indian economy, investment should be determined to those sectors which are strongly incorporated with the rest of the economy and have a larger multiplier effect on growth and development. Put differently, the key or priority sectors are those which can motivate greater economic activities in other sectors and investment should be focussed to these sectors, particularly to attain the target rate of growth of 8% of real GDP as foreseen in the Tenth Five-year Plan.

2.1 National Income Estimate in India

Now, let us begin the unit with studying the national income estimates in India. National income measures the total value of the goods and services (output) produced by an economy over a period of time (usually a year). It is also a standard of the income flown from production, and/or the sum total of all expenditure involved for the production of output. The study of national income is essential because of the following reasons:

1. To measure the size of the economy and level of nation's economic performance
2. To trace the trend or speed of the economic growth in relation to previous year(s) as well as to other nations
3. To know the structure and composition of the national income in terms of several sectors and the periodical variations in them
4. To make projection about the future development pattern of the economy
5. To measure the size of the economy and level of nation's economic performance
6. To trace the trend or speed of the economic growth in relation to previous year(s) as well as to their countries
7. To know the structure and arrangement of the national income in terms of various sectors and the periodical variations in them
8. To make projection about the future development trend of the economy

You may already be aware that internationally some nations are wealthy, some nations are not wealthy and some nations are in-between. Under such conditions, it would be difficult to assess

the performance of an economy. Performance of an economy is directly proportionate to the amount of goods and services manufactured in an economy. Measuring national income is also essential to chalk out the future course of the economy. It also broadly signifies people's standard of living. National Income Accounting represents the tools and techniques by which economists and policy-makers measure economic activity and economic growth over time. It measures the total value of the goods and services (output) manufactured by an economy over a period of time (usually a year). It is also a measure of the income flown from production, and/or the sum total of all expenditure involved for the production of output.

You must keep in mind that income can be computed by Gross National Income (GNI), Gross Domestic Product (GDP), Gross National Product (GNP), Net National Product (NNP) and Net National Income (NNI). In India, the Central Statistical Organisation has been expressing national income. Nevertheless, some economists have experienced that GNP has a measure of national income has limitation, since they exclude public health, literacy, poverty, gender equity and other measures of human prosperity. Rather, they formulated other measures of welfare like Human Development Index (HDI).

2.1.1 Calculating National Income

You must understand that there are several methods for calculating the national income for instance, income method, production method, expenditure method, etc.

Production Method: The production method provides us national income or national product based on the final value of the produce and the source of the produce in terms of the industry. All producing units are categorised sector wise.

- Primary sector is divided into agriculture, fisheries and animal husbandry.
- Secondary sector consists of manufacturing.
- Tertiary sector is divided into trade, transport, communication, banking, insurance etc.

Income Method: Different factors of production are paid for their productive services supplied to an organisation. The several incomes that are included in these methods are income of self-employed, interest, profit, wages, dividend, rents and surplus of public sector and net flow of income from abroad.

Expenditure Method: The several sectors – the household sector, the business sector, the government sector, either spend their income on consumer goods and services or they save a part of their income. These can be categorised as private consumption expenditure, public investment public consumption, private investment, etc.

Calculation of National Income of India: A Brief History

It will be fascinating for you to know that the first effort to calculate National Income of India was made by Dadabhai Naroji in 1867-68. This was followed by various other techniques. The first scientific technique was formulated by Prof. V.K.R Rao in 1931-32. However, this was not very satisfactory. The first official effort was made by Prof. P. C. Mahalanobis in 1948-49, who presented his report in 1954.

Difficulties in Calculation of National Income

You will find it interesting to note that in India, there are a numerous difficulties in computing the national incomes. The most serious one is the finding of reliable data. Generally, it is based on assumptions. Soon after independence the National Income Committee was comprised to collect data and compute National Income.

Notes

The two major problems which persist in the calculation of national income are:

- Most of the data is not from the current year.
- Even if current data are available then values are under-reported.

Obstacles in High Growth of National Income of India

It is essential to note that even if the Indian economy grows faster than the BRIC nations and G 6, the advantages of the growth would not be consistently distributed. India's progress in education cannot be termed as satisfactory. In terms of higher education it has attained tremendous success, but its unsatisfactory performance in primary education and secondary education has been a major obstacle to growth. Likewise, you must take into consideration that India's healthcare system is in a less than desirable state. Governments' expenditure on public health has not been up to the needed levels.

Figure 2.1: Growth of National Income

Sector	1950-1980	1980-2005
GDP Total	3.5	5.6
GDP Per capita	1.4	3.6

Source: <http://www.tradechakra.com/indian-economy/national-income.html>

Figure 2.2: Composition of National Income Sector Wise

(in per cent)				
Year	Primary	Secondary	Tertiary	Total GDP
1950-51	59	13	28	100
1980-81	42	22	36	100
2002-03	24	24	52	100

Source: <http://www.tradechakra.com/indian-economy/national-income.html>

**Caselet****No Square Pegs in Round Holes**

India's strength lies in its demographics which will determine everything that a country does. More than 50% of India's population is under 25. Dr Narendra Jadhav, a principal advisor to the RBI and a former advisor to the executive director at the IMF, says "India has a great potential to become an economic super power because of its growing young population." A young population coupled with the second largest English -speaking population in the world will give India an advantage over China. But this young population though dynamic and rearing to go are also a restless lot looking around for newer opportunities. Hence, attracting and placing the right people with the right skills in the right position by identifying the essential skills, interest, aptitude, attitude and behaviours is the first step to developing a knowledgeable and committed workforce. The contribution made by the knowledge driven quality professionals with relevant industry-oriented skills will tip the global scales in the country's favour and establish it as a "superpower" in the market.

Source: <http://thealps.co.in/the-role-of-hr-in-making-india-an-economic-super-power/>

Self Assessment

Notes

Fill in the blanks:

1. measures the total value of the goods and services (output) produced by an economy over a period of time.
2. India's progress in cannot be termed as satisfactory.
3. some countries are wealthy, some countries are not wealthy and some countries are in-between.
4. In order to keep the momentum of the of the Indian economy, investment should be concentrated to those sectors which are strongly integrated with the rest of the economy and have a larger multiplier effect on growth and development.
5. The first attempt to calculate National Income of India was made by in 1867-68.

2.2 Human Resource and Economic Development

In this section, you will learn about the human resource and economic development. The human resources play dynamic function in the development of a country. Human resources development is the process of raising the skills, the knowledge, and the capacities of all the people in a society. In economic terms, it could be explained as the accumulation of human capital and its efficient investment in the development of an economy. In political terms, human resources development makes ready people for adult participation in political processes, especially as citizens in a democracy. From the social as well as cultural perspectives, the development of human resources assists people to direct fuller and richer lives, less tied by tradition. In brief, the processes of human resources development open the door to modernization.



Notes The human development approach is one that calls for a simultaneous treatment of economic and social aspects of development.

2.2.1 Roles of Human Resources

You must note that human resources are available in two functions, viz. (A) as factor services, as well as (B) as units of consumption.

Human Resources as Factor Services

It is essential to consider that human resources, as factor services, offer labour and entrepreneurship. More people depict more resources.

As such, population growth does add to economic growth, and not irrelevantly. Few of the vital points to be considered from this perspective are as follows:

- (a) **Minimum Scales:** Few infrastructures are only profitable with minimum density levels. Industrial output in several regions is subject to sturdy economy-of-scale effects. Where division of labour as well as scale economies are restricted by small populations, a raise in the number of people can have a positive scale influence that increases productivity as well as investment.

Notes



Example: Some infrastructures which are profitable with minimum density are roads, dams, ports and irrigation systems.

- (b) **Demographic Transition and Savings:** Urban Development Committees (UDCs) possess populations with a great proportion of young dependents. When the child dependency ratio is large, the population comprises a comparatively large number of dependants consequently consumption will be high as compared to earnings and saving activity will be low. At the time of the demographic transition, the number of workers increases relative to consumers, income increases relative to consumption and savings hike.
- (c) **Capital Formation in Agriculture:** In agriculture, the investor, saver and producer of capital are frequently the same unit — the family farm. In the off season, the family tides new land, irrigates, constructs fences and barns, and builds roads, dykes and wells. With greater population growth, the farmer and his family will place more hours on this kind of capital formation raising the agricultural capital stock.
- (d) **Labour Force Participation:** Greater dependency ratios go along with increasing rates of population growth. This may influence labour force participation with relation to hours worked, entry as well as retirement age, and women's employment beyond house.
- (e) **Trade Specialisation:** In the Heckscher-Ohlin model of trade, where a country majors in and exports goods that embody comparatively large quantities of its plenty factors, a high growth rate in one factor (labour) would facilitate the country to specialise in goods utilising that factor intensively. Presuming the nation is already exporting labour-intensive goods, it would merely specialise more and trade more. The developing labour supply facilitates the country to take part more in trade, and the profits it receives assist to offset diminishing returns.



Example: The average cost of employing labour in Europe, including social and welfare costs, is \$ 20 an hour, \$ 19 in the United States and \$ 18 in Japan — and a rough average of \$ 1.65 in most of Asia.

2.2.2 Human Resources are Regarded as Vital for Economic Development

You must understand that human resources are important from the viewpoint of economic development. In the initial position, people are utilised as an instrument of production and are accessible as factors of production to work jointly with other factors. Secondly, they are the consumers and the goal of economic development is to expand their economic well-being.

In other words, you can say, people are the ways to acquire economic development and also the end in them. The nature as well as size of population, hence, is an important factor deciding economic development of a country.

Adverse Effect of Population on Economic Development

Labour, without doubt has a positive contribution in the process of production as well as development of an economy. However, a quickly rising population serves as a hindrance on smooth economic progress.

- (a) Due to quick growth of population, the per capital income in India has stayed either stagnant or depicted a very marginal increase in spite of a considerable rise in national income during the plan periods.

Notes

- (b) The growth of population has developed a severe shortage of food grains for which the country was forced to import foodgrains externally.
- (c) Rising population with growing children raises the number of unproductive population in the country.
- (d) Increasing population worsens the unemployment problem which is discovered in an under-developed country such as India.
- (e) The volume of investment declines as an increasing population raises the volume of consumption in our country.
- (f) A rising population decreases the quality of life of the masses and makes them less effective.
- (g) Rising population in rural areas results in subdivision as well as fragmentation of land and decreases productivity in the agricultural sector.

Population-growth Pattern

The pattern of India's population-growth can be segregated into three durations over the previous century from the analytical viewpoint, the points of division being 1921 as well as 1951.

The development of population during initial two decades was lower than 16 million persons causing a less than 0.2 per cent growth rate annually. The purposes for this slow growth can be discovered from a high death rate caused because of natural calamities, epidemics and absence of medical facilities.

The year 1921 is considered by the Census Commission, as the year of 'Great Divide'. From this year, the death rate decreased considerably because of introduction of better medical amenities in the country whereas the birth rate did not depict any tendency to fall. The net raise in population from 1921 to 1951 was 110 million persons.

After 1951, the population increased in the country at a very shocking speed. It almost doubled itself from 348 million in 1948 to 685 million in 1981. The population increased up to 845 million in 1991 and 1,027 million in 2001. The population of India on 1st March 2011 was 1,210 million. India added 185 million roughly to its population since 2001, a little lesser than the population of Brazil.

The previous two decades have been facing a decline in both birth rate and death rate in comparison to the earlier years. If this trend persists, the anticipated growth rate of population will be lower than 2% per annum.

Density of Population

As per 2001 census, the average density of population per sq. km in India was 324 persons as against 267 in 1991. But according to 2011 census the density of population is 382. It is greatest in Delhi, i.e. 11,320; the State of Arunachal Pradesh has the least low record of population density having merely 17 per square kilometre. Among the States that have recorded important decline in growth rate are Tamil Nadu, Karnataka, West Bengal, Gujarat, Goa and Kerala. The six most populous States – U.P., Bihar, M.P., West Bengal, Andhra Pradesh and Maharashtra, explain for 60.9% of the country's population in 2011 census.

You must note that the records disclose the fact that males comprise 628.8 billion of the population while their female counterparts comprise 591.4 million of the population of India as well as 50% of the population of India comprises people within the age of 25 years and 65% comprises people below the age of 35 years. It has also been observed that India comprises 17.31% of the

Notes

population of the world. This depicts the fact that out of six people of this world one resides in India. Statistics also disclose that by the year of 2030 India would turn the most populous country of the world placing China behind. One of the chief causes of the sheer increase in India's population is illiteracy.

Swami Nathan Policy

In July, 1993, an Expert Group under the chairmanship of Dr M.S. Swami Nathan was appointed to frame a draft for the new population policy by the Ministry of Health and Family Welfare. The draft plan was fundamentally related to gender inequality as well as the discrimination against the women. It requires decentralising the family planning programme to the grass-root level and calls for inspiring one million women members from the Panchayat level to conduct the programme. It further advised the establishment of Population and Social Development Commission to run a Population and Social Development Fund. The committee also specified that population, poverty and environment degradation has close connection and thus, all the variables should be at the same time manipulated to acquire the goal.



Did u know? The International Conference on Population and Development (ICPD) held at Cairo in 1994 also laid stress on empowering women as a means of improving the quality of life, which is same as the India's New Population Policy.

Self Assessment

Fill in the blanks:

6. A quickly rising population serves as a hindrance on smooth
7. The processes of human resources development unlock the door to
8. The pattern of India's can be segregated into three durations over the previous century from the analytical viewpoint, the points of division being 1921 as well as 1951.

2.3 Infrastructure in the Indian Economy

This section emphasises on the infrastructure in the Indian Economy. India's economy is becoming bigger and better. Going with the estimates that India which is Asia's third largest economy will become the world's third largest by 2050; a stronger and enormous infrastructure is needed. Covering everything from ports to airports, roadways to airways and power production facilities, Indian infrastructure segment is very crucial for the growth and development of the nation. It thus enjoys attention of the country's top-grade policy makers.



Caution Supportive and liberal Government policies together with careful strategies to promote infrastructure offers great opportunities to Engineering and Construction (E&C) firms in India.

2.3.1 Key Factors of Indian Infrastructure

Notes

You must take a note of the following key constituents of Indian Infrastructure:

Roads

Roads are a dominant mode of transportation in the country today. They carry about 65 per cent of India's freight and about 90 per cent of its passenger traffic. India's National Highway (NH) network stretches to 80,000 km. It has a density of 0.66 km of highway per square kilometre of land. It is enclosed by over 200 toll plazas, about half of which are operated by the National Highway Authority of India (NHAI) while the other half is handled by several highway developers.

Railways

Indian Railways is one of the busiest and largest rail networks in the world. The Indian Railways, which is a significant mode of transport for bulk freight traffic and passenger traffic, is spread over 64,015 route kilometres.

According to statistics released by the Department of Industrial Policy and Promotion (DIPP), the cumulative Foreign Direct Investment (FDI) inflow into the railways related components sector from April 2000 to March 2013 stood at US\$ 270.33 million.

The Indian Railways produced total estimated earnings on originating basis of ₹ 124,814.87 crore during 1st April 2012 to 31st March 2013 compared to ₹ 104,334.61 crore during the same period last year, indicating an increase of 19.63 per cent. While the total passenger revenue earnings shot up by 11.35 per cent, the total goods earnings increased by 23.24 per cent. The revenue earnings from other coaching during 1st April 2012 to 31st March 2013 amounted to ₹ 3,137.92 crore (US\$ 540.88 million).

Ports

- 32 projects awarded by the ministry in 2012-13 will add an annual capacity of 136.75 MT across the Indian port segment; involving an investment of ₹ 6,765.63 crore (US\$ 1.17 billion).
- Total cargo handled at major ports in the country during April–February 2013 stood at 498 MT.

Power

According to the statistics released by Corporate Catalyst India in its brief report on 'Power and Energy Industry in India', of the total energy generated in India about 55 per cent is based on coal, 26 per cent on hydro, 3 per cent on nuclear, 10 per cent on gas, 3 per cent on renewable sources and 1 per cent on diesel.

Reliance Power owned by Anil Ambani has started commercial generation from the first 660 megawatt (MW)-unit of Sasan Ultra-Mega Power Project (UMPP) in Madhya Pradesh. Being the largest integrated power plant and coal mining project in the world, Sasan project has an estimated expenditure of over ₹ 23,000 crore (US\$ 4 billion). Power generated by this facility is expected to be sold to 4 distribution firms across seven states.

After the Tata Group's Mundra Port, Sasan project is the second showcase power project.

Notes

Aviation

- As per the data released by DIPP, the air transport along with air freight in India has attracted FDI worth US\$ 449.26 million from April 2000 to March 2013.
- No-frill carrier IndiGo leads in terms of market share with 29.8 per cent of the pie. It is also followed by Jet Airways-Jet Lite combine at 22.6 per cent, Spice Jet 19.6 per cent, Air India Domestic 19.2 per cent and Go Air at 8.9 per cent for the January–April 2013 period.
- Official statistics revealed that total domestic passengers carried between January and April 2013 by the scheduled domestic airlines were 20.289 million.



Task Add few more updates on Indian development in infrastructure sector by doing a research study.

2.3.2 Infrastructure in India: Key Developments

It is essential to note the following main features of infrastructural development in India:

- L&T Metro Rail (Hyderabad), an arm of infrastructure company L&T has granted a ₹ 220 crore (US\$ 37.91 million)-project to Korean technology company Samsung SDS Company. L&T contributed this amount for setting up Automatic Fare Collection (AFC) system for the forthcoming Hyderabad metro rail project. The scope of the order majorly includes setting up of smart card based ticketing system, ticket vending machines, cash and card based payment system, automatic gates along with near field communication technology that enables usage of mobile phones as fare media. Samsung has already managed to implement similar AFC projects across various countries including three in India–Bangalore metro, Jaipur metro and Delhi metro.
- With an investment of ₹ 1,800 crore (US\$ 310.2 million), The Visakhapatnam Port Trust (VPT) is undertaking three major projects. These projects involve up-gradation of existing facilities at iron ore handling complex (OHC), extension of container terminal, mechanisation and West Quay North (WQ-7 and 8 berths). The cargo mix for WQ North berths will handle bulk cargoes such as blast furnace slag, bauxite, manganese, gypsum and other categories of ore. VPT is expected to spend ₹ 13,940 crore (US\$ 2.42 billion) on a number of on-going projects to increase its current capacity to 149 million tonne (MT) by 2019-20.
- Jet Airways carried the largest number of international passengers from India in 2012. It will also offer visa procurement services to its passengers wanting to travel to the United Arab Emirates (UAE) and fly the carrier. Jet Airways has partnered with Dnata, which is a Dubai-based travel service company wherein the travellers from India to Dubai, Sharjah and Abu Dhabi would have the alternative to individually secure their visa before departure.
- NHAI has completed 99.99 per cent of the Golden Quadrilateral (GQ) highway network. This is India's much-awaited infrastructure project and connects Delhi, Chennai, Kolkata and Mumbai. NHAI desired to set up GQ as a yardstick of Indian highways achieving global standards while improving local economies around it. The project also provided numerous opportunities for Public-Private Partnerships (PPPs) in infrastructure building.

Dnata's travel specialists will guide passengers about the visa process. Dnata's travel specialists will then collect all the required documents and submit the visa application to the UAE Government on behalf of the passenger.

Government Initiatives

You must be aware that two new projects recently sanctioned by the Cabinet Committee on Economic Affairs (CCEA) involve investments of ₹ 1,700 crore (US\$ 292.94 million). These projects are aimed at increasing the capacity of ports in India. The Shipping ministry also made plans to develop a harbour channel at Tuticorin Port at a cost of ₹ 7,500 crore (US\$ 1.29 billion).

In February 2013, the Ministry of Railways of the Government of India and the Société Nationale des Chemins de Fer Français (SNCF) which is the French National Railways, signed a Memorandum of Understanding (MoU) for technical cooperation in the field of Railways. Four main areas of mutual collaboration have been included in the MoU. They are:

- Modernisation of current operations and infrastructure;
- Sub-urban trains;
- Station renovation and operations; and
- High speed and semi-high speed rail.

India and France decided to jointly execute an 'operations and development' feasibility project on the Mumbai–Ahmedabad High-Speed Rail, under the High Speed Cooperation Programme. The project will be financed by SNCF with support from the French Ministry of Finance.

This bi-lateral agreement has a validity of five years. This project can be extended by one year with mutual consent of both the parties.

Moreover, multi-lateral body Asian Development Bank (ADB) has agreed to facilitate a loan of US\$ 252 million for development of rural roads in Chhattisgarh, Assam, Madhya Pradesh, West Bengal and Odisha. The loan amount is the first portion of US\$ 800 million-financing facility under Rural Connectivity Investment Programme. It is predicted that the first phase of the project will be completed in December, 2015.

Future Ahead

The infrastructure sector is expected to explode with new investments and developments in the near future as the growth and progress of other industries would be straightaway dependant on the basic infrastructure of the economy.



Did u know? A recent study stated that by the end of the 13th Five-Year Plan period that is by the year 2022 18,637 km of expressways need be built. According to this study, infrastructure development (for expressway projects, on such a massive scale would require about ₹ 450,000 crore (US\$ 77.54 billion).

It is important for you to note that the CMIE or the Centre for Monitoring Indian Economy stated in its report that Indian Railways may have a healthy growth of 5.5 per cent in freight traffic in 2013–14 as against a growth of 4 per cent in 2012–13. It is expected that this growth will add to the healthy growth in the freight traffic of commodities such as cement, coal, iron ore for steel plants and fertilizers.

2.4 Methods of Calculating National Income

In this section, you will learn about the methods of calculating the national income. There are three techniques by which national income can be calculated:

1. **Product Method:** This is also named as the output method, the inventory method or the census method. It involves finding out the marketplace value of all the goods and services formed during a year.

According to this method, the economy is categorised into different sectors, namely:

- (a) Agriculture industry
- (b) *Direct sector:* In this sector, the value of services of such professions like doctors, dramatics, soldiers, politicians, etc. are taken by equating to their services.
- (c) *International transaction sector:* In this sector, we take into account the value of goods exported and imported payment from abroad, payments to other countries.

In each sector, we produce an inventory of goods manufactured and find out the end product making an addition to the value of goods. The value added method can be followed in order to avoid double counting. The value added of a firm is its productivity less whatsoever it purchases from other firms such as raw materials and other inputs.

This technique has a worth because it assist us to have a relative idea of the significance of various activities in economy like agriculture, manufacturing, trade, etc. However, in advanced countries this technique may be successful as it is very easy to get facts from government records. But, in under developed countries, this technique may give rise to various difficulties like imputation of money values to non-monetized sector.

2. **Income Method:** This method is described as the gross national income attained by adding together wages and salaries, interests, profits and rents of persons and organization and involving government incomes are made either from property or through work. To reach at the entirety of income of nation, the below procedure will be adopted:

- (a) Net rents consist of the rental value of owner occupied houses.
- (b) Wages, salaries and all such incomes of person employed, pensions are omitted.
- (c) Earnings by way of interest.
- (d) Income of joint stock companies.
- (e) Income from overseas investment.

This technique gives national income at factor cost.

3. **Expenditure Method:** This process is also referred to as the flow of product approach (by American economist Samuelson) or the outlay method.

Here we take into account the expenditure on finished products:

- (a) Expenditure by consumers on goods and services.
- (b) Expenditure by producers on investment of goods.
- (c) Expenditure by government on consumption as well as capital goods.

To this we add money obtained from overseas with the help of trade and other payments. This number thus attained at will give us G.N.P.

The value of this method is that it believes in the recognition between national expenditure, income and total product.

Whatever method we use the outcome should be more or less the same. In other words, they can be used to cross-check reliability of each other.

2.5 Factors Determining National Income Estimation

Notes

Below are the factors determining national income estimation:

- **Quality and Quantity of Factors of Production:** The quality and quantity of land, the climate, the rainfall, etc., regulate the magnitude and excellence of agricultural production. This defines the size of national income. The amount of labour has dual influence since labour is both a factor of production as well as the consumer of what is produced. The excellence of labour is subject to intelligence, training, which in turn determines the volume of industrial productivity. This will have significant effect on output. Similarly, the quantity and quality of entrepreneurial aptitude is also a chief element in the determining national income.
- **State of Technical Know-how:** The extent of technical know-how and technology in production determine the capital formation in the country. A country with plentiful resources will be inactive without any determination if the resources are not methodically exploited. Natural resources collective with advanced technology will go a long way in growing the size of national income.
- **Political Stability:** The key to growth the national income rests with significant reasons like capital formation, natural resources, technical know-how and political stability.

2.6 Limitations of National Income Estimation in India

This section emphasise on the limitations of national income estimation in India. The measurement of national income is beset with difficulties. In under developed countries, these difficulties are more prominent. The difficulties in calculation of national income can be discussed as follows:

- **Conceptual Difficulties:** There has been a change of opinion concerning the term 'nation' in the idea of national income. It has to describe exactly, whether it is physical entity of the country or the nationals together with those residing abroad. Since national income establishes a quantitative measure of economic activity rather than verbal description. Since the whole thing has to be associated to the money value, services produced in economy for love of humanity, affection and philosophy could not be taken into attention in calculating national income.
- **Overlapping of Occupations:** In backward economies, there is a coinciding of profession in rural sector which marks it problematic to know the income by source. A worker in a peak season works in a farm, efforts a country cart in off season. Takes up unskilled work, etc. likewise, the village money lender associations his occupation with the humanizing of his farm.
- **Difficulty in Value Estimation:** In backward areas, the cultivators, artisans and cottage industry workers do not have a fair idea of the expenditures of their job. Hence, the net value of their products cannot be appraised precisely.
- **Non-monetised Sector:** Barter industry and non-monetized sector generates the problem of recording the value of their food and services and by guess work and approximation.
- **Incomplete Government Records:** Due to unawareness and illiteracy in backward areas, the data may not be obtainable and if obtainable, may be untrustworthy. Also, the facts furnished by government bureaucrats may not be from dependable sources and data is not current.
- **Problems in Agricultural Sector:** In agricultural activities, there is a good deal of guess work in data relating to crop wise production and in facts associating to animals and forest products.

Notes

- **Problems in Industrial Sector:** Data concerning output, cost, etc. are accessible only in big units. The small units do not preserve these facts appropriately. The village money lenders and indigenous bankers preserve absolute secret of their and they do not furnish correct information.
- **Non-applicability of a Uniform Formula:** In a big country where extensive differences and district variations, an unchanging method cannot be applied. The data of one region cannot be realistic to another region with minor alteration. Every region would be a separate entity requiring particular method suited only to that region.
- **Double-counting:** The mistake of double-counting is additional obstacle to be avoided in the calculation of national income.
- **Inefficient Data Collection:** The machinery for gathering statistical data may not be well-organized. The investigators, preparation of adhoc figures, making sample surveys, etc.

2.7 Uses of National Income Statistics

Let us now discuss the uses of national income statistics in this section. These are as below:

- National income figures support governments in preparation, policy making, preparation of budgets and estimating the level of economic activity.
- **Formulation of Economic Policies:** National income statistics are valued instruments of economic analysis and a controller to economic strategies to be followed. It is more useful in context of planning and formulation of accurate plans.
- **Studying Economic Structure:** It gives an idea of the structure of the economy. It benefits to make inter-sectoral contrasts and to study the rate of development of the economy. The development of national income is a key of the growth of the creative capacity of an economy.
- **Inter-sectoral Comparisons:** It supports to study inter-sectoral growth. Such associations are useful. Share of numerous sectors can be calculated to find out structural defects and faults of the economy.
- **Indicator of Economic Welfare:** It enables us to study per capita income or per capita drinking which are overall displays of economic growth. But it is not co-operative in revealing distribution of income in the society.
- **Making International Comparisons:** National income approximations allow us to mark international comparisons and standard of living of people.
- **Contribution to International Institutions:** It displays the capability of a republic to bear certain common weight of global institutions like the U.N.O.

Self Assessment

Fill in the blanks:

9. carried the largest number of international passengers from India in 2012.
10. L&T Metro Rail (Hyderabad), an arm of Infrastructure Company L&T has granted a ₹ project to Korean technology company Samsung SDS Company.
11. are a dominant mode of transportation in the country today.
12. is one of the busiest and largest rail networks in the world.



Case Study

Human Development and Gender Development in India

Economic development is a process whereby the real per capita income of a country increases over a long period of time. The increase in the quality of human beings by education, health, nutrition, etc. help to increase the physical output (Schultz, 1978). Therefore, human resource development along with physical capital formation plays a useful role in economic development. In fact, effective use of physical capital itself is dependent upon human resources. Therefore, large scale investment is needed in human resources if physical capital available is to be exploited more fully and in a more efficient way (Adisesiah, 1970).

Human resource development is the process of increasing knowledge, skill and capacities of all the people in a given society (Pramanik, 1980). In economic terms, it means accumulation of human capital and its effective utilization for the development of the economy. Human development and human resource development, though different, are linked by the fact that human development provides the preconditions for human resource development to contribute to economic growth.

A widely accepted indicator of economic well-being of a country is its real per capita income, but it gives only a partial picture, ignoring social and cultural aspects of development of people. Morris (1979) defined development in terms of improvement in the quality of life of people. Quality of life has multiple dimensions ranging from economic to social, environmental, political, and psychological and philosophical aspects. Computing a quality of life index involved the problems of choice of indicators and of assigning weights to them. Since all components do not move in same direction, a composite index creates its own problems of interpretation.

After much effort, the United Nations Development Programme (UNDP) unveiled Human Development Index (HDI) in 1990. It was a bold attempt of UNDP to capture the diverse content of multidimensional character of human development. HDI is a reasonable proxy for several dimensions of well-being of the people, and most importantly, in the absence of an alternative single measure that better measures human development. It defines human development as a process of enlarging people's choices. These choices are captured by HDI in three fundamental dimensions – a long and healthy life, knowledge level and a decent standard of living. The Human Development Report focused on gender issues also to take into account the struggle of women for their rights and developed a Gender Development Index (GDI) also.

India's achievement with respect to human development has been rather poor, despite elements of human development being a part of India's Five Year Plans (Tilak, 1999). Its spending on social sector (human priority) is reportedly only 2.5 per cent of GDP at the end of 1991. The stringent financial situation immediately after 1991 led to a further reduction in social sector spending if the early trends in the sphere continued. Hence, the human development and gender development before and after 1991 would help to understand the social commitment of the governments in India.

Questions

1. Explain the interrelationship between human development and economic development.
2. Collect the secondary data on male and female life expectancy, adult literacy rate, enrolment ratio in primary, secondary and tertiary, male and female population.

Source: <http://www.hss.iitb.ac.in/ties07/paper/ts3/psE/2.doc>.

Notes

2.8 Summary

- National income measures the total value of the goods and services (output) produced by an economy over a period of time (normally a year).
- National income is also a measure of the income flown from production, and/or the sum total of all spending involved for the production of output.
- Human resources development is the process of increasing the knowledge, the skills, and the capacities of all the people in a society.
- The processes of human resources development unlock the door to modernization.
- Human resources are available in two roles, namely, as factor services, and as units of consumption.
- Human resources have to play a unique and significant role in the process of economic growth.
- Convenience in operations and connectivity are important for strengthening and sustaining global trade growth.
- Infrastructure development is essential for an economy's growth and development.
- Infrastructure that covers roadways, railways, air network and waterways forms the spine of the economy.
- A perfect situation would be to have sufficient infrastructure capacity so that the many modes could form a logistics chain for smooth and continuous flow of goods and services.

2.9 Keywords

Economy-of-scale: The reduction in long-run average and marginal costs arising from an increase in size of an operating unit (a factory or plant, for example).

Entrepreneurship: The capacity and willingness to develop organize and manage a business venture along with any of its risks in order to make a profit. In economics, entrepreneurship combined with land, labour, natural resources and capital can produce profit.

Human Capital: Human capital can be defined as the body of knowledge possessed by the population and the capacity of the population to use the knowledge effectively.

Human Development Index: Human Development Index (HDI) is used as approximation and indicator of Human Resource Development.

Human Resources Development: It is the part of human resource management that specifically deals with training and development of the employees.

Income Method: This method approaches national income from the distribution side.

National Income: The income earned by a country's people, including Labour and capital investment.

Sustainable Development: The development that meets the needs of the present without compromising the ability of future generations to meet their own needs is called as Sustainable Development.

2.10 Review Questions

Notes

1. Explain the term national income.
2. How is the national income of India calculated?
3. Describe the roles of human resources.
4. Why is the human resource an important factor of economic development?
5. Explain the significance of human resource development.
6. Highlight the main features of infrastructural development in India.
7. Discuss the role and functioning of infrastructure sector in India.

Answers: Self Assessment

- | | |
|--------------------|------------------------------|
| 1. National Income | 2. Education |
| 3. Internationally | 4. Structural transformation |
| 5. Dadabhai Naroji | 6. Economic progress |
| 7. Modernisation | 8. Population growth |
| 9. Jet Airways | 10. ₹ 220 crore |
| 11. Roads | 12. Indian railways |

2.11 Further Readings



Books

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and Resource Issues."* Taylor & Francis.

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *"Indian Economy."* S Chand and Company, New Delhi.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.



Online links

<http://www.ilo.org/public/english/dialogue/actemp/downloads/publications/tanhrd1.pdf>

<http://ideas.repec.org/a/asi/ijoass/2011p108-116.html>

<http://unesdoc.unesco.org/images/0018/001852/185231eb.pdf>

<http://www.slideshare.net/Pranis/human-resource-development-hrd-11728066>

http://www.scmr.com/article/sound_reasoning_on_supply_chain_infrastructure/

Unit 3: Planning and Economic Development in the Era of Globalisation

CONTENTS

Objectives

Introduction

3.1 Objectives of Economic Planning in India

3.1.1 Economic Planning and Removal of Poverty

3.1.2 Economic Planning and Social Justice

3.2 Development Strategy in India

3.2.1 Mahalanobis Model of Growth

3.2.2 Models of Economic Development: Nehru vs. Gandhi

3.2.3 Liberalisation, Privatisation and Globalisation (LPG) Model of Development

3.2.4 PURA-A Neo-Gandhian Approach to Development

3.3 Summary

3.4 Keywords

3.5 Review Questions

3.6 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss the objectives of economic planning in India
- Describe the development strategy in India
- Recognise the models of economic development

Introduction

The Indian National Congress, under the motivation of Jawaharlal Nehru, established the National Planning Committee (NPC) towards the end of 1938. The Committee constructed a series of studies on different subjects associated with economic development. The Committee laid down that the State should own or manage all key industries and services, waterways, mineral resources and railways, shipping and other public utilities and, in fact, all those large-scale industries which were possible to become monopolistic in character.

In addition to the National Planning Committee (NPC), eight leading industrialists of India conceived “A Plan of Economic Development” which was commonly known as the Bombay Plan. There was also a Gandhian Plan which was organised by Shriman Narayan. The world-popular revolutionary M. N. Roy developed the People’s Plan. All these plans were only of historical significance because they were just paper plans which were never executed. But they stimulated thinking about the several aspects of planning in India.

Just after the attainment of Independence the Prime Minister Nehru established the Planning Commission in 1950 to assess the nation's needs of material capital and human resources and to develop economic plans for their more balanced and effective utilisation. The First Five-year Plan commenced in 1950-51 and it was followed by a sequence of Five-Year Plans.

3.1 Objectives of Economic Planning in India

Now, let us begin the lesson with the objectives of economic planning in India. The Directive Principles of our Constitution laid down:

"The State shall, in particular, direct its policy towards securing —

- (a) that citizens, men and women equally, have the right to an adequate means of livelihood;
- (b) that the ownership and control of the resources of the community are so distributed as best to sub serve the common good and
- (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

The Directive Principles of the Indian Constitution are, therefore, an expression of the will of the people of India for rapid economic growth. Accordingly, the Government of India accepted planning as a means of adopting economic development. The Planning Commission set out the following four long term goals of Planning:

- (i) to increase production to the maximum possible extent so as to achieve higher level of national and per capita income;
- (ii) to attain full employment;
- (iii) to reduce inequalities of income and wealth; and
- (iv) to establish a socialist society based on equality and justice and absence of exploitation.

You must be aware that the First Five-Year Plan presented clearly the long-term objectives or goals of economic planning in India as follows:

"Maximum production and full employment, the attainment of economic equality or social justice which constitute the accepted objectives of planning under present day conditions are not really so many different ideas but a series of related aims which the country must work for. None of these objectives can be pursued to the exclusion of others, a plan of development must place balanced emphasis on all of these."

In his book "Planning and the Poor", B.S. Minhas a former member of the Indian Planning Commission states:

"Securing rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of the values and attitudes of a free and equal society have been among the objectives of all our plans."

Now, you will learn about the above socio-economic goals under the headings of (a) Economic planning and removal of poverty, and (b) Economic planning and social change.

3.1.1 Economic Planning and Removal of Poverty

You must be aware that the basic objective of economic planning in India is to bring about rapid economic growth through development of agriculture, power, industry, transport and communications, and all other sectors of the economy. The basic standard of economic growth of a nation is the continuous expansion, year after year, of real national income and real per capita income. It is the need of the hour that economic growth, should also involve improvements

Notes

in quality of life comprising of life expectancy, literacy, infant mortality, etc. A little consideration will show that all these displays of development are inter-related in the sense that expansion of real national income is the foundation for increase in per capita income and also improvement in the quality of life.



Did u know? For a poor country such as India with a large mass of people steeped in poverty and misery, increase in national income by itself is not enough—instead, consistent increase in per capita income over a period, along with improvement in quality of life is the yardstick to judge the economic development of India.

You must understand that Indian planners intended at increasing national and per capita incomes on the assumption that the constant increase in these incomes would decrease and finally remove poverty and misery and raise the standard of living of the masses. However, when our planners found that increase in national income was not supplemented by reduction of poverty in the nation, the goal of planning from the Fourth Plan onwards was not just economic growth but raising the standard of living of those who have been living in abject poverty for generations, nay, for centuries. As per the Fourth Five-year Plan, “the basic goal is a rapid increase in the standard of living of the people”, and again “emphasis is placed on the common man, the weaker sections and the less privileged.” In fact, the slogans of “Garibi Hatao” (Removal of poverty) and “growth with justice” were created during the early 1970’s to signify clearly that the focus would be on removal of poverty and not merely on increase in national income.

It is important for you to note that unemployment and under-employment are essential causes of poverty in India. Therefore, from the very beginning, removal of unemployment and underemployment has been a significant objective of economic planning in the nation. The Planning Commission has all along expected that increase in investment would be accompanied by increase in employment as well as increase in national income of the nation. The Commission argued explicitly in the Third Plan that as national income increased in response to investment and development expenditure, the demand for labour would mechanically rise and more employment would be generated.

Simultaneously, the removal of unemployment would lead to increase in gross national product and standard of living of people on the other. Accordingly all the Five Year Plans had programmes of economic growth, with increase in employment as integral in the development programmes.

Although employment has been mentioned as one of the goals of economic planning in all our Five-Year Plans, it has never been rendered a high priority. In the absence of any plan, do we find distinct employment plans framed for each one of the sectors and areas, so as to elevate employment on the one side and national income on the other. This describes why unemployment has increased over the years. For the first time, the Planning Commission admitted in the Janata Party Sixth Plan (1978–83) the possibilities of real conflict between employment and economic growth and accorded employment a pride of place in the Plan. Nevertheless, in the Sixth Plan (1980–85) which was ultimately accepted and executed by the Congress Party, the main emphasis reverted to the traditional growth approach, with the usual assumption that employment would increase with rise in investment, regardless of choice of techniques. Therefore, not a single plan has been framed keeping employment generation as a primary goal and only tip service was paid to the attainment of full employment goal.

3.1.2 Economic Planning and Social Justice

You must understand that in an unplanned society, several kinds of retrogressive forces function, such as inequalities of poverty, income, absence of equal opportunities for progress, etc. India’s economic plans made conscious effort to remove all these retrogressive forces and foster social

Notes

as well as individual development. Decrease of inequalities of income and the formation of a socialist society create conditions in which everyone will have equal opportunities in the matter of education and employment. Additionally, there will be no strength of economic power and exploitation of one individual by another.

A very small group of persons in India are better-off and have not experienced poverty and misery. These are rich landlords in the merchants, countryside, bankers, industrialists, top officials of the Government, etc. The vast majority of people are, nevertheless, very poor because their income is very low. Extreme inequalities of income and wealth in India have their roots in the traditional social development and essentially, thus, the reduction of inequalities of income and wealth would be possible only through abolishing the semi-feudal relations of production in our villages. The Planning Commission sketched such measures as the removal of all intermediaries and the ceiling on landholding for decrease of inequalities of wealth and income in rural areas.

It is essential to note that another aspect of inequalities of income in India is the large differences between rural and urban incomes which are bound to be highlighted over the years with industrialisation and economic growth. The Planning Commission has suggested measures to raise fair price to farmers for their products, development of agro-based industries, agricultural productivity, etc.

However, reduction of income inequalities has always been stated as one of the goals in all the plans, in terms of priority this objective consistently got a very low position. This could possibly be so because Nehru, the architect of Indian planning, did not consider that the problem of economic inequalities of income and wealth could ever be solved just by redistribution. The Fourth Plan stated clearly:

"In a rich country, greater equality could be achieved in part by transfer of income through fiscal, pricing and other policies. No significant results can be achieved through such measures in a poor country."

Ultimately, you must note that the Indian planners visualised the establishment of a socialist society in which everyone would have equal opportunities in the matter of occupation, education, etc. Wealth would be disseminated equally and there would be no absorption of economic power in the hands of a few individuals or families. Above all, there would be no scope for mistreatment of man by man. The first three plans talked of the establishing of a "socialist pattern of society" or "development along socialist lines". The Fourth Plan talked about the "establishment of a social and economic democracy". It specified:

"The broad objectives of planning could thus be defined as rapid economic development accompanied by continuous progress towards equality and social justice and the establishment of a social and economic democracy."

However, it is also important to consider that the definition of economic democracy as given by the Indian planners is distinct from what is commonly understood elsewhere. In prosperous economies where abysmal poverty has been eliminated, economic democracy is almost the same as a free market economy. In India, nevertheless, the broad definition of economic democracy is the availability of opportunities for drinking water supply, public health and sanitation, education, etc., for large masses of people, irrespective of whether they are rich or poor.

After the starting of the Liberalisation, Privatisation and Globalisation model of growth in 1991, these goals have been entirely abandoned at the altar of market forces.

Self Assessment

Fill in the blanks:

1. In an society, various types of retrogressive forces operate, such as inequalities of income, poverty, absence of equal opportunities for progress, etc.

Notes

2. India's made conscious effort to remove all these retrogressive forces and foster social as well as individual development.
3. of income and the establishment of a socialist society create conditions in which everyone will have equal opportunities in the matter of education and employment.
4. A very small group of persons in India are and have not experienced poverty and misery.



Caselet

Technology and Innovation at Asian Paints

It would be appropriate to undertake a study of Asian Paints in this caselet, for its use of technology through the years to gain a competitive edge in the marketplace. "Today, the company has formulated an entire range of decorative coatings through home-grown technology. It has always given emphasis to R&D and continuously made investments in the development of Information Technology. It has used IT as a tool to bring efficiencies and streamline operations. The use of IT and R&D will continue to be important in the future and Asian Paints will not hesitate in making investments in these areas to gain advantages for the organization."

Continuous reconfiguration of activities in the value chain is a key task of all companies aiming to remain competitive and to achieve the highest value-cost leverages. Given this requirement, what were the key initiatives taken by Asian Paints during the last 5 years?

In last five years, reconfiguration of value chain activities to increase competitiveness has been one of the major focus areas for Asian Paints. In fact, Asian Paints has transformed as an organization. The sales and profit figures will reflect the strong financial condition of the company. But most important have been the initiatives undertaken in all areas of operations to increase efficiencies. Some of them are as follows:

- Manufacturing to reduce losses at factory
- Sourcing efficiencies
- Introduction of new technology to boost efficiencies and increase productivity
- Implementation of a new supply chain solution
- Implementation of an ERP solution

Besides the above, it has focused on continuously improving environment management standards at our plants. Today, all Asian Paints manufacturing facilities are accredited with the ISO 14001 certification for environment management standards. These systems have enabled the company to reduce effluence from the manufacturing facilities. The introduction of the new supply chain solution has transformed functions like management of inventory and forecasting demand. A new solution that helps centralise demand forecasting has brought significant benefits for the company through reduction of working capital. It has changed the manner of functioning of the supply chain division.

Source: Business Environment, Dr Vivek Mittal, Excel Books

3.2 Development Strategy in India

In this section, you will learn about the development strategy in India. The basic goals of our Five-Year Plans were "development along socialist lines to secure rapid economic growth and

expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of a free and equal society." In order to achieve these goals, the planners developed a strategy of planned economic development.

3.2.1 Mahalanobis Model of Growth

You must understand that it was only with the Second Plan that there was a clear expression of a strategy of development by Indian planners. Prof. P.C. Mahalanobis, who was the real architect of the Second Plan, was accountable for presenting a clear strategy of development based on the Russian experience. This strategy emphasised investment in heavy industry to attain industrialisation which was supposed to be the basic condition for rapid economic development. For Jawaharlal Nehru, the first Prime Minister of India, the development of heavy industry was identical with industrialisation. He stated:

"If we are to industrialise, it is of primary importance that we must have the heavy industries which build machines."

Again, there are some who argue that we must not go in for heavy industry but for lighter ones.

Of course, you must analyse that we have to have light industries also but it is not possible to industrialise the nation rapidly without concentrating on the basic industries which produce industrial machines which are utilised in industrial development. Nehru was, thus, extremely forthright in pointing out that industrialisation meant development of heavy industries. The Plan frame of the Second Plan specified this, in unequivocal terms, as follows:

"In the long run, the rate of industrialisation and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally—which would increase the capacity for capital formation. One important aim is to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed."

Therefore, the core of the strategy accepted by Indian planners for the Second Plan and with minor alteration for the consequent three Plans (i.e. up to the Fifth Plan)—was rapid industrialisation via lumpy investment on heavy, basic and machine-building industries.

Need for Rapid Industrialisation

It is important for you to understand that the planners validated their strategy of rapid economic development through rapid industrialisation.

- (a) At the time of Independence, India was considerably agrarian, though the nation with its vast natural and human resources was preferably suited for industries. The planners felt that divergence of the use of resources would be in the interest of the nation from the perspective of employment, production and defence. Resources should, thus, be applied more towards the development of industry instead to agriculture.
- (b) You may already be aware that Indian agriculture was already undergoing from heavy population pressure on land and productivity of labour on land was quite low—it was even believed that marginal productivity of labour on land might be zero and even be negative. One technique of decreasing this burden of population on land and to raise agricultural productivity was to decrease the percentage of people living on land, and to shift the surplus population to industries. The setting up and expansion of the industrial sector was therefore, an essential condition for raising the national product in general and for agricultural development in specific.

Notes

- (c) Rapid industrialisation was a critical condition for the development of not only agriculture but also for all other sectors in the nation.



Example: You must observe with the expansion of industries and the shifting of labour from rural to urban areas, the demand for food grains and agricultural raw materials (for instance jute, cotton, oil seeds, etc.) would increase.

Simultaneously, increased production and supply of fertilisers, agricultural machinery, pesticides, etc. would assist in the expansion of agricultural production. With rapid industrialisation, and with rapid expansion of markets, there would be expansion in transportation, in trade and commerce, in banking and finance, etc.

- (d) Productivity of labour is much higher in manufacturing as compared to agriculture. The growth rates are much higher in industry than in agriculture. Rapid increase in national and per capita income would be possible only through rapid industrialisation.
- (e) The income elasticity of demand for industrial goods was much higher and export opportunities for manufactured goods were also high.

You must note that it was for all these reasons that industrialisation was highlighted by the Indian planners.

Heavy Industry vs. Light Industry

An important aspect of the investment strategy for you to note formulated by Professor Mahalanobis was the focus on heavy industries manufacturing basic machines and basic metals. Put differently, an increasing proportion of investment should be on machine-building industries. The Planning Commission assisted this strategy for two reasons:

- (a) Investment in the heavy industry assists the Indian economy to construct up a larger volume of capital stock and at a faster rate.
- (b) Heavy industries assist to lay the foundation for a strong and self-reliant economy, partially through rapid expansion of all the sectors of the economy and partly by eradicating the dependence of the nation on imports of significant machinery and equipment.

It is essential to identify that the Planning Commission rejected the optional strategy of focussing light industries producing consumption goods. True, this optional approach would have the advantage of assisting the Indian economy to manufacture a larger volume of consumption goods and this would have assisted the people to have a higher standard of living in the short period and also combat inflationary pressures in the nation. However, this could be attained by neglecting the accumulation of capital stock in the nation. The Planning Commission denied the short period availability of consumption goods in favour of production of capital goods which, in fact, would help, after a certain critical stage, to manufacture a larger volume of consumption goods. The capital goods approach based on the Russian experience, projected people to sacrifice in the short period in support of a high level of living in the long period. Additionally, this approach would enable the nation to have a large volume of the capital goods in the short period and a large volume of both capital and consumption goods in the long period.

Development Strategy and Employment Objective

The Mahalanobis strategy of planning was substantial to attain the goals of self-sustained long-term growth through investment in the heavy sector. For rapid industrialisation and diversification of the economy, the Mahalanobis strategy is regarded as the development of basic industries and industries which make machines to make machines needed for further

development as the crucial element. This strategy naturally came in conflict with the employment objective of our plans. For, a fast and self-sustained economic growth could be conducted in only through emphasis on capital-intensive production, viz., “by building of economic and social overheads, exploration and development of minerals and promotion of basic industries like steel, machine building, coal and heavy electrical”. To solve the conflict between rapid growth on the one side and instant increase in employment opportunities on the other, Mahalanobis strategy accepted a “policy of encouraging labour-intensive techniques in consumer goods industries even as the capital-intensive sector of heavy industry was being expanded rapidly.”

Strategy to Achieve Social Objectives: Use of Fiscal Policy

It is important for you to understand that the Mahalanobis investment strategy extensively implied that increase in production would be supplemented by better and more equal distribution of income and wealth. Apart from this supposition, Indian planners relied on Fabian socialist strategy of utilising fiscal policy of taxation and public expenditure to attain the two social goals of planning, viz., the removal of inequalities of income and wealth on the one hand and the establishment of a socialist society based on equality and justice, on the other.

Fiscal policy intending at the reduction of inequality of income and wealth had two aspects. Highly progressive income tax was to be imposed to lop off the high incomes beyond a specific level (marginal rate of income tax at one time was 97.25%). Estate duty was to be extremely progressive so as to remove a measure of large fortunes; other taxes falling exclusively on affluent sections of the community included capital gains tax, wealth tax and gift tax. When direct taxes endeavoured to transfer part of the income and wealth of the rich to the Government, public expenditure was particularly used to encourage the welfare of the lower income groups and weaker sections of the community.

A fast and concerted development of education was to be a significant means for ensuring greater equality of opportunity to various sections of the population. Public expenditure on public health and sanitation, housing, etc. was used to attain “a measure of redistribution in the consumption of basic necessities such as health and medical care, sanitation, water supply and cheap housing. Tribals, dalits and other backward classes were to receive favoured treatment under special programmes.”



Caution Apart from the use of fiscal policy, the planners did not adopt any measures for direct redistribution of property and wealth to achieve reduction of disparities of income and wealth and to prevent concentration of economic power. The only exception was the half-hearted attempts at land reforms and ceiling on land holdings in rural areas.

3.2.2 Models of Economic Development: Nehru vs. Gandhi

You need to realise that Nehru–Mahalanobis model of development appeared as the driving force of the strategy of development implemented in the mid-fifties at the time of development of the Second Five Year Plan. This strategy has sustained right up to the eighties with a short interregnum of about 2–3 years when Janata Party was in power during 1977–80. Nehru–Mahalanobis model was established on the basis of long-run development strategy which rendered greater preference to the long-term goals of development, instead of succumbing to the instant and short-term goals. The strategy, thus, emphasised:

- (a) a high rate of saving so as to encourage investment to a higher level,
- (b) it preferred a heavy industry bias to formulate the industrial base of the economy,
- (c) it opted for the protectionist path so as to safeguard infant industry,

Notes

- (d) it stimulated import-substitution so as to accomplish self-reliance, and
- (e) it intended at enlargement of opportunities for the less fortunate sections of the society.

Growth with social justice was therefore the objective of Nehru–Mahalanobis model since it planned to foster a self-generating path of development with an assurance to the common man that poverty, unemployment, disease and ignorance would be eradicated so that individuals could realise their capacity with the extension of social and economic opportunities. Since, it was the philosophy of the fifties that market mechanism could not bring about judicious allocation of resources to fulfil the goal of growth with social justice, a much greater role was attributed to the State. The principal operations of the State in the economic sphere were the development of economic and social infrastructure. The economic infrastructure was disturbed with enlargement of power, irrigation, transport and communications so as to magnify markets as also to eradicate constraints in the form of power on industrial development and irrigation for agricultural development. By increasing social infrastructure in the form of education and health, the State envisioned to develop skilled manpower so that it could offer the essential skills required for the functioning of the new industries. To channelize investment into socially desired lines of production, the State nationalised major banks. Therefore, in the Nehru–Mahalanobis model the State controlled the commanding heights of the economy through the public sector.

It will be interesting for you to understand that the Janata Sixth Plan (1978-83) recognised the achievements of this strategy:

“It is a cause of legitimate national pride that over this period a stagnant economy has been modernised and made more self-reliant.”

The achievements which could be the cause of legitimate pride were:

- (a) An increase in the rate of saving from a low level of 7% of GDP in 1950–51 to a high level of about 22 to 24%.
- (b) To finance the process of development up to the end of the Seventh Plan largely by domestic savings. Foreign saving inflow formed merely 1.5% to make up the gap in the planned investment.
- (c) To formulate an industrial base of the economy in the form of heavy industry and infrastructure.
- (d) To train a large pool of scientific and technical manpower.

Nevertheless, it will be important for you to note that success in these areas was also accompanied by certain fundamental failures:

While massive investments were made in the public sector enterprises, no serious attempt was made to run them on commercial lines. Their socio-economic character was utilised to plead for continued losses in some and very poor level of profits in others. Consequently, you must evaluate that the Government continued to meet the losses out of the general exchequer. Three critical mistakes were committed in their administration. First the ranks at the top were offered to general administrators instead of professional experts. Therefore, the administrative bureaucracy of the nation took charge of the PSUs and acted in collusion with the political bosses who utilised PSUs as their fiefs. The second costly mistake was the failure to formulate work-ethics among the employees. Consequently, the PSUs developed huge wage-bill without commensurate increase in productivity. Thirdly, to satisfy specific lobbies – urban consumers, big farmers, fertiliser, irrigation, electricity charges, etc. were kept below costs and huge subsidies were paid and consequently the state level public enterprises incurred heavy losses and these losses mounted further as years rolled by.

Notes

You need to recognise that Nehru model of growth exhibited other weaknesses too. It failed to offer a national minimum level of living despite five plans. Almost 40 per cent of the population lived below the poverty line. The number of unemployed and under-employed was quite high and was rising continuously. Inequalities of income and wealth had deteriorated and there was a growing concentration of economic power in the hands of a few. Land reforms were not properly executed, resulting in much dissatisfaction in rural areas. It was in this relation that the Janata Party in 1977 adopted Gandhian Socialism as the main goal of development and the Janata Party's Sixth Plan (1978–83) was extensively based on the Gandhian Model of economic growth.

Gandhian Model of Growth

Acharya S.N. Agarwala brought out the 'Gandhian Plan' in 1944 and re-affirmed it in 1948. These publications form the basis of Gandhian planning or 'Gandhi – a model of growth'. The basic goal of the Gandhian model is to advance the material as well as the cultural level of the Indian masses so as to deliver a basic standard of life. It intends primarily at enhancing the economic conditions of the 5.5 lakh villages of India and thus, it lays the greatest emphasis on the scientific development of agriculture and quick growth of cottage and village industries.

Agriculture

It is noteworthy to know that the Gandhian model intends at the reform of agriculture as the most essential sector in economic planning in India. The primary goal of agricultural development is national self-sufficiency in foodstuffs and maximum regional self-sufficiency in food. This has to be attained not only by larger and better inputs but also by land reforms—change in the system of tenure, consolidation of holdings, organisation of co-operative farms, abolition of the proprietary rights on land, etc. Money-lending should be eradicated, and there should be increased credit facilities for the farmers.



Notes The Gandhian model lays special emphasis on dairy farming as an occupation and as an auxiliary to agriculture.

Cottage and Village Industries

It is important to note that the plan focuses the rehabilitation, development and expansion of cottage industries side by side with agriculture. Spinning and weaving are given the first place. The production of khadi is essential and it is nearly on the same level as the production of rice and Gandhian plan outlines a scheme for making every village self-sufficient in cloth. Simultaneously, the Gandhian plan wants the State to take into consideration the revival and expansion of rural cottage industries as the primary plank of its industrial planning.

3.2.3 Liberalisation, Privatisation and Globalisation (LPG) Model of Development

You must be aware that the LPG Model of development which was launched in 1991 by the then Finance Minister Dr Man Mohan Singh with a big bang was proposed to charter a new strategy with focus on Liberalisation, Privatisation and Globalisation (LPG). Various major changes at the domestic level were introduced.

1. Areas hitherto reserved for the public sector were opened to private sector. The Government proposed to transfer the loss-making units to the private sector, but it was unsuccessful

Notes

because there were no takers for them. Rather, the Government initiated disinvestment of the highly profit-making PSUs and the openings were used to reduce fiscal deficits. Therefore, you need to understand that due to several social constraints the Government could not carry forward its programme of privatisation, though it did prosper in liberalising the economy to the private sector both domestic and foreign.

2. By allowing the private sector to set up industrial units without taking a licence, the Government removed certain shackles which were holding back or postponing the process of private investment.
3. By abolishing the threshold limit of assets with respect of MRTP companies and dominant undertakings, the Government freed the business houses to commence investment without any ceiling being prescribed by the MRTP Commission. Apparently, considerations of encouraging growth were more dominant with the Government and such issues as concentration of economic power were assigned a back seat.
4. With a perspective to facilitate direct foreign investment, the Government decided to grant approval for direct foreign investment up to 51% in high priority areas. The Government could also regard proposals involving more than 51 per cent equity, but such proposals would need prior clearance of the Government. No permission was needed for hiring foreign technicians, foreign testing of indigenously developed technologies, etc.
5. Chronically sick public sector enterprises were referred to the Board for Industrial and Financial Reconstruction (BIFR) for the formulation of revival/rehabilitation schemes. A social security mechanism was introduced to protect the interests of workers likely to be affected by such rehabilitation packages.
6. To enhance the performance of public sector enterprises, greater autonomy was given to PSU managements and the Boards of public sector companies were made more professional.
7. The economy was opened to other nations to motivate more exports. To support the import of foreign capital and technology and other allied imports, decrease in import duties and other obstructions were brought about.

You must understand that LPG Model of development focuses a bigger role for the private sector. It imagines a much larger quantum of foreign direct investment to enhance our growth process. It intends at a strategy of export resulted growth as against import substitution practised earlier. It intends at reducing the role of the State substantially and therefore, abandons planning fundamentalism in support of a more liberal and market driven pattern of development.



Notes The primary aim of the Gandhian plan is the attainment of maximum self-sufficiency in village communities.

Critics have pointed out certain fundamental weaknesses of the LPG Model of Development.

- (a) By permitting free entry of the multinational corporations in the consumer goods sector, the model has hit the interests of the small and medium sector engaged in the production of consumer goods. There is danger of labour displacement in the small sector if unbridled entry of MNCs is continued.
- (b) The model bypasses agriculture and agro based industries which are a major source of generation of employment for the masses. It did not delineate a concrete policy to develop infrastructure, financial and technological support, particularly the infrastructural needs of agro-exports.

- (c) This has a very narrow focus since it largely concentrates on the corporate sector which accounts for only 10 per cent of GDP.
- (d) By facilitating imports, the Government has opened the import window too wide and consequently, the benefits of rising exports are more than offset by much greater rise in imports leading to a larger trade gap.
- (e) Ultimately, the model focuses a capital intensive design of development and there are severe apprehensions about its employment-potential. It is being made out that it may cause unemployment in the short run but will take care of it in the long run. But how long is the long-run is not specified. Further, an economy in which the growth of labour force is taking place at the rate of about 1.8% annually, the implications of the model in terms of slowing down the rate of growth of employment are of severe nature.

It is an important area to be highlighted that some have debated that the LPG Model has followed the East Asian Miracle which was established by South Korea, Japan, Taiwan and to some extent Indonesia, Malaysia and China. This is not accurate. Japan did not follow the IMP - World Bank Model based on free market economy, open door policies and liberalisation. Japan, in fact, practised restricted operation of market mechanism with the State playing an active role in directing the economy for the welfare of the community. This independent path followed by Japan was duplicated by South Korea and Taiwan. Malaysia and Indonesia also succeeded on this path for a few years.

The Chinese growth model, for example, is rooted in its own traditions and its decision to internationalise is encouraged by the desire to use global markets as an instrument to resolve numerous internal bottlenecks. China still follows the path of self-reliance, though it is not a closed economy. You must understand that for China, self-reliance is the 'motor of growth', and China has investigated a simple balanced two-way flow of goods and services and capital with the rest of the world. Chinese Model, thus, cannot be characterised as a neo-classical liberalisation model. It is a model of its own kind which blends an open economy with self-reliance and avoids an excessive dependency syndrome.

You need to know that the LPG Model has complied with the IMP-World Bank prescription of maintenance and structural adjustment. When measured in the light of the experiences of Latin America, Africa and East Asian Countries, it raises severe doubts in the minds of the people whether we are following the correct path of development. Dudley Seers has correctly suggested three parameters by which the phase of development of a nation can be measured. They are: What has been occurring to poverty?, to unemployment?, and to inequality? The experience of a decade or more of LPG Model does not offer conclusive indication of substantial improvement of these parameters. Instead some of them have become worse.

3.2.4 PURA-A Neo-Gandhian Approach to Development

It is noteworthy that Dr A.P.J. Abdul Kalam, ever since he became the President of India has been promoting his Vision 2020, and, to remove poverty from India, he has been emphasising the adoption of PURA (providing Urban Amenities in Rural Areas). In his address to the Food Security Summit on 5th February 2004, he summarised the concept and strategy of PURA as the lever of economic upliftment of the villages. India currently has 260 million people living below the poverty line. The GDP growth has been on the average 6% per annum during the last decade. It has to be progressively risen up to 10% and to be sustained for several years. Then only it is possible for India to get the position of a developed country. To achieve this, the roadmap involves integrated action on the following five areas:

1. Agriculture and food processing – You require to note that the nation should target for 360 million tonnes of food and agricultural production by 2020. Other regions of agriculture

Notes

and agro-food processing would bring prosperity to rural people and speed up economic growth.

2. Reliable and quality electric power for all parts of the nation.
3. Education and health care for all.
4. Expansion of information and communication technology to rural areas to encourage education and generate national wealth.
5. Development of strategic sectors—growth in space technology, nuclear technology and defence technology.

All these areas have to be developed into missions such as: availability of high quality uninterrupted power, Networking of rivers, Providing Urban-amenities in Rural Areas (PURA), Second Green Revolution, Information and Communication Technology (ICT) transforming into knowledge products and tourism.

PURA Model

It will be interesting for you to note that PURA model involves four connectivities: physical, electronic, knowledge and thereby leading to economic connectivity to enhance the prosperity of cluster of villages in the rural areas.

1. Under physical connectivity, you must analyse that a group of 15 to 25 villages will be connected to each other by road. These villages connected by roads will also have a ring road so that each one of them can utilise it. In addition to roads, you must note that provision of electricity and transport facilities have also been involved.
2. Digital connectivity which intends to link villages with modem telecommunication and information technology services.



Example: Public call offices, cyber cafes, etc.

3. Knowledge connectivity tries to set up on every 5 to 7 km of the circular ring road a school, a hospital, a higher education centre, etc.
4. Economic connectivity intends to set up within this group of village's good marketing facilities so that all the commodities and services of daily use can be obtained and the rural people can sell their produce in these markets.

Substantially based upon the region and the State of present development, PURA can be categorised into three different categories, viz. Type A, Type B and Type C-Pura clusters. The characteristics of these types are as follows:

- (a) Type A cluster is situated closer to an urban area having minimal road connectivity, limited infrastructure, limited support-school, primary health centre.
- (b) Type B cluster is situated close to urban area but has sparsely spread infrastructure and no connectivity.
- (c) Type C cluster located far interior with no infra-structure, no connectivity and no basic amenities.

You may already be aware of the fact that at the CEO Summit organised on the occasion of the Fifteenth birthday celebrations of Mata Amritanandmayi (Amma), President A.P.J. Abdul Kalam said:

"PURA is one of the mechanisms which will be utilised for transforming our villages into productive economic zones."

The Union Cabinet in its meeting on 20th January 2004 accorded in principle approval for the execution of PURA within the existing gross budgetary support for bridging the rural-urban divide and attaining balanced socio-economic development. The Government envisages development of over 4,000 rural clusters located in backward areas. A sum of ₹ 3 crore for each cluster was offered and therefore, ₹ 12,000 crore were to be spent on the development of 4,000 PURAs.

Assessment of PURA Model of Rural Development

It will be surprising for you to know that it was Mahatma Gandhi who underlined the exploitation of rural society by its urban counterpart. Gandhi wrote in Village Swaraj:

"The British have exploited India through its cities. The latter have exploited the villages. The blood of the villages is the cement with which the edifice of the cities is built. I want the blood that is today inflating the arteries of the cities to run once again in the blood vessels of villages."

As a policy statement, Gandhi stated:

"The cities are capable of taking care of themselves. It is the villages we have to turn to."

Gandhi to develop a harmonious relationship between the cities and villages categorically mentioned:

"It is only when the cities realize the duty of making an adequate return to the villages for the strength and sustenance which they derive from them, instead of selfishly exploiting them, that a healthy and moral relationship between the two will spring up."

There is definitely no doubt that the planning procedure did make an effort to develop the villages through community development projects. Irrigation facilities were expanded and green revolution did provide an opportunity to the rural people to increase their share in national and per capita income, however still the rural-urban divide carries and there is a relocation of population from rural to urban areas. Urban population which was 17.3% of the total in 1951 has increased to 27.8% in 2001. In absolute terms, as against 62 million persons living in urban areas in 1951, the numbers crowding in them have rose up to 285 million-an increase by 357 per cent. This has generated problems of congestion and growth of slums.

You must observe that the goal of PURA is to propel economic development without population transfers. To explain in the words of late Prof. A.M. Khusro:

"Instead of moving human beings where infrastructure exists, it is better to take infrastructure to villages where human beings live. The PURA concept is the response to the need for creating social and economic infrastructure which can create a conducive climate for investment by the private sector to invest in rural areas."

It is important to note that on the other hand a mere provision of ₹ 3 crore per cluster as against the need for ₹ 100 crore is too meagre. The best way to shelve a proposal is to accept it in principle and make a modicum of investment towards its implementation. Such a move is potential to kill the proposal. Actually, there was need for giving a more severe thought to the proposal and to support it to attain success. But such a thin layer of the investment as intended by the Cabinet is not going to attain the objectives of PURA.

A more pragmatic method would have been to select almost 600 blocks in the backward areas and invest at least ₹ 25 crore per block to provide the needed infrastructure to Block Development Committee throughout the Tenth Plan, the remaining 35% and 40% should be granted in the Eleventh and the Twelfth Plan. Those states which promise to provide 20% out of their revenues should receive 80% grant from the Central Government. This would have needed the Centre to contribute ₹ 20 crore and with the present level of support of ₹ 12,000 crore, the PURA concept could have made a dent in formulating the backward areas.

Notes

Secondly, the PURA proposal imagines three types – A, B and C. Type C being in the interior required much greater initial push, type B comparatively less and type A can attract even private sector investment. Government should, thus, develop a vision 2020 for the PURA development clusters and grade the degree of financial and other support consistent with the level of development attained in a particular cluster. To overcome inertia, we require a big push and if the process begins to move, relatively lesser energy is required to give it a momentum. Therefore, a higher level of state support is required for Type C cluster.

Also, you must understand that the on-going programmes of rural development can be re-oriented so that roads, electricity and water are made available. When the social overheads are developed, it will be possible to appeal private sector investment. It is adequately clear that private sector invests only in areas and projects which harvest a high rate of return. It will, thus, hesitate to move in the remote interior clusters unless the Government offers essential infrastructural support and some incentives for the goal.

The major obstacle to the PURA mission will be the on demand side. This can be attained by undertaking such activities which generate wage employment and therefore, enlarge demand potential of the rural population. If PURA can become a catalyst for another green revolution in the backward rural areas in the less booming states, the Vision 2020 of the President to attain a food production of 400 million tonnes can be attain. For this objective, it is essential to develop synergy among the different components in the fulfilment of the PURA mission. Only then can we have the dream of development of rural India without population transfers realised.

You must also keep in mind that even though PURA draws its inspiration from the Gandhian model of development which focuses rural development as a fundamental postulate, however in the prescription, it is neo-Gandhian in the sense, that it means to bring rural regeneration with the avowed goal of taking modern technology and modern amenities to the rural areas. In this sense, it does not enter into the disagreement of labour intensive versus capital intensive measures. Nevertheless, it does emphasise the enlargement of employment as the sole purpose to make use of rural manpower in several development activities. In this sense, it does not think of a second grade status for rural citizens and therefore can become more tolerable to them. In other words, the PURA model efforts a reconciliation between employment and GDP growth objectives.

The Eleventh Plan has offered ₹ 248 crore for executing the PURA scheme in compact rural areas in public-private partnership mode. The sum is very insufficient to provide urban amenities in PURA groups to bridge the rural-urban divide.

Self Assessment

Fill in the blanks:

5. model involves four connectivities: physical, electronic, knowledge and thereby leading to economic connectivity to enhance the prosperity of cluster of villages in the rural areas.
6. The-has provided ₹ 248 crore for implementing the PURA scheme in compact rural areas in public-private partnership mode.
7. of rural development can be re-oriented so that roads, electricity and water are made available.
8. The objective of PURA is to propel without population transfers.
9. PURA as the lever of economic of the villages.
10. India currently has million people living below the poverty line.

11. The-growth has been on the average 6 per cent per annum during the last decade.
12. Model has followed the IMP-World Bank prescription of stabilisation and structural adjustment.

Notes



Task Prepare a report on the impact of recent developments on Indian economy.



Case Study

RBI Slapped ₹ 125 Crore on Reliance Infrastructure: A Case Study on FEMA

The Reserve Bank of India (RBI) has asked the Anil Dhirubhai Ambani Group firm, Reliance Infrastructure (earlier, Reliance Energy), to pay just under ₹ 125 crore as compounding fees for parking its foreign loan proceeds worth \$300 million with its mutual fund in India for 315 days, and then, repatriating the money abroad to a joint venture company. These actions, according to an RBI order, violated various provisions of the Foreign Exchange Management Act (FEMA).

In its order, RBI said Reliance Energy raised a \$360-million ECB (External Commercial Borrowings) on July 25, 2006, for investment in infrastructure projects in India. The ECB proceeds were drawn down on November 15, 2006, and temporarily parked overseas in liquid assets. On April 26, 2007, Reliance Energy repatriated the ECB proceeds worth \$300 million to India while the balance remained abroad in liquid assets.

It then invested these funds in Reliance Mutual Fund Growth Option and Reliance Floating Rate Fund Growth Option on April 26, 2007. On the following day, i.e., on April 27, 2007, the entire money was withdrawn and invested in Reliance Fixed Horizon Fund III Annual Plan series V. On March 5, 2008, Reliance Energy repatriated \$500 million (which included the ECB proceeds repatriated on April 26, 2007, and invested in capital market instruments) for investment in capital of an overseas joint venture called Gourock Ventures based in British Virgin Islands.

RBI said, under FEMA guidelines issued in 2000, a borrower is required to keep ECB funds parked abroad till the actual requirement in India. Further, the Central Bank said a borrower cannot utilise the funds for any other purpose.

“The conduct of the applicant was in contravention of the ECB guidelines and the same are sought to be compounded,” the RBI order signed by its Chief General Manager Salim Gangadharan said.

During the personal hearing on June 16, 2008, Reliance Energy, represented by group Managing Director, Gautam Doshi and Price Waterhouse Coopers Executive Director, Sanjay Kapadia, admitted the contravention and sought compounding. The company said due to unforeseen circumstances, its Dadri power project was delayed. Therefore, the ECB proceeds of \$300 million were bought to India and was parked in liquid debt mutual fund schemes, it added.

Rejecting Reliance Energy’s contention, RBI said “it took the company 315 days to realise that the ECB proceeds are not required for its intended purpose and to repatriate the same for alternate use of investment in an overseas joint venture on March 5, 2008”.

Contd...

Notes

Reliance also contended that they invested the ECB proceeds in debt mutual fund schemes to ensure immediate availability of funds for utilisation in India.

"I do not find any merit in this contention also as the applicant has not approached RBI either for utilising the proceeds not provided for in the ECB guidelines, or its repatriation abroad for investment in the capital of the JV," the RBI official said in the order.

In its defence, the company said the exchange rate gain on account of remittance on March 5 2008, would be a notional interim rate gain as such exchange rate gain is not crystallised.

But RBI did not think so. It was further also stated that in terms of Accounting Standard 11 (AS 11), all foreign exchange loans have to be restated and the difference between current exchange rate and the rate at which the same were remitted to India, has to be shown as foreign exchange loss/gain in profit and loss accounts.

"However, in a scenario where the proceeds of the ECB are parked overseas, the exchange rate gains or losses are neutralised as the gains or losses restating of the liability side are offset with corresponding exchange losses or gains in the asset. In this case, the exchange gain had indeed been realised and that too, the additional exchange gain had accrued to the company through an unlawful act under FEMA," the order said.

It said as the company has made additional income of ₹ 124 crore, it is liable to pay a fine of ₹ 124.68 crore. On August 2008, the company submitted another fresh application for compounding and requested for withdrawal of the present application dated April 17, 2008, to include contravention committed in respect of an another transaction of ECB worth \$150 million. But RBI said the company will have to make separate application for every transaction and two transactions are different and independent and cannot be clubbed together.

Questions

1. Discuss how Reliance has violated the FEMA regulations?
2. Critically evaluate the case and discuss what Reliance should have done in the above situation.

Source: Dr Mittal, Vivek. *Business Environment*. Excel Books Publications, New Delhi.

3.3 Summary

- The basic aim of economic planning in India is to bring about rapid economic growth through development of agriculture, industry, power, transport and communications, and all other sectors of the economy.
- The basic measure of economic growth of a country is the continuous expansion, year after year, of real national income and real per capita income.
- Economic growth should also include improvements in quality of life consisting of life expectancy, infant mortality, literacy, etc.
- Unemployment and under-employment are important causes of poverty in India.
- Hence, from the very beginning, removal of unemployment and underemployment has been an important objective of economic planning in the country.
- The Planning Commission has all along assumed that increase in investment would be accompanied by increase in employment as well as increase in national income of the country.

Notes

- The Commission argued explicitly in the Third Plan that as national income increased in response to investment and development outlay, the demand for labour would automatically rise and more employment would be created.
- Dr A.P.J. Abdul Kalam, being the President of India, emphasized the adoption of PURA (providing Urban Amenities in Rural Areas) to eradicate poverty from India.
- In his address to the Food Security Summit on 5th February 2004, he outlined the concept and strategy of PURA as the lever of economic upliftment of the villages.

3.4 Keywords

Economic Planning: It refers to a coordinating mechanism outside the mechanisms of the market.

Fiscal Policy: Government spending policies that influence macroeconomic conditions.

LPG: Liberalisation, Privatisation and Globalization.

Planning Commission: A commission delegated to propose plans for future activities and developments.

Poverty: The state of being inferior in quality or insufficient in amount.

PURA Model: Providing Urban Amenities in Rural Areas.

Social Injustice: Social injustice is a relative concept about the claimed unfairness or injustice of a society in its divisions of rewards and burdens and other incidental inequalities based on the user's worldview of humanity.

Unemployment: Unemployment occurs when a person who is actively searching for employment is unable to find work.

3.5 Review Questions

1. Explain the objectives of economic planning in India.
2. Describe the development strategy in India.
3. Interpret the models of economic development.
4. Discuss the PURA model.
5. Analyse the assessment of PURA model of rural development.
6. Write a short note on economic planning and social justice.
7. "Unemployment and under-employment are important causes of poverty in India." Comment.

Answers: Self Assessment

- | | |
|------------------------------|-------------------------|
| 1. Unplanned | 2. economic plans |
| 3. Reduction of inequalities | 4. better-off |
| 5. PURA | 6. Eleventh Plan |
| 7. On-going programmes | 8. Economic development |
| 9. Upliftment | 10. 260 |
| 11. GDP | 12. LPG |

Notes

3.6 Further Readings



Books

Gupta, Kulwant Rai (2009). *"Economics of Development and Planning, Volume 2."* Atlantic Publishers & Dist.

Stone, P.A. (2003). *"Development and Planning Economy: Environmental and resource issues."* Taylor & Francis.

Blakely, Edward J. & Leigh, Nancey Green (2010). *"Planning Local Economic Development: Theory and Practice."* SAGE.

Datt Ruddar & Sundharam KPM (2008). *"Indian Economy."* S Chand and Company, New Delhi.

Mahajan V.S. (1986). *"Economic Development of India."* Deep and Deep Publication, New Delhi.



Online links

<http://www.ilo.org/public/english/dialogue/actemp/downloads/publications/tanhrd1.pdf>

<http://ideas.repec.org/a/asi/ijoass/2011p108-116.html>

<http://unesdoc.unesco.org/images/0018/001852/185231eb.pdf>

<http://www.slideshare.net/Pranis/human-resource-development-hrd-11728066>

Unit 4: Capital Formation

Notes

CONTENTS

Objectives

Introduction

4.1 Capital Formation

4.1.1 Key Aspects

4.1.2 How Capital Formation Works?

4.2 Importance of Capital Formation

4.3 Mobilisation of Domestic Saving for Economic Growth and Development

4.4 Trends in Saving and Capital Formation

4.5 Savings Rate, Growth Rate and ICOR

4.6 Summary

4.7 Keywords

4.8 Review Questions

4.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the concept of capital formation
- Explain an overview mobilisation of domestic savings
- Elaborate relation between growth rate and saving rate

Introduction

India's gross domestic product increased to an average of 9% per annum for some years before the global financial disaster of 2008. Between 2004 and 2008, business assurance attained a swagger and investments improved at a fast pace. India was in an enviable position with many difficulties, capital was rushing in and high GDP growth was taken for granted. Planners required pushing the rate of development beyond 10%, mentioning positive demographics and investments that India was pulling. Certainly, India did find a good time between 2004 and 2008, with investments pouring growth.

Post-crisis, the world has altered. Developed economies haven't been capable to shake off the belongings of the economic disaster. India too has experienced a stoppage in capital flows, such as Foreign Direct Investment (FDI), and savings and investment rates have also faded. The country's growth rate reduced and touched a low of 6.8% before improving to 8.5%.

As soon as growth improved, people got more excited about it. So was bluster about decoupling and how the Indian economy was strong enough to grow in spite of contrary global circumstances. This year, India is yet again expecting a slower growth of 7.5–8%. With inflation rising and growth uncertain, questions are being asked about the brief and passing growth witnessed in

Notes

FY10 and FY11. Comparisons are also being made between nature of economic progress during 2004–2008 and the growth rate of the previous two years that was unquestionably driven by intake and urged mainly by incentive programmes. Investment seems to be reducing and that appears to be disturbing complete growth rate.

Actually, savings or capital formation is possibly one of the sources to recognising India's fantasy of high financial progress. At the same time, stagnant capital output levels – measured through incremental wealth output ratio and have to put the attention back on the requirement to increase the investment rate to attain higher monetary growth, at least till capital competence catches up. Concurrently, the spotlights have been accomplished on the stagnant savings rate as well. We feel the depth and severity of the global financial crisis. It will be a despite the fact that before the volume of capital drifts into India goes back to the 2004–08 levels. If investment is to control financial growth, it will then need concentrated attempts to step up the savings rate.

4.1 Capital Formation

In this section, you will learn about the meaning and concept of capital formation. Capital formation is an economic idea that is claimed to be energetic to the expansion of an economy by inspiring the business division, leading to economic growth across the world. Capital formation is defined as *“the transfer of savings from individual households and governments to the business sector in an effort to increase output and economic expansion”*. In short, the more money that is paid, the higher the economic development and improving of the standard of living.

Capital formation is adding to productive volume of the economy. It is also recognized as investment in national accounting. Terms like capital formation or investment are identical in economic phrasing. Capital formation forms the spine of an economy. India has progressively enhanced its capital stock from the time of independence. We try to explain the theory and trends of investments in India.

- **Contribution to Gross Capital Formation:** Presently, private sectors indicate in investments in the economy at 37% of entire investments. Public investments are everywhere is expected to be 26% and household investments account for 32%. Public share in investments has dropped over time, which specifies the government's incapability to encourage investments in the country. The way forward is to increase investments through private–public businesses that can support India to solve its organisation complications.
- **Gross Capital Formation Steadily Improved:** Gross capital formation in the 1950s was as low as 7.8% of GDP. This enriched in the subsequent decades with the Five-Year Plans continuously concentrating on improving physical standard.
- **Household Investments:** Household investments represent 32% of total investments. Household comprises personalities, non-corporate business forms, private and generous institutions such as educational and religious organisations. Consequently, investments by these bodies in terms of physical capacity formations such as on land, buildings, factories, etc. are termed as household capital formation. Household investments are sponsored by increasing household savings. Household savings accounts for approximately 70% of total savings and are the foremost source of investments for both private and public investments.
- **Measures of Capital Formation:** Gross capital formation, gross fixed capital formation and gross domestic capital formation are few extra meanings to study capital formation. In India, the Central Statistical Organisation delivers data on capital establishment by organisations and sectors.

Notes

- **Private Investments:** With liberalisation of the economy and a positive business environment, private sector now hints in investments in the economy. Private investments are basically backed by household savings. From many years, private savings have also upgraded, which have additional assisted private sector capital formation. The private sector, being the leading supplier to gross capital formation, at this instant has a fundamental part to play in important India's economic growth.
- **Public Investments:** Public investments have deteriorated as government lacks sufficient resources to increase asset in a big way. Also, the government's tendency for dissaving, because of poor expenses management, has left it with fewer resources to account investments in the country. As government lacks sufficient influence to raise investments further, the private sector and foreign account inflows have become dangerous for increasing investment levels in the country.
- **Savings:** Savings offer required funds for investment in the economy. Savings rate has enhanced post-liberalisation to 36% of GDP that points to increase in economic movement and national income in India. The country presently is among the high-saving economies of the world. However, India's saving rate is still far lesser compared with China's, which is about 50% of GDP.

4.1.1 Key Aspects

- **Measurement:** Investment activity in an economy mentions to addition to bodily capital stock. It is dignified by gross capital formation. In India, the Central Statistical Organisation offers data on different mechanisms of gross capital formation, approximately as Gross Fixed Capital Formation (GFCF) plus alteration in stocks. Gross fixed capital formation delivers a picture of gross value of goods added to fix domestic capital stock during a year. GFCF comprises plant, machinery, equipment and progresses to land. Change in stocks delivers value of inventory and work in progress.
- **Transition since Independence:** Capital formation in the 1950s was low, but it developed in the following decades. Capital formation developed more than four times to a high of 36% of GDP in 2010. With investments increasing over the years, India's economic development rate touched a high of 9% beforehand the 2008 global disaster. Even though all economic growth cannot be credited to savings, importance of capital formation remains paramount in financial development.
- **Key to Long-Term Growth:** Significance has been placed on capital formation in economic development as it can initiate sustainable long-term growth. Even though capital formation has amplified in India since independence to touch 36% of GDP, it still remains below rates attained in high-growth economies, such as China. Investment levels in China have increased to a high of 50% of GDP, which also highlights the high economic growth it has been competent to sustain for the past 25 years.
- **Constraints to Investments:** An additional feature of capital formation is constraints to finance. Investments are normally sponsored from domestic savings (even though external wealth flows also underwrite in the direction of growth in investments). So, insufficient growth in savings rate can be a constraint for investments. Savings rate in China has improved to around 50% of GDP, which makes it promising for the Chinese economy to withstand high levels of investment. China also appeals to enormous foreign direct investment annually.
- **Only Investment Not Enough:** It is an over simplification to say extraordinary investments can effect in long-term high economic progress. There are various economies that primarily

Notes

presented a fast rise in economic progress through development in capital formation, but finally slowed down. Examples of Soviet Union in the 1960s and the East Asian practice in the 1980s and 1990s offer indication that extraordinary rates of investments aren't the sole way forward. Investments have to be tracked with development in productivity. Surplus of capital without productivity results in slower progress and also lower yields on investments. Simply put, mobilisation of labour and capital are not adequate for maintainable high long-term growth. Incremental capital output ratio (ICOR), a critical ratio that measures the amount of incremental capital needed to produce one incremental level of output, is a key measure of capital productivity. ICOR measures in India have continued unaffected at 4.5 in recent years. A lower ICOR is dangerous to attain a high rate of growth with a specified level of capital formation. There's more on ICOR later in the subject.

- **Perspectives for India:** Several studies on investment performance in India have pointed out that economic progress, rising incomes and economic liberalisation have directed to an increase in private investments in India. Public sector investments have lost share in current years, which is obvious in infrastructure shortfall and other blocks to economic development. Private sector investments hold the key for economic growth and should be stimulated with favourable business and policy environment.

4.1.2 How Capital Formation Works?

Capital formation works by encouraging the flow of money in the economy. It does this by flowing the norm from individual investment to both buying of goods and services and investment in the business sector.

Purchasing, Promoting, Investing

With augmented acquiring of goods and services in the business area of an economy raises the power of that business sector. This amplified strength makes investing in the business sector extra striking to the government and the individual for the reason that they have greater chance of benefit as an investor of a subsequent company.

Investing, Promoting, Purchasing

Better investment in the business sector of an economy, sequentially, encourages greater expenses among individuals and the government because they have a more direct stake in the achievement of that business sector.

4.2 Importance of Capital Formation

Capital formation is significant as it endorses the financial progress of both the business and the distinct economic sectors. By endorsing assignment of reserves from the individual to the business sector and endorsing participating in the business sector, each sector make it together. Fundamentally, they are employed with each to the identical goal of economic achievement, and this leads to a discriminating standard of living in the society.



Did u know? Gross Fixed Capital Formation in India increased to 4806.43 INR Billion in the third quarter of 2013 from 4574.59 INR billion in the second quarter of 2013.



Caselet

To be Broadcasted or Not: The Ethical Issue

Notes

Liquor producers spent heavily on advertising on the electronic media because of the reach of satellite and cable TV. Though the broadcasters were bound by a 30-year old advertising code which banned airing of advertisements that related to or promoted cigarettes and tobacco products, liquor, wines and other intoxicants, the telecast of such advertisements continued over the years. This was because the code was only a code of conduct, not a legally enforcing code. Doordarshan, the state-owned TV channel, was the only one that adhered to it. The broadcasters were also bound by the Cable TV Act, 1995. But for broadcasters liquor segment is too attractive to be ignored. In the first half of 1998, STAR reported revenues of ₹ 127.9 million from liquor advertisements while Zee reported revenues of ₹ 40 million. The regional channels managed to get about ₹ 0.70 million in revenues.

Since liquor ads generated such high revenues, Doordarshan also planned to air such ads in 2000. With pressure increasing from public interest groups to ban liquor advertisements, the government had to make amendments to the Cable TV Act 1995. While the Indian government could not take action on most of the channels for violating the codes, as they did not uplink from India, the cable operators were punishable under Indian law. The I&B Ministry also took steps to monitor the advertisements broadcast by these companies.

Due to the ban, liquor companies focused more on promotions for brand building. They started sponsoring events that projected the 'glamour' of the brands, like track racing, car rallies etc. For instance, MacDowell one of the leading liquor companies in India conducted the Golf tournament, which became an annual event.

To promote their products, the liquor companies started Surrogate Advertising in which they used other products carrying the Brand Name of their liquor. Like Bagpiper Soda, McDowell mineral water, etc. Such advertisements or sponsorships help in brand building and contribute to brand recall. The product shown in the advertisement is called the 'surrogate.' The sponsoring of sports/cultural/leisure events and activities using a liquor brand name also falls in the category of surrogate advertising.

In late 2000, Members of the Indian Broadcasting Foundation (IBF) urged the government to allow them to telecast socially responsible advertisements sponsored by liquor companies. They requested permission to telecast such advertisements because the Indian television industry's revenues had reportedly decreased by about 7-11% (about ₹ 1 billion per annum) after liquor and tobacco ads were banned. After more than six months, in mid-2001, the I&B ministry accepted the recommendations of the broadcasters.

Because of some dispute, this decision was not formally announced. Over the issue of hoardings of these ads at sports events being broadcast on television, the I&B Minister Sushma Swaraj said, "We have sought the sports ministry's comments on the issue and are awaiting their response before announcing the norms. If a company makes a product other than liquor (or tobacco), which has a turnover of ₹ 1 crore (₹ 10 million), then the firm is entitled to use the same brand for that product." She announced that a formal decision would be made after the sports ministry's comments were received.

In June 2002, the Information and Broadcasting (I&B) Ministry of India ordered leading television (TV) broadcasters to ban the telecast of two surrogate ads of liquor brands,

Contd...

Notes

McDowell's No. 1 and Gilbey's Green Label. The Ministry also put some other brands - Smirnoff Vodka, Hayward's 5000, Royal Challenge Whiskey and Kingfisher beer - on a 'watch list.' The surrogates used by these advertisements ranged from audiocassettes, CDs and perfumes to golf accessories and mineral water. By August 2002, the I&B Ministry had banned 12 advertisements. In addition, the I&B Ministry hired a private monitoring agency to keep a watch on all advertisements for violations of the Act.

All this led to heated debates over the issue of surrogate advertising by liquor companies. Though the liquor companies protested strongly, but they have to comply with the regulations. If something is not good for the society then why it is allowed to be manufactured and distributed. And if it is manufactured and distributed for the consumption of the masses and there is stiff competition for the market share then what is wrong in promoting the Brand?

Meanwhile, the government also seemed to be in dilemma. On the one hand, it had to encourage the sales of liquor and tobacco because they were the highest taxed sectors of the Indian economy. On the other hand, there was also the need to take the high moral ground and reduce the consumption of such products.

Source: Business Environment, Dr Vivek Mittal, Excel Books

Self Assessment

Fill in the blanks:

1. is perhaps one of the keys to realising India's dream of high economic growth.
2. The more money that is, the larger the economic growth and heightening of the standard of living.
3. Capital formation is addition to of the economy.
4. Greater investment in the business sector of an economy, in turn, ... greater spending among individuals and the government because they have a more direct stake in the success of that business sector.

4.3 Mobilisation of Domestic Saving for Economic Growth and Development

In this section, you will learn about the mobilisation of domestic savings for economic growth and development. The Monterrey Consensus of the International Conference on Financing for Development (United Nations, 2002) has given the mobilisation of domestic financial resources for development at the main point of the search of financial growth, poverty extermination and maintainable development. It points to the requirement for "the compulsory internal circumstances for mobilizing domestic savings and sustaining sufficient levels of prolific investment" and pressures the prominence of nurturing the "energetic and well-functioning commercial sector". At the same time, it identifies that the "suitable part of government in market-oriented economies will fluctuate from country to country" and calls for an active system for activating public resources and for investments in elementary economic and social infrastructure, as well as vigorous labour-market policies.

This section examines these concerns. The first section studies the past relations among savings, investment and economic growth in the developing countries over the previous three decades. The following unit talks "investment climate" and emphasises on some important economic,

Notes

legal and labour-market supplies. The third section look at the part of the financial sector and the institutions that are necessary to promise the satisfactory provision of financial services for investment, access by the poor and small enterprises to such services, and the sensible guideline and direction required to promise the steadiness of the financial system. Savings, investment and growth a long-standing opinion of the macroeconomic dynamics of the growth procedure was that a poor country had to increase its savings rate (that is to say, to change from a “12 per cent saver” to a “20 per cent saver”) and alter the augmented savings into prolific investment in order to realize an economic “take-off”.

Emphasis was generally located on growing investment in industrial sectors, but public investment in such physical arrangement as power, transportation systems and health and education services was also seen as critical. Consequently, technical growth was hosted as an element of long-term growth, with some specialists disagreeing that its part was dominant, or even high-class. With the initiation of so-called endogenous progress models, yet, investment was again accepted as a serious factor for long-term growth. General, philosophies of financial development have been advanced, adapted and extended over the years and now include an extensive variety of factors, reaching from the decently financial to social and national deliberations.

However, most clarifications comprise, to variable degrees and in numerous arrangements, three fundamental economic factors, specifically, investment, innovation and improvements in productivity, with the three existing interconnected in a variety of ways. The relations amongst savings, investment and growth have been established to be more complex than originally imaginary, but it remains usually acknowledged that increasing savings and safeguarding that they are directed to productive investment are vital to hastening economic growth. These objectives should consequently be vital concerns of national policymakers. A state Plan will, therefore, have to classify these changes, and confirm that the state-wise marks set in the state Plan



Example: Although the economy as a whole has accelerated, the growth rates of different states have diverged and some of the poorest states have actually seen a deceleration in growth.

Self Assessment

Fill in the blanks:

5. Theories of economic growth have been over the years and now encompass a wide range of factors, ranging from the purely economic to social and cultural considerations.
6. The relationships among savings, investment and growth have been found to be more than initially imagined, but it remains generally accepted that increasing savings and ensuring that they are directed to productive investment are central to accelerating economic growth.



Caution There are important qualifications to the projections of eleventh plan which must be kept in mind, arising from the limitation of employment elasticity as a projection tool. The concept of employment elasticity is at best a mechanical device to project employment on the basis of projected growth of output and past relationships between employment and output. These relationships can change as a result of changing technology and change in real wages. The labour force participation rate is also subject to changes especially because of possible changes in female participation rates in urban areas associated

Notes

with advances in women's education. For all these reasons, the projected decrease in unemployment rate must be treated with caution.

4.4 Trends in Saving and Capital Formation

This section focuses on the trends in saving and capital formation. "Very long-run forecasting is a hazardous activity because the uncertainties and imponderables of life have plenty of time to intrude, and bend and buck the charted path. At the same time, to craft policy that is rooted in reason and reality, we need to peer into the future with the best information, statistics, and models that we have," says Kaushik Basu, Senior Vice President and Chief Economist, the World Bank.

It bargains that increasing economies are fast becoming main investors in the world economy, and by 2030 will comprise more than 60 cents of each dollar invested. This signifies an important change through ancient performance:

For 4 decades (through the 1990s), developing countries had been accounting for just about 20 cents for every single dollar of worldwide saving and investment. Before 2020, total expenditure in the developing world is predicted to go beyond that in high income countries. Developing countries will—for the first time in history—become foremost causes, purposes, and possibly also mediators of global gross money flows.

Forthcoming styles in investment, saving, and capital flows will mark economic circumstances from the household level to the global macroeconomic level, with inferences not only for national governments but also for international institutions and policy coordination. Deprived of timely efforts, certain countries will be left behind. And, more prominently, even within else successful countries, some people will be left behind. Policy makers making for this change will thus help from a better understanding of the describing dynamics of global capital and wealth in the future.

Households are not the only investors in the U.S. economy. To gain a comprehensive representation of national saving, we need to increase business and government saving to that of households. Although the NIPA measure of individual saving has been trending lower, gross saving and gross speculation—measured as a percentage of current-dollar GNP⁹—have been growing. To be sure, the investment share of current-dollar GNP still drops short of some previous peaks. But the effect of the new rise in investment has been exaggerated by failures in capital goods prices, and the result has been an important strengthening in the degree of development of the actual private capital stock ever since 1995.

Net entries of foreign capital, which are also used to finance internal speculation in the United States, have improved over the period as well, reaching 4.0 per cent of GNP in the first quarter of 2000. But the increase in domestic saving only would have been adequate to fund an important intensification in domestic investment. The increase in gross saving stems mainly from the sharp development in government finances. Government saving rose from -2.8 per cent of GNP in the third quarter of 1992 to 5.1 per cent in the second quarter of 2000, more than offsetting the failure in the NIPA individual saving measure. The development has been most noticeable at the central level but has happened at the state and local levels as well.

Obviously, the consolidation in government finances partially replicates improved payments of capital increase taxes. In a reliable accounting system, modifying the personal saving rate as we planned earlier—that is, by adding capital gains tax payments back into disposable income—would diminish the development in government saving as the capital gains tax income would be "reserved" from the government sector. However, this reorganization would leave gross saving unaffected.



Notes Good quality infrastructure is most critical physical requirement for attaining faster economic growth in a competitive world and also for ensuring investment in backwards regions.

Notes

4.5 Savings Rate, Growth Rate and ICOR

In this section, we will discuss about the savings rate, growth rate and ICOR. An estimate from the U.S. Commerce Department's Bureau of Economic Analysis (BEA) of the quantity of revenue left over after deducting consumption costs and expenditures. The National Savings Rate, though it is mentioned to as a "savings rate," does not really measure the sum of money Americans are saving or investing for the long-term. National savings comprise savings left over from personal, business and government.

The extent of growth that an exact variable has increased within a specific period and context. For investors, this characteristically signifies the compounded annualized rate of growth of a company's revenues, earnings, dividends and even macro ideas - such as the economy as a whole. Probable forward-looking or irregular growth rates are two common kinds of growth rates used for investigation.

Various types of industries have dissimilar standards for rates of growth.



Example: Companies that are on the cutting edge of technology would be more probable to have higher yearly rates of growth associated to a mature industry, like retail sales.

You must understand that the use of past growth rates is one of the modest approach of valuing future growth. Conversely, factually high growth rates don't always unkind a great rate of development looking into the future, because manufacturing and economic conditions change constantly.



Example: The auto industry has higher rates of revenue growth during good economic times. However, in times of recession, consumers would be more inclined to be frugal and not spend disposable income on a new car.

A metric that measures the marginal aggregate of investment capital needed for an object to produce the next unit of production. Generally, a higher ICOR value is not desired because it specifies that the object's production is incompetent. The measure is used mainly in defining a country's level of production proficiency.

ICOR is calculated as:

$$\text{ICOR} = \frac{\text{Annual Investment}}{\text{Annual Increase in GDP}}$$



Example: Presume that Country A has an ICOR of 10. This indicates that \$10 value of capital investment is required to produce \$1 of additional production.

Moreover, if country A's ICOR was 12 last year, this infers that Country A has become more well-organised in its use of capital.

Some opponents of ICOR have recommended that its uses are constrained as there is a limit to how well-organised countries can develop as their procedures become progressively progressive.

Notes

For instance, a developing country can hypothetically increase its GDP by a better margin with a set amount of capitals than its industrialised counterpart can. This is because the industrialised republic is even now operating with the maximum level of technology and infrastructure. Any additional developments would have to come from additional expensive research and development, while the developing country can implement current technology to recover its situation.

Self Assessment

Fill in the blanks:

7. The National Savings Rate, though it is referred to as a “savings rate,” does not actually measure for the long-term.
8. A higher ICOR value is not preferred because it indicates that the entity’s production is
9. Some critics of..... have suggested that its uses are restricted as there is a limit to how efficient countries can become as their processes become increasingly advanced.



Task Prepare a report on the impact of the Tenth Five-Year plan on business and study the growth and saving rate on the Economy.



Case Study

The Great Fall (Scam of 2001): A Case of Stock Exchange and SEBI

The sudden crash in the stock markets in March 1, 2001, by 176 points prompted the Securities Exchange Board of India (SEBI) to investigate into the volatility of stock markets. Anand Rathi, the President of Bombay Stock Exchange (BSE), resigned because of the allegations that he used some privileged information, which led to crash. At least eight people committed suicide and many investors went bankrupt due to crash.

CBI arrested Mr Ketan Parekh, famously known as ‘Bombay Bull’, in March, 2001. He was basically a chartered accountant. He came into limelight during 1992 scam. Over the years, Ketan Parekh built a network of companies, mainly in Mumbai, involved in stock market operations. The companies in which Ketan Parekh held stakes included Amitabh Bachchan Corporation Limited (ABCL), Mukta Arts, Tips and Pritish Nandy Communications. He also had stakes in HFCL, Global Telesystems (Global), Zee Telefilms, Crest Communications, and PentaMedia Graphics. Ketan Parekh selected those companies for investment which listed high growth with a small capital base.

The stocks in which Ketan Parekh invested became famous as K-10 Stocks in the market. The shares were held through Ketan Parekh’s company, Triumph International. In July 1999, he held around 1.2 million shares in Global. Ketan Parekh controlled around 16% of Global’s floating stock, 25% of Aftel Infosys, and 15% each in Zee and HFCL. The buoyant stock markets from January to July 1999 helped the K-10 stocks increase in value substantially. HFCL soared by 57%, while Global increased by 200%. As a result, brokers and fund managers started investing heavily in K-10 stocks.

Contd...

Notes

Mutual funds like Alliance Capital, ICICI Prudential Fund and UTI also invested in K-10 stocks, and saw their net asset value soaring. By January 2000, K-10 stocks regularly featured in the top five traded stocks in the exchanges. It is said that Ketan Parekh doesn't have the financial muscle to buy such large number of stocks. Financing methods of Ketan Parekh were very simple. He bought shares when they were trading at low prices and when the price was high; he pledged the shares with banks as collateral for funds. He also borrowed from companies like HFCL. All this is not possible without the help of bank.

Ketan Parekh's main ally in this was Ahmedabad-based Madhavapura Mercantile Cooperative Bank (MMCB). Ketan Parekh and his associates started tapping the MNCB for funds in early 2000. In December 2000, when Ketan Parekh faced liquidity problems in settlements, he used MNCB in two different ways. First was the pay order route, wherein Ketan Parekh issued cheques drawn on BoI to MNCB, against which MNCB issued pay orders. The pay orders were discounted at BoI. It was alleged that MNCB issued funds to Ketan Parekh without proper collateral security and even crossed its capital market exposure limits. As per an RBI inspection report, MNCB's loans to stock markets were around ₹ 10 billion of which over ₹ 8 billion were lent to Ketan Parekh and his firms.

The second route was borrowing from an MNCB branch at Mandvi (Mumbai), where different companies owned by Ketan Parekh and his associates had accounts. Ketan Parekh used around 16 such accounts, either directly or through other broker firms, to obtain funds. Apart from direct borrowings by Ketan Parekh-owned finance companies, a few brokers were also believed to have taken loans on his behalf.

The MNCB pay order issue hit several public sector banks very hard. These included State Bank of India, Bank of India and the Punjab National Bank, all of whom lost huge amounts in the scam. Ketan Parekh's modus operandi of raising funds is doing well when share prices were high but as the value of K-10 stocks started declining, Banks asked Ketan Parekh to pledge more share or return some amount. Mutual funds also reduced their exposure in K-10 stocks. To his relief, in May 2000, K-10 stocks began picking up. HFCL nearly doubled from ₹ 790 to ₹ 1,353 by July 2000, while Global shot up to ₹ 1,153. After Infosys was also trading at above ₹ 1000.

In December 2000, the NASDAQ crashed again and technology stocks took the hardest beating ever in the US. In India too, people start questioning the future of technology stocks. Mutual funds and other investors started reducing their investment in K-10 stocks. Ketan Parekh began to have liquidity problems and lost a lot of money during that period.

The payment crises at Calcutta Stock Exchange (CSE) gave the biggest setback to Ketan Parekh. Brokers at CSE used to buy shares at Ketan Parekh's behest. Though, officially the scrips were in the brokers' names, unofficially Ketan Parekh held them. Ketan Parekh used to cover any losses that occurred due to price shortfall of the scrips and paid a 2.5% weekly interest to the brokers. By February 2001, the scrips held by Ketan Parekh's brokers at CSE were reduced to an estimated ₹ 6-7 billion amount from their initial worth of ₹ 12 billion. The situation worsened as Ketan Parekh's badla payments of ₹ 5-6 billion were not honoured on time for the settlement and about 70 CSE brokers, including the top three brokers of the CSE (Dinesh Singhania, Sanjay Khemani and Ashok Podar) defaulted on their payments. The CSE brokers started pressurizing Ketan Parekh for payments. Ketan Parekh again turned to MNCB to get loans.

By now, SEBI was implementing several measures to control the damage. An additional 10% deposit margin was imposed on outstanding net sales in the stock markets. Also, the limit for application of the additional volatility margins was lowered from 80% to 60%. To revive the markets, SEBI imposed restriction on short sales and ordered that the sale of

Contd...

Notes

shares had to be followed by deliveries. It suspended all the broker member directors of BSE's governing board. SEBI also banned trading by all stock exchange presidents, vice-presidents and treasurers. A historical decision to ban the badla system in the country was taken, effective from July 2001, and a rolling settlement system for 200 Group A shares was introduced on the BSE.

The small investor was feeling deceived as he believed that all the parties working in the stock exchange are responsible for the Scam. SEBI's measures were widely criticized as being reactive rather than proactive. The market regulator was blamed for being lax in handling the issue of unusual price movement and tremendous volatility in certain shares over an 18-month period prior to February 2001.

Many exchanges were not happy with the decision of banning the badla system as they felt it would rig the liquidity in the market. Analysts who opposed the ban argued that the ban on badla without a suitable alternative for all the scrips, which were being moved to rolling settlement, would rig the volatility in the markets. They argued that the lack of finances for all players in the market would enable the few persons who were able to get funds from the banking system – including co-operative banks or promoters – to have an undue influence on the markets.

Ketan Parekh was released on bail in May 2001. The scam had set back the Indian economy by at least a year. It is not Ketan Parekh rather it is the system which gave the room to persons like Ketan Parekh to do such thing which cost India around ₹ 2000 billion not a small amount for a developing nation.

Questions

1. Discuss the SEBI decisions after the scam was revealed.
2. Do you think that SEBI's decision of banning the badla system was right? Discuss it.
3. Discuss in detail the modus operandi of Ketan Parekh.

Source: Business Environment, Dr Vivek Mittal, Excel Books

4.6 Summary

- India is a developing country of the world and because of this it is using the resources efficiently and more precisely.
- It is dealing with the growth rate and saving rate more carefully in order to grow faster than before.
- But due to various reasons like population, corruption India is again expecting a slower growth of 7.5-8%.
- So we can say that the capital formation is one of the most important parts of the Indian economy to have a good developing speed.

4.7 Keywords

Current Account Deficit: It occurs when a country's total import of goods, services and transfers is greater than the country's total export of goods, services and transfers.

Economic Development: It refers to the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area.

Five Year Plan: The Five-Year Plans of India are a series of economic development initiatives.

Industrial Entrepreneurship Memorandum: ISO 9000: Family of standards represents an international consensus on good management practices with the aim of ensuring that the organization can time and time again deliver the product or services that meet the client's quality requirements.

Notes

NIPA: National income and product accounts.

Planning: The process of making plans for something.

SEBI: Securities and Exchange Board of India.

4.8 Review Questions

1. Define capital formation.
2. Explain the role of capital formation in the development of Indian economy.
3. What is the trend of saving and capital formation?
4. What do you understand by growth rate and saving rate?
5. What is the importance of ICOR in the development of Indian economy?
6. Explain briefly the mobilization of domestic saving.

Answers: Self Assessment

- | | |
|--|----------------|
| 1. capital formation | 2. spent |
| 3. productive capacity | 4. promotes |
| 5. refined, modified and expanded | 6. complex |
| 7. the amount of money Americans are saving or investing | 8. inefficient |
| 9. ICOR | |

4.9 Further Readings



Books

Planning Commission, (2006), *An Approach to the 1st Five Year Plan*.

Planning Commission (2007), *Eleventh Five Year Plan (2007-12)*, Vol. I, II and III.

Guruswamy, Mohan & Abraham Ronald (2006), *Redefining Poverty - A New Poverty Line for a New India*.

Bagchi, Amiya Kumar, Banerjee, Devadas and Chakraborty, Achin A (2006) *Critique of the Approach Paper to Eleventh Plan*, *Economic and Political Weekly*.



Online links

<http://www.eng.chauthiduniya.com/planning-in-india-the-eleventh-five-year-plan-2007-2012/>

<http://www.mainstreamweekly.net/article1600.html>

<http://www.todpoint.com/view-article.php?cid=1&pid=34>

http://www.bjp.org/images/upload/publications/ruddar_datt_e.pdf

Notes

Unit 5: Unemployment in India**CONTENTS**

Objectives

Introduction

- 5.1 Unemployment in India
- 5.2 Causes of Unemployment in India
- 5.3 Unemployment Types and Causes
- 5.4 Natural Rate of Unemployment
- 5.5 Structural Unemployment and Labour Mobility
- 5.6 Labour Market or Government Failure
- 5.7 Measures taken by the State
- 5.8 Strategies that the Government has Undertaken to Reduce Unemployment in India
- 5.9 Government Sponsored Programmes
- 5.10 Summary
- 5.11 Keywords
- 5.12 Review Questions
- 5.13 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the unemployment in India
- Define the reason for unemployment in India
- Recognise strategies to get rid of employment

Introduction

India, has a huge population of millions of individuals, is facing the major difficulties of the century in the form of unemployment of worthy and productive citizens. This comprises unemployment and under-employment of the young and the old. This effects in low output and nil or very low incomes. This also leads to the additional degradation of household values and poverty is continued. There is a clear damage of national income and the economy suffers on account of low output. Moreover, the violent measures taken up by the youth, agitations and individual frustration, which reaches a new highpoint every day.

According to the latest approximations, there are 37.6 million people on the paths and seek employment in one form or the other. Every year 7 million people are added to the figure mentioned above. Leisure oriented and unemployed individual is a problem on his family and society. The unemployed man avoids all the morals and becomes a dissident. Some young individual's take drugs and unlawful means of making money. Therefore, one man leads to another and the unemployed person gets caught 1 quagmire of crises. Unemployment is more

in urban regions in rural India. Unemployment or under-employment levels for women are more than those for men. Additionally, the educated persons tend to be more jobless or underemployed than their illiterate counterparts.

According to current estimates, 12 per cent of educated individuals are unemployed while overall unemployment percentage is 3.77 per cent. It has also been observed that the unemployment charges increase with every following higher level of education.

As per the Planning Commission and National Sample Survey, the number of unemployed is highest in the age group of 19 to 26 years. The total number of unemployed persons in India nowadays is nearly 380 lakh.

In this unit, you will learn about the unemployment in India, types and causes of unemployment. You will also study about the natural rate of unemployment, Structural unemployment and labour mobility and labour market or government failure. The unit will also cover some of the measures taken by the State. At the end of the unit, you will also study about the strategies government took to reduce unemployment in India.

5.1 Unemployment in India

Now let us discuss the unemployment in India. "Jobs in India are decreasing at a shocking rate. Privatisation and globalisation have increased the problem. In place of generating employment, they have reduced millions of hands idle. American policies are effective there but not in India where the ill-fated ones are left to fend for themselves leading to blocking, dissatisfaction, anger and violence".

Unemployment is the mother of numerous problems. It is poisonous that contaminates the society, compromises the democratic fabric of the country. We can't suppose decency, morality and truth from a person who is not able to accomplish two square meals a day for his family. A jobless person has no sense of self-respect as he has no sense of safety.

"Rightly", said by Franklin, "A ploughman on his feet is better than a gentleman on his knees."

Approximations of the total number of Indians jobless or underemployed differ between 70 and 100 million. This number can be a reason of concern for any nation, but to an emerging country like ours, it is the cause of great distress. A developing country must organize its manpower assets to the supreme possible degree and a developing country through such a large section of its population without a job or under-employed is an inconsistency in terms.

You may already be aware that in India, the threat of unhappiness and hunger of fallen hopes and unproductive dreams of unpleasant pain and dark misery disturbs the unemployed. It is true that the future of a country relies on the ability and the mental alertness of its young men and women. If India permits her young men to be engrossed by uncertainty and frustration, she will have to pay for transformation and fast progress with several years of stagnation.

The universities with their methods of mass education and system of examination offer little information. The completion of the course, attained after many years of ill-spent determination and expenditure of large amount of hard received money of the parents, very frequently turn out to be acerbic, as the degrees soon shows that they are valueless, and succeed neither in growing the students' mental attentiveness and rational capabilities nor in raising their chances of employment.

The student inept to secure employment gives one theoretical degree to another, one vacuum to another and as he goes on, the employment that he wants is found increasingly subtle. Towards the end of the process, the student understand that he is not first-class qualified student who can go out of the campus into coming up profit-making units; that he is not doing a favour by linking them but that they are doing him a favour by accepting him.

Notes

Many of them drift aimlessly into coffee houses, theatres and billiard clubs in a struggle to escape from the world in which they are sure they have no room and value. This should not cause suffering to a nation which needs all conceivable physical and psychological support develop.

“Employment generation is an issue of life and death for our democracy”, says Amit Mitra, secretary general of the Federation of Indian Chambers of Commerce and Industry, a business lobby. India was Asia’s fastest growing economy in the most current quarter data Progress is at its highest in nearly 15 years. Glitzy shopping malls are springing up and a culture of consumption is taking root as foreign companies are attracted by cheap labour.

But growing unemployment is compelling people from country areas to migrate in groups to nearby cities and towns, creating slums, social unrest and electricity and water scarcities. “There is some truth in the fact that jobs have not grown as much as expected as the economy has grown,” Ashok Lahiri, chief economic adviser to the government, told Reuters, “We have to expand employment. There is no doubt about that. Millions of labouring, street vending and farm jobs decrease below the administration’s radar screen and getting evidence on them is an intimidating task. About 92 per cent of Indian jobs are thought to be not formal. Even for the rest eight per cent, the numbers are firm to come by. The government issues an employment report every five years and economists can collect tendencies from Indian survey data which is printed every 10 years. The world’s top economies bring out data every month. India estimate un-employment now to be around 7.8 per cent. Whether it is, the figure looks to be on the upswing. The Planning Commission says nearly 35 million people are listed with employment exchanges from 27 million four years ago.

It is important to understand that India is aware of one thing formed on demographic fashions, is that to keep the unemployment rate from rising more, it must make some 60 million occupations in five years as more Indians enter the job market. More than 65 per cent of the inhabitants are under 35. India imagines economic growth of at least eight per cent in the year ended March 2012. But economists say it’s not sufficient to produce 12 million jobs a year. For instance, the country’s achievement in information technology and developing areas such as retail and tourism is expected to adjust some 2.2 million jobs in the next few years, according to industry estimates. Government consultant Lahiri bristles at the suggestion this is a jobless recovery. “I don’t think the growth has been jobless is an overstatement” he said.

However, economists say the trend threatens long-term prospects. “If we fail to make more jobs it will lead to a lot of social pressure which in turn will hurt the economy,” said Saumitra Chaudhuri, economic adviser at Information and Credit Rating Services (ICRA). “Large unemployment for a country like India is not something desirable,” he said.

Some economists say the jobs problem shoots from an economic liberalisation programme launched more than a decade ago. The country’s huge public sector has shed thousands of jobs subsequently it walked on the road to privatisation in the early 1990s. The Planning Commission, in a report on employment printed last year, qualified rising unemployment to a policy of detaching excess labour in both the private and public sector. It said that many companies had walked up investing in plants and machinery more than in labour-intensive industries. Economists add that a \$53 billion fiscal deficit stops the government from making employment by spending more on social areas such as health and education. “We should be observing for a fiscal-led economic expansion based on the basic wants of the people which will have a much higher multiplier effect,” says Jayati Ghose, professor at New Delhi’s Jawaharlal Nehru University.

In the light of this the task of attaching the jobless must be put on a war footing. Huge urban employment will be unusable as the cities which have got along well enough deprived of the recruits, can surely continue to do so. Moreover, massive metropolitan recruitment will be inflationary and therefore impossible. The jobless population should be prepared for rural

Notes

reconstruction, especially as the villages lack technical expertise and also that 70 per cent of India's population lives there. Emphasising on agronomy will enlarge rural renovation, inform the agriculturalists, raise agronomic production, preserve foreign exchange and above all be a step towards self-sufficiency and employment for all.

The only other country which positively mobilised vast inhabitants for national development is China. If we are to assemble our man power assets we must learn from the errors of China during her Great Leap Forward. The Chinese commit three basic faults. Firstly, the peasants were given insufficient training. Secondly, the tax charged on agriculture was excessively as high as 70 per cent of the total production. Finally, staffing was ruled not by attentions of merit and skill to do the job, but by faithfulness to the Communist Party and on philosophical grounds. In India the corresponding item of this last fault is staffing of workers on communal, regional and linguistic grounds. This must go. It is the duty of every answerable and patriotic Indian to announcer in a new 'meritocracy.'

You must be aware that unemployment in our country has developed such a complex, economic, social and political issue that need urgent steps to eliminate its scourge. Half-hearted measures or short-term explanations will not yield any abundant results. The leading obligation is repairing the existing educational system. We have to change the system from making white collar job searchers to almost job oriented technocrats, who are capable to start their own ventures there should be faultless organisation and integration between our teaching and the developed environment. We have to search new paths in farm sector, herbal and medical fields to deliver job prospects after completing the schooling by the students. India should also go for fast growth of cottage and small industries. Government should take real steps so that the globalisation does not affect small and cottage industries. The industrial development can help us in fighting from that problem to a great extent. We must focus on labour demanding units. We have to plan and exploit our industrial potential to the complete amount to deliver jobs to the fellow youths. In short, the problem of joblessness has to be distributed with on war footing lest the youth should be unfocused to some wrong path.

5.2 Causes of Unemployment in India

In this section, you will learn about the causes of unemployment in India. It is clear that the joblessness state is uninviting truly. It has, consequently, to be taken care of suitable measures and on a crucial basis. Though, beforehand we had discuss the ways and means of eliminating joblessness, it is essential that we comprehend the reasons that given rise to it. The major causes which have been accountable for the wide blow-out of unemployment can be spelt out as under:

1. **Rapid Population Growth:** It is the primary cause of unemployment in Rural India. In India, the most part in rural areas, the population is growing quickly. It has undesirably affected the unemployment condition largely in two ways. In the first place, the progress of population directly stimulated the unemployment by making big addition to labour force. It is because the degree of job development could at no time have been as high as population growth would have required.

It is true that the collective labour force involves the creation of original job chances at an increasing rate. But in real practice employment development has not been adequate to match the progress of the labour force, and to decrease the back leg of unemployment. This leads to unemployment circumstances secondly; the rapid population growth indirectly affected the unemployment condition by dropping the resources for capital formation. Any rise in population, over a large total base as in India, suggests a large absolute number.

It means large extra spending on their education, upkeep, and training. As a result, more resources get used up in private consumption such as food, clothing, shelter and son on in

Notes

public consumption like drinking water, electricity medical and educational facilities. This has condensed the chances of relaxing a larger amount of incomes to saving and investment. Therefore, population development has produced problems in the way of first progress of the economy and retarded the growth of job opportunities.

2. **Limited Land:** Land is the gift of nature. It is always constant and cannot increase as population increases. Subsequently, Indian population growing fast, consequently, the land is not enough for the growing population. As an outcome, there is substantial stress on the land. In countryside areas, most of the people rely directly on land for their livelihood. Land is very restricted in comparison to population. It makes the unemployment condition for a large number of persons who depend on agriculture in rural areas.
3. **Seasonal Agriculture:** In Rural Society agriculture is the only sources of employment. Still, most of the rural people are promised directly as well as circuitously in agricultural operation. But, agriculture in India is principally a seasonal affair. It delivers employment amenities to the rural people only in a specific period of the year.



Example: During the sowing and harvesting period, people are fully employed and the period between the post-harvest and before the next sowing they remain unemployed. It has adversely affected their standard of living.

4. **Fragmentation of land:** In India, due to the heavy stress on land of huge population results the disintegration of land. It creates a great obstacle in the part of agriculture. As land is fragmented and agricultural work is delayed the people who depend on agriculture remain jobless. This has an opposing effect on the work situation. It also leads to the poverty of villagers.
5. **Backward Method of Agriculture:** You must understand that the technique of agriculture in India is very diffident. Till now, the rural farmers followed the old farming systems. As a consequence, the farmer cannot feed appropriately many people by the harvest of his farm and he is incapable to give his children proper education or to involve them in any profession. It leads to unemployment problem.
6. **Decline of Cottage Industries:** You must understand that in Rural India, village or cottage industries are the only means of employment specifically of the evicted people. They depend directly on numerous cottage industries for their livelihood. But, now-a-days, these are unfavourably affected by the industrial development process. In fact, it is found that they cannot participate with modern factories in matter or production. As a result of which the village industries agonise a severe loss and gradually closing down. Due to this, the people who work in there continue to be unemployed and incapable to maintain their livelihood.
7. **Defective Education:** The everyday education is very substandard and is established within the class room only. Its main purpose is to obtain certificate only. The current educational system is not concerned with job, it is degree oriented. It is imperfect on the ground that is more common than the vocational. Therefore, the people who have receiving overall education are incapable to do any work. They are to be named as decent for nothing in the ground that they cannot have any job here; they can find the ways of self-employment. It leads to unemployment as well as underemployment.
8. **Lack of Transport and Communication:** In India mostly in rural areas, there are no satisfactory amenities of transport and communication. Due to this, the village people who are not involved in agricultural work are continued unemployed. It is because they are incapable to start any business for their source of revenue and they are restricted only within the limited boundary of the village. It is noted that the modern means of transport

and communication are the only way to trade and commerce. Since there is lack of transport and communication in rural areas, therefore, it leads to unemployment problem among the villagers.

9. **Inadequate Employment Planning:** The employment arrangement of the government is not satisfactory in assessment to population growth. In India nearly two lakh people are added yearly to our existing population. But the employment prospects did not increase according to the proportionate rate of population growth. As a result, a great alteration is noticeable between the job occasions and population growth.

On the other hand, it is a very problematic task on the part of the Government to deliver acceptable job services to all the people. Moreover, the government also does not take tolerable step in this direction. The faulty service planning of the Government advances this problem to a great extent. As a result, the problem of unemployment is increasing every day.

5.3 Unemployment Types and Causes

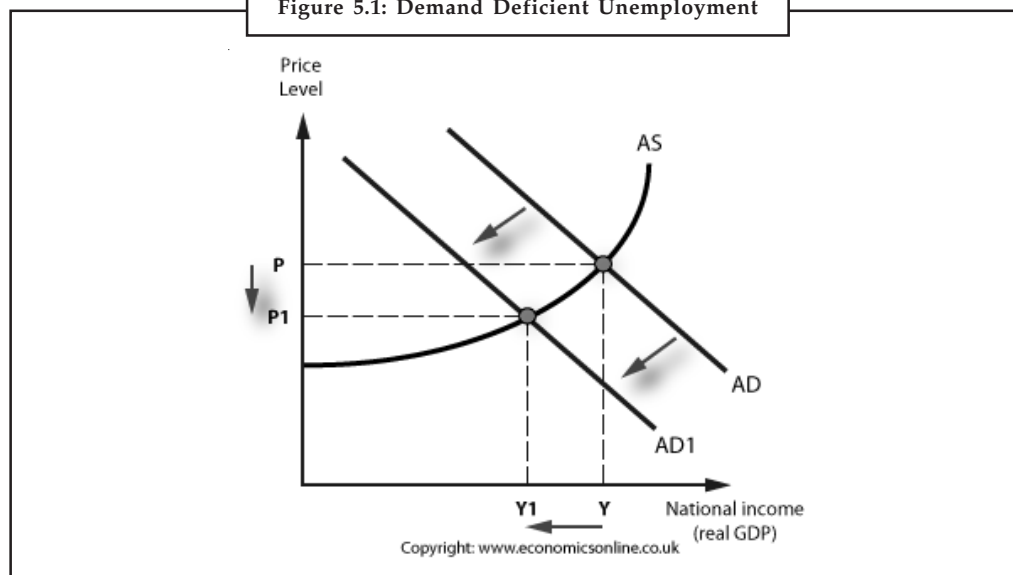
This section emphasises on the unemployment types and causes. There are numerous types of joblessness, each one well-defined in terms of cause and severity:

1. **Cyclical:** Cyclical joblessness/unemployment occurs when individuals drop their jobs as an effect of a downturn in aggregate demand (AD). If the failure in aggregate demand is determined, and the joblessness long-term, it is called either demand deficient, overall, or Keynesian unemployment. For example, unemployment levels of 3 million were touched in the UK in the last two recessions. In the most recent recession of 2008-2010, unemployment levels rose to 2.4m in the last quarter of 2009, and are likely to peak at over 2.5m during 2010.

Demand Deficient Unemployment

This is produced by an absence of combined request, with inadequate demand to produce full employment.

Figure 5.1: Demand Deficient Unemployment



Source: http://www.economicsonline.co.uk/Managing_the_economy/Unemployment_types_and_causes.html

Notes

2. **Structural:** Structural unemployment arises when definite industries decline because of long term variations in market conditions.



Example: Over the last 20 years UK motorized automobile manufacture has weakened while car production in the Far East has augmented, creating organisationally unemployed car workers.

Globalisation is progressively important reason of physical unemployment in many countries.

3. **Regional:** When structural unemployment disturbs local areas of an economy, it is called 'regional' unemployment.



Example: Unemployed coal miners in South Wales and ship workers in the North East add to regional unemployment in these areas.

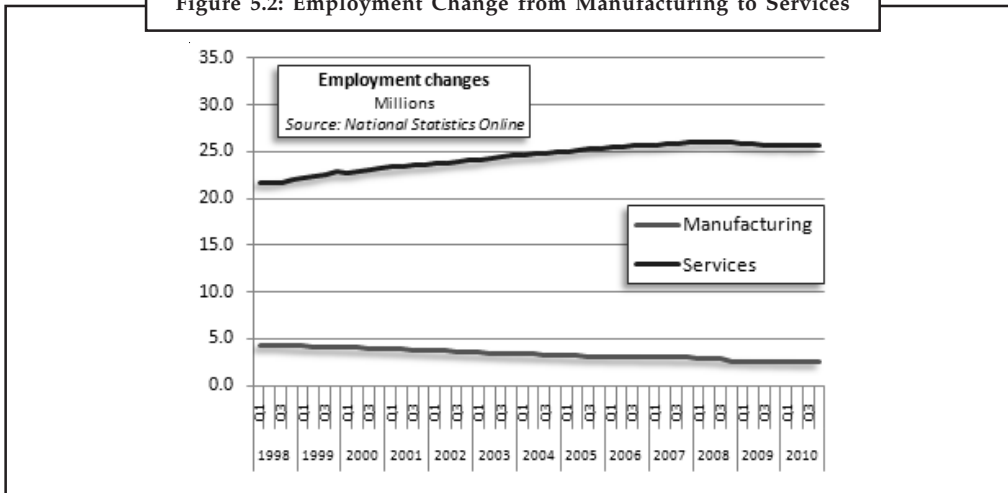
4. **Classical:** Classical unemployment is instigated when salaries are 'too' high. This description of joblessness controlled economic theory before the 1930s, when workers themselves were responsible for not tolerant lower wages, or for asking for too extraordinary wages. Classical unemployment is also called real wage unemployment.
5. **Seasonal:** Seasonal unemployment occurs because certain industries only harvest or allocate their products at certain times of the year. Industries where periodic joblessness is mutual include farming, tourism, and construction.
6. **Frictional:** Frictional unemployment, also named as search unemployment, arises when workers lose their current job and are in the process of finding another. There may be little that can be completed to decrease this type of unemployment, other than deliver better evidence to reduce the search time. This proposes that full time employment is not possible at any one time because certain workers will continuously be in the process of changing jobs.
7. **Voluntary:** You must understand that voluntary unemployment is defined as a condition when workers select not to work at the current equilibrium wage rate. For one purpose or another, workers may select not to contribute in the labour market. There are numerous reasons for the presence of voluntary unemployment containing extremely large well-being assistances and high rates of income tax. Voluntary unemployment is probable to occur when the equilibrium wage is below the wage essential to encourage persons to supply their labour.

5.4 Natural Rate of Unemployment

This section lays emphasis on the natural rate of unemployment. This is a term related with new Classical and monetarist economists. It is defined as the rate of unemployment that still exists when the labour market is in evenness, and contains seasonal, frictional and voluntary unemployment. The US economist Milton Friedman first used the idea to help explain the assembly between unemployment and increase. Friedman argued that if unemployment demolish below the natural rate there would be a growth in the rate of inflation.

Over the past 30 years, employment in the service sector has improved to over 70% of total employment, while employment in manufacturing has reduced to 20%. Since the 1940s employment in the primary sector, comprising agriculture, has been less that 3% of the workforce.

Figure 5.2: Employment Change from Manufacturing to Services



Source: http://www.economicsonline.co.uk/Managing_the_economy/Unemployment_types_and_causes.html

Current changes have shaped two speed economies, with a comparatively buoyant service sector and a decreasing manufacturing one.

The main reasons are:

- Globalisation and the increase of new 'low cost' abroad competitor countries.
- Increased competition within the domestic product market.
- The increasing comparative advantage of the UK as an international supplier of financial services.

5.5 Structural Unemployment and Labour Mobility

Now let us discuss about the structural unemployment and labour mobility. Labour motionlessness is expected to raise structural unemployment. These is because those industries that are growing and need labour, often called sunrise industries, are not unavoidably able to employ the similar workers who have been displaced in the decreasing, sunset industries.

There are three kinds of labour immobility:

1. **Geographical Immobility:** Geographical immobility arises when workers are not eager or able to travel from region to region, or town to town. Geographical mobility was made worst by enormous house price dissimilarity between areas. It may be tremendously hard for workforces in Yorkshire to sell their home and buy a comparable one in India.

Other factors also donate to geographical immobility, such as strong social and family bonds, and parents' existence reluctant to upset their children's education by changing schools. The stresses of moving home can also be a deterrent to mobility for some.
2. **Industrial Immobility:** Industrial immobility arises when workforces do not travel between industries, such as moving from employment in motor industry to employment in the insurance industry. Industrial immobility has exaggerated UK, and many other industrial countries, as the development of service industries, and the weakening of manufacturing industries, have augmented the need for mobility.
3. **Occupational Immobility:** Occupational immobility arises when workforces find it is problematic to change jobs in an industry. Such as, it may be very challenging for a doctor

Notes

to retrain to be a dentist. Industrial and occupation immobility are utmost probable to take place when skills are not transportable between industry and job.

Information failure also contributes to labour motionlessness because workers may be immobile since they do not know where all the appropriate jobs for them are.

A subsequent problem with labour market immobility is that it can make local unemployment, which is a type of structural immobility. This means that a modification in the structure of industry leaves particular people not capable to answer by changing job, industry, or location and as an outcome, they remain for the time being or permanently unemployed.

Immobility can also lead to increasing labour costs, as companies have to upturn salaries to inspire workers to re-locate.

5.6 Labour Market or Government Failure

In this section, you will learn about the labour market or government failure. New Classical economists would lean towards structural unemployment as an example of government failure. Labour markets do not clear, they claim, because salaries are not acceptable to adjust efficiently, and the price mechanism is one-sided. By eliminating distortions and inadequacies in the labour market workers would move further rapidly from job to job.



Example: By keeping welfare profits to a lowest there is an encouragement to re-educate and look for remunerated work. Welfare benefits can setup individuals into a life of unemployment as the effects of moral threat and the hindrance it creates. This increases labour immobility, and therefore contributes to structural unemployment.

However, labour immobility can also be talked from the viewpoint of labour market failure. Training and re-training are looked upon as merit goods, where individuals perceive the long term advantage to themselves. They also fail to escalate the positive externalities that exercise and re-training make for the wider community. This means that there is an important role for the state in providing free or subsidised training and retraining programmes.

5.7 Measures taken by the State

Some of the measures taken by the State have been appended as follows:

1. The State is inspiring labour-intensive industry so that additional individuals could be employed.
2. The importance is being given to agriculture, agro-based industries and cottage industries. The small scale businesses also fall under this group.
3. A number of employment programmes have been introduced IRDP' JRY' HRY' SEPVP are some of the leading programmes by the government.
4. Professional education is being stressed upon to remove the unemployment threat. A young graduate, who has studied Shakespeare, world do no good in an office, which assumes to be familiar with Microsoft Windows 98, word-processing and competent file handling.

That is why, the graduate migrant, can find jobs merely as peons in the metropolises. Vocational education can make them expert at one specific skill so that they could start donating from day one.

Notes

5. Many of the unemployed persons are from reluctant classes. State works them through special employment drives/the newspapers and magazines publicize these vacancies frequently. "Employment News" reflects this struggle of the government.
6. State Governments have set up Employment Generation Councils, which aspect after the employment needs of their corresponding districts.
7. The Ninth Five Year Plan lays satisfactory stress on the actions for decreasing the previously high unemployment levels in the country.

The procedures taken up during the Eighth Five Year Plan were thought to result in GDP growth of 5, 6 per cent during the plan period. The total number of employment chances produced was nearly 9 million during the Eighth Five Year Plan.

If the target for Ninth Five Year Plan is executed properly, we could see 9.5 million employment prospects during the next few years. Thus unemployment could decrease to insignificant levels by the year 2002.

It will be important for you to note that private sector jobs must be made open to the individual in need and not-so-deserving applicants on human grounds. Physically and psychologically handicapped persons-already being considered after by the central and state employment agencies must be assumed satisfactory opportunities in the private sector as well.

Another feature of unemployment is the appeal of the good morals of life in the cities. A son of a farmer, who could work hard in his village and could even own a car, goes to adjacent city and finds himself a job of a clerk or a sales executive. This tendency is not healthy, if the whole pop travels to the cities, who would manage our agaric which is the ancient and time-tested profession.

It is essential to know that the State must donate by introducing more organization based schemes and core sector units. The unexploited crop lands should be cultivated and should be delivered only to the landless jobless people. Private sector should promote more process industries, which employ large number of trained and semi- 'killed people in the rural parts. Going overseas is a lucrative location only for the computer programmers, engineers, nurses, paramedical staff and skilled labourers. Others could find better prospects in India as grass is no longer greener in the West and the Middle East.

The existing state of Indian economy does not offer good prospects on the employment front. On the other hand, it is estimated that the budget offered by the Finance Minister would go a long way in eliminating the unemployment difficulties of the masses.

Our government believes that the economy would revive after a brief period of uncertainties. Joblessness would be removed only if the industry and business, of the nation pick up. During April- December, 2012 Indian economy has shown signs of improvement.

Further, the Government has laid more push on the rural and agricultural sectors in his budget speech. These areas could produce a good number of the self-employment prospects for the rural masses. Hence, relocation to cities could be checked. The unemployed youth would try to continue at their villages or home towns.

Finally, the State must sponsor structures for small scale entrepreneurship for the semi-illiterate and the illiterate people. At present, many systems are in vogue but these requirements are tuned to the needs of the jobless. Red tape and corruption in government departments stop the funds from being approved to the needy entrepreneurs.

The youth should initiate small enterprises or manufacturing divisions of their own with the assistance of reserves from the central and state funding agencies as well as from Rural Regional Banks.

Notes

They would also be capable to give employment to a few more people if they turn into entrepreneurs. We must accomplish by stating that at joblessness subject must be attempted with supreme care and significance as it has previously supposed alarming proportion in the social and economic scenarios of our nation.



Did u know? Kerala has the highest rate of employment.



Caselet

Unemployment, Job Aspiration and Migration: A Case Study of Tangkhul Migrants to Delhi

The high level of unemployment and limited job opportunities in Manipur amidst the social and political unrest are the major factors that compel migration into metropolitan cities. Migration to Delhi, despite social discrimination and other problems, shows the gravity of unemployment from Manipur in general, and the Tangkhuls in particular.

Introduction

Unemployment denotes a condition of joblessness and the existence of a reserve labour time available for utilization. The unemployed are out of work full-time and are seeking/available for work. But the terms seeking/available for work are hard to define. Person may be available for work next week, or tomorrow, but not today.

The existence of educated unemployment is attributed to the too literary character of education. Educated unemployed are those persons who have attained an educational level of secondary and above and attained age of 15 years or above and are seeking or available for work.

Young people who had prolonged their studies for a longer period were more likely to have higher aspirations. Young people have become more ambitious and better qualified, while their employment opportunities have narrowed.

Moreover, Blaug, *et al* has mentioned that there has been a “widespread and persistent upgrading of minimum hiring standards in India.”

This suggests that the better educated must, after varying periods of unemployment during which aspirations are sealed downward, take jobs requiring lower levels of education.

Over a period of time, the young job-seekers adapt to the nature of the labour market faced by them and adjust their aspirations and work preferences. Individual’s job preference is influenced by income expectation, location of proposed employment, nature and status of the job, short-term and long-term prospects, etc.

Unemployment rate falls as the person grow older due to the increase in economic responsibility. Normally the youth who are educated can remain unemployed by depending on family income. Puttaswamaiah ascertained that educated unemployment is presumably a consequence of the general impression among the public that investment in education by an individual should yield are turn in terms of remunerative job; search of job suited to the particular type of education received; and decline in acceptance of job other than office jobs.

Contd...

Migrant, according to the Census of India, is a person if the place of birth (POB) or place of last residence (POLR) is different from the place of enumeration. A person is considered as a migrant by POB if the place in which the person is enumerated during the census is other than the person's POB. And a person is considered as migrant by POLR, if the place in which the person is enumerated during the census is other than the person's place of immediate last residence. Migrants defined on the basis of POB or POLR are called the lifetime migrants because the time of their move is not known.

Migration is to "achieve maximum individual satisfaction through obtaining better employment or wage or security or environment."

Meanwhile, numerous studies in Britain have found that the propensity to migrate increases with rising educational qualification.

Notes

Source: http://www.academia.edu/4325556/Unemployment_Job_Aspiration_and_Migration_A_Case_Study_of_Tangkhul_Migrants_to_Delhi

Self Assessment

Fill in the blanks:

1. Indian economy is an under developed economy in which is the back bone of Indian economic.
2. is a basic problem of India.
3. of India's population are on the below poverty line.
4. The people of India remain for the lack of utilization of resources of the country.



Notes Kerala, being the most literate state in India, had the highest rate of unemployment, i.e. close to 10% among the large states; whereas the rate of unemployment in West Bengal was 4.5% and in Assam was 4.3%.

5.8 Strategies that the Government has Undertaken to Reduce Unemployment in India

Following are the strategies you should keep in mind that are undertaken by the Government to reduce unemployment:

1. **Change in Educational System:** More emphasis should be given to vocational education.
2. **Checking of Population Explosion:** Rapidly rising population should be checked by adopting family planning and welfare schemes.
3. **Developing Infrastructure of Economy:** Infra-structure of the economy should be developed.
4. **Development of Cottage and Small-scale Industries:** As they provide more employment by adopting labour intensive techniques.
5. **Heavy Investment in Basic Industries:** Investment in heavy and basic industries and consumer goods industries should be increased. They provide more employment along with the supply of consumer goods.

Notes

6. **Introduction of Rural Works Programmes:** Rural works programmes should be increased.
7. **Modernisation of Agriculture:** Modernisation of agriculture should be done. Waste lands should be utilised.
8. **Stress on Self-employment:** Young entrepreneurs should be financed for self-employment.
9. **Subsidies to Private Sector:** Subsidies and other incentives should be given to private sector.

5.9 Government Sponsored Programmes

You must understand the various government sponsored programs:

- The Government at Centre and State are applying Programmes for improving poverty, providing profitable employment to numerous divisions of the people viz. men, women, and youth by making accessible the requisite investment from the banking system.
- Subsidy is made available to the extent of 25%, 33 1/3% and 50% dependent upon the level of income, group of people etc.

Some of the major Programmes being implemented in the Union territory of Puducherry are given below:

- “Puducherry Backward Classes and Minorities Development Corporation Ltd.,” Women & PH
- **BC Welfare:** Programme for Backward Class People and Minorities through welfare schemes.
- **PADCO:** Programme for Adi-Dravidars through “Puducherry Adi Dravidar Development Corporation”.
- **PMRY:** Prime Minister’s Rozgar Yojana.
- **REGP: KVIC-Margin Money Scheme by KVIC & PKVIB MUPSES:** Motivation of Unemployed Persons to start self-employed Enterprises Scheme 2006.
- **SGSY:** Swarnjayanti Gram Swarozgar Yojana.
- **SJSRY:** Swarnajayanthi Shahari Rozgar Yojana.
- **Welfare:** Programmes for Women and Physically Handicapped through “Puducherry Corporation for Development of Women and Handicapped Persons Ltd.”

Swarnjayanti Gram Swarozgar Yojana (SGSY)

- This is an improved scheme, replacing IRDP and other sub-schemes.
- It came into being during the Golden Jubilee year of Indian Independence, and the scheme originates its name to mark the instance.

The salient features of this scheme are:

- It is a restructured antipoverty programme, for generation of employment.
- There would be change from individual receiver method to a cluster/group approach. To assist this process, Self-Help Groups (SHG) is formed.
- SHGs, which have confirmed the potential of feasible group, will be measured for rotating fund support originally after first grading and support for economic events will be

measured once the recognized groups withstand its feasibility and pass through the subsequent grading.

Notes

- The Group approach will emphasis on sympathy of a few definite feasible key doings based on available local donations and work-related skills of the members of the group.
- The credit flows and average level of speculation per family will be improved.
- The programme will have better participation of Gram Panchayats.
- For group of Swarozgaris (SHGs) the support would be at 50% of the cost the scheme subject a ceiling of ₹ 1.25 lakhs. There will be no monitory limit on subsidy for irrigation Projects.
- Group Life Insurance for Swarozgaris is also ensured under the scheme.
- Scheme provides for creation of risk fund for the consumption credit requirement of the Swarozgaris.
- Except Mahe Block, SGSY scheme is implemented in all the blocks by DRDA, the Nodal Agency, through Block Development Offices and Banks. As many as 41 Commercial Bank.

Branches having Service Area Villages apart from the branches of Puducherry State Cooperative Bank are participating in the implementation of the scheme.

Prime Minister's Rozgar Yojana (PMRY)

The salient features of the programme that you must take into consideration are as under:

- The Prime Minister's Rozgar Yojana (PMRY) has been intended to offer employment to educated unemployed youth by setting up of micro enterprises by the educated unemployed poor. It narrates to the setting up of the self-employment ventures for industries, services and business in Rural and urban areas.
- The scheme shelters all cultured youth with the smallest requirement of VIII Standard (passed).
- Preference will be given to those who have been trained for any trade in Govt. recognized/ approved institutions for duration of at least 6 months.
- All educated unemployed youth between the age of 18 and 35 years on the date of receiving of request by the concerned DIC will be qualified for loan under the arrangement in general with a 10 years relaxation for SC/ST/Ex-servicemen/physically handicapped and women i.e. up to the age of 45.
- The Income of the beneficiary along with the spouse or the income of parents of the beneficiaries shall not exceed ₹ 100,000 per annum.
- All projects up to an expenditure of ₹ 2 lakh for business/service sector and ₹ 5 lakh for industry sector, loan to be of composite nature. Partnerships are also measured for projects up to ₹ 10 lakh subject to the extreme allowed up to the individual ceiling limits.
- Self Help Groups can be considered for help under the scheme provided Educated Unemployed Youth fulfil the appropriateness criteria laid down under the scheme to volunteer to form.

It will be important for you to know that the SHG to set up self- employed schemes (Common Economic Activity).

Notes

1. No upper ceiling on project cost.
2. The subsidy ceiling for Self Help Group is ₹ 15,000 per beneficiary subject to a maximum of ₹ 1.25 lakh per SHG.
3. The exemption from collateral is restricted to ₹ 5.00 lakh per member of SHG to projects Under Industry sector and ₹ 2.00 lakh per member of SHG under service and business Sectors.
4. Essential margin money contribution (i.e. Subsidy and margin to be equal to 20% of the project cost) should be brought in by the SHG collectively.
 - ❖ 5% to 16.25% of the project cost to be carried as own contribution by the beneficiary.
 - ❖ 15% subsidy on the project cost with a ceiling of ₹ 12,500 per beneficiary.
 - ❖ All projects under Industries, Services, Business and Agriculture are qualified except direct agricultural activities like raising crop, purchase of manure etc.
 - ❖ Beneficiaries are to undergo compulsory training organized by DIC.
 - ❖ Beneficiary should have been the resident of Puducherry for the previous three years.
 - ❖ Reservation for SC/ST and OBC at 22.50% and 27% respectively.
 - ❖ No collateral security is required under Industry Sector with project cost up to ₹ 5.00 lakh or partnership projects under Industries sector the exemption limit for abstention of collateral security will be ₹ 5.00 lakhs per borrower account. For units in Service and business sector no collateral for projects up to ₹ 2.00 lakh. Exemption from collateral in case of partnership projects will also be limited to an amount of ₹ 2.00 lakh per person participating in project.
 - ❖ The exemption from collateral in respect of partnership projects in Industry sector will be ₹ 10 lakh per borrowal account in tiny sector.

Self Assessment

Fill in the blanks:

5. The has been intended to offer employment to educated unemployed youth by setting up of micro enterprises by the educated unemployed poor.
6. is an improved scheme, replacing IRDP and other sub-schemes.



Notes In Northern India, Jammu and Kashmir has the maximum unemployment rate followed by Himachal Pradesh, Delhi, Chandigarh, Punjab and Haryana. Unemployment rate in rural area is 4.4% whereas in urban area it is 5.7%.



Did u know? The report for 2012-13 states that Sikkim has the maximum number of unemployed people where as Chhattisgarh has the minimum number of unemployed people in the country. Overall unemployment rate of the country is 4.7%.



Case Study

Women Workers in India in the 21st Century – Unemployment and Underemployment

Notes

The global economy has created a flexible labour market and the myth of 'feminization of work', in reality, it has led to unemployment and underemployment of women in India. One study puts female unemployment at six to seven times that of men. In the rural areas, 30 lakh women have lost jobs in agriculture and livestock. Women have lost 1,45,000 jobs in the textiles sector during 1994-2000. Female underemployment is also increasing at a faster rate than men. This article will concentrate on some aspects of women workers outside of the agriculture sector. India has 397 million workers out of which 123.9 million are women. 106 million of these workers are in the rural areas and the remaining 18 million work in urban areas. Only 7% of India's huge labour force is in the organized sector, which includes workers on regular salaries, in registered companies and firms. The rest of the workers – 93% work in the unorganized or informal sector. The figures for women workers in India are even more dismal – almost 96% of the women workers are in the unorganized sector. The female work participation rate (WPR) has increased overall from 19.7% in 1981 to 25.7% in 2001. In the rural areas it has increased from 23.1 to 31% and in the urban areas it has risen from 8.3 to 11.6%. 'Participation', however, has been largely distress induced and has compelled women to take up jobs which offer very poor wages and no social security. There has been a significant increase in women employed in petty retail trade, hotels and restaurants in the last decade as part of survival strategy of poor urban households. Hotels and restaurants have shown an increase of 2,78,000 women workers from 1994 to 2000. These are typically low paying jobs where women work for long hours without any benefits and face sexual harassment.

The 9 sectors where 90% where Indian women work are agriculture, livestock, textiles and textile products, beverage and tobacco, food products, construction, petty retail trade, education and research and domestic services. The number of women working in agriculture in the years 1999-2000 was 7,91,30,000 which accounted for 64.3% of the workforce. Next came livestock which accounted for 9% of the workforce. The domestic services sector employed 3.2%, retail trade 3.4%, textiles and textile products 2.8% and beverage and tobacco industry 3.0% of the workforce in the same period.

In the urban areas a majority of women work in the informal sector, which include household industries, building construction, petty trade or in domestic services. There has been a significant increase in the casualisation or informalisation of the workforce both male and female since the late 1970s. In 1983, casual workers accounted for 31.5% of the workers, in comparison, 7.5% were salaried and 61% were self-employed. The latest round of the national sample survey records an increase of casual workers to 37.3% in 1999-2000. While salaried workers have fallen to 6.7% of the total, the self-employed category has fallen from 61% to 56%. The National Sample Survey shows that during 1999-2000 the self-employed accounted for 55% of male employment and 57% of female employment. About 36% of employed males and 40% of employed women were casual labourers. Only 9% of employed men and 3% of employed women were regular employees.

The handloom industry which has been the largest employer of women after agriculture and livestock suffered serious setbacks in the 1990s and is slowly being replaced by the beedi industry as the largest employer. The power loom sector's growth has been at the expense of the organized mill sector. It is estimated that there are a total of about 17 lakh

Contd...

Notes

power looms in the country. The majority of these are in the western zone followed by the southern zone. 75% of these power looms require modernization in varying degrees. Although this industry employs several lakh workers it is being threatened by the relentless onslaught of global players. Women are the main work force of both the handloom and power loom sectors. In Nammakal district in Tamil Nadu the power loom industry employs lakhs of workers. These industries are run by powerful rural landlords. They maintain strong feudal links on the one hand and at the same time powerful business links with the global market. Hundreds of sweat houses are fitted with ten to hundred looms each. The working day is 12 hours with two shifts. The workers live in adjacent sheds. The working conditions are dreadful with workers earning ₹ 500 a week on piece rate system. Most of the workers are bonded with the owner by the advance they received. Women workers face other challenges with the Government of Tamil Nadu barring several lakh ration card holders from getting rations. In addition there have been attacks on the impoverished by way of hikes in electricity prices and school fees.

Tirupur, a small town in Tamil Nadu is the largest export centre for knit wear production in India accounting for 20% of direct exports and 50% of all exports if re-exported sales to the big cities in India are included. Neetha's study shows that the mills in the early phase 1925-70 were employing only male workers. In the next phase during 1970-85, production started to get more fragmented. Production facilities moved to Tirupur from Calcutta after a series of strikes. This period witnessed the decline of the local handloom industry leaving many women workers unemployed or underemployed and they started to get involved in the production process as helpers to the male workers in cutting, arranging and folding jobs. From 1985 onwards with massive expansion of exports from Tirupur there has been accelerated subcontracting and informalisation of labour. There has been feminization of the work force with women now constituting 60% of the total work force. The women between the age group 15 and 30 work for very poor wages with daily incomes just above half the minimum wages in the area. Activities like tailoring which is considered to be of a higher skill are still the preserve of men. Subcontracting is very extensive and it goes to the home based work level or to very small production units i.e. very tiny cottage enterprises. Thus the feminization of employment is to provide the cheapest possible production for international suppliers to ensure maximum profits.

Continuing the discussion on the textile industry, the conditions of women workers in the garment industry in the Peenya industrial estate in Bangalore are once again deplorable. The garment industry in Bangalore employs about 1.5 lakh workers of which more than 80% are women. Several international name brands are manufactured here. The ₹ 4,000 crore industry is export-oriented. The average work day for the women in the industry is 10-12 hours. In many factories that employ more than 500 women there are no more than 4 or 5 toilets. The factories have neither a rest room nor a crechè. The salary range is 1500-2000 rupees per month which is far below that stipulated by the government. Annual leave, benefits, bonus are all very rarely given. Many of the employers are provident fund defaulters. This industry classically exemplifies the exploitation of workers in the export processing zones set up in the country aimed at promoting export and growth.

Women workers in domestic services in 1999-2000 constituted 3.2% of the workforce and this comprised 39,25,000 workers. The services provided include cooking, cleaning utensils, washing, babysitting amongst other responsibilities. In the 'global economy' there has been an emergence of a new professional class of workers that includes well educated women. With this there has been a need for domestic servants to help the professional women in their daily chores. However, even in this sector, there has been a decline in the number of women employed from 1993-94 to 1999-2000. The percentage has fallen from

Contd...

Notes

3.6 to 3.2 and the actual numbers have declined from 44,22,000 to 39,25,000. A considerable section of the urban middle class women have lost jobs or have had to take up voluntary retirement schemes (VRS). The public sector units targeting women for VRS include Life Insurance Corporation of India, Coal India Limited and banks amongst others. These educated women after losing their jobs have taken up the roles of housewives, which in turn has affected the employment of women in the domestic service.

The IT industry has been touted as the panacea for all the problems in India. It is considered to open up avenues in favour of women. However, there is data to show that women professionals are still a minority in this sector with a clear trend towards clustering at the lower ends of the job leading to feminization of service centres. In the year 2000, 5,22,250 people were employed. 79% of the software professionals were men and 21% were women.

Education and healthcare are increasingly being privatized. These sectors employ large numbers of women for low wages with no social security. Moolchand hospital, a large private hospital in New Delhi, intimidated women workers and forced many of them to sign a contract that denied them the right to engage in any trade union activities and to accept consolidated pay. Those who refused to sign and went on strike were dismissed on framed up charges. The challenges for women workers in these sectors are multi-fold and any resistance is met with force by the employers in complicity with the police and the state. In this context it is also appropriate to mention that established trade unions do not often give priority to the problems of women workers. For example in the case of sexual harassment of a nurse in the Lala Ram Swarup TB hospital of New Delhi, the employees' union was not prepared to take up the case. It was only after that nurse went on a hunger strike and women's organizations intervened that the union had to take a stand.

'What is to be done' – Organising the Unorganised

The existing legislation does not protect the vast majority of the women workers in the country. The Factories Act, 1948 covers working conditions, health and safety, basic amenities like toilets, crèches, working hours, etc. but does not apply to work places with fewer than 10 workers using power driven machinery or less than 20 workers without such machinery. Employees State Insurance Act, 1948 providing for sickness, accident and maternity benefits at the ground level does not apply to the vast majority of women workers. The Employers by sub-contracting production and dividing the establishment into small units are able to evade all the existing laws. The Contract Labour Act, 1971 has been flouted by not just the private enterprises but the Government itself by the employment of contract labour for work of perennial nature. The Industrial Disputes Act of 1947 prevents arbitrary closure of industrial establishments and provides redress for workers dismissed for participation in trade union activities. This act does not apply to workers in the informal sector. Without the protection that this act provides (at least in theory) workers in the informal sector can be victimized or dismissed for participating in union activities. There are many obstacles to organizing women in the informal sector. Women with the dual burden of working long hours in poor working conditions on the one hand and raising children and the domestic chores on the other find it hard to come to meetings. The Korean Women Workers Association United and Korean Women's Trade Union organized an international workshop in 2000 entitled "Perspectives and Solidarity of Women's Trade Union Movement". There were extensive discussions on strategies to organize informal and part time workers. One of the strategies that were discussed was to encourage union activists to visit the women at their workplaces and start active campaigns to inform women about their rights. One example is that of the Hong Kong union which regularly visited janitors (domestic workers) working in housing complexes. Every visit was made by 2 activists because one had to do the work in place of the worker who was

Contd...

Notes

being informed about her rights. This reduced the work burden of the cleaner in addition to paving the way for confidence building. It was also discussed that centres needed to be set up close to the workplaces. The proximity will help union members to actively get involved with the women and share their interests and concerns. It was felt that it is important to provide services like child care to help lessen the burden of the workers. The struggles have to start with wages and job security and then move beyond those issues to raising the class consciousness of the workers. These struggles have to gradually move from the factories to the streets. The conditions for women workers can ultimately improve only through their participation in the revolutionary movement and only the victory of the working class can bring their emancipation.

Questions

1. Give your point of view on the case study.
2. Briefly state the method how the status of employment of women can be improved.

Self Assessment

Fill in the blanks:

7. All educated jobless youth between the age of 18 and 35 years on the date of receiving of request by the concerned will be qualified for loan under the arrangement in general with a 10 years relaxation for SC/ST/Ex-servicemen/physically handicapped and women i.e. up to the age of 45.
8. arises when workforces find it problematic to change jobs in an industry. Such as, it may be very challenging for a doctor to retrain to be a dentist.

5.10 Summary

- Creating fresh jobs is an essential task and plays a significant role in the economy.
- Fall in the financial market hits job market and makes unemployment.
- India has the major population of youth in the world with about 66% of the population under the age of 35, so effect of decreasing financial market is worst in India.
- Though education level in the modern years has improved but skill development is still a vital issue.
- In addition to this, poverty, limited access to skill based education, work skill are some of the main factors that lead to unemployment and underemployment.
- During recession, job freezing is the most common occurrence done by hiring companies. Under such situations there is a greater degree of unemployment.

5.11 Keywords

Agriculture Credit: Any of several credit vehicles used to finance agricultural transactions, including loans, notes, bills of exchange and banker's acceptances.

Agriculture: The science, art, or occupation concerned with cultivating land, raising crops, and feeding, breeding, and raising livestock; farming.

Cropping: Cultivated plants or agricultural produce, such as grain, vegetables, or fruit, considered as a group.

Financial Crisis: A loss of confidence in a country's currency or other financial assets causing international investors to withdraw their funds from the country.

Notes

Industrialization: The process in which a society or country (or world) transforms itself from a primarily agricultural society into one based on the manufacturing of goods and services.

Production: The action of making or manufacturing from components or raw materials, or the process of being so manufactured.

Productivity: Productivity is the ratio of output to inputs in production.

5.12 Review Questions

1. Write a short note on the status of unemployment in India.
2. Discuss the measures to improve the condition on unemployment in India.
3. What are the issues that are faced by India as a developing country?

Answers: Self Assessment

- | | |
|--|---|
| 1. Agriculture | 2. Unemployment |
| 3. 60% | 4. economically backwards |
| 5. Prime Minister's Rozgar Yojana (PMRY) | 6. Swarnajayanti Gram Swarozgar Yojana (SGSY) |
| 7. DIC | 8. Occupational immobility |

5.13 Further Readings



Books

Datt and Sundharam.(2008), *Indian Economy*, S Chand and Company, New Delhi

Misra S.K and Puri (2009), *Indian Economy*, Himalaya Publication, New Delhi

Kapila Uma (2008), *India Economy*, Academic Foundation Publication, New Delhi

Gupta K.C. and Kaur Harinder, (2004) *New Indian Economy and Reform*, Deep and Deep Publication, New Delhi



Online link

<http://www.preservearticles.com/201103034372/essay-on-unemployment-problem-in-india.html>

Notes

Unit 6: Agriculture in the National Economy**CONTENTS**

Objectives

Introduction

- 6.1 Role of Agricultural Development in the National Economic Growth
- 6.2 Progress of Agriculture under the Five-Year Plans
 - 6.2.1 Objectives of Economic Planning for the Agricultural Sector
 - 6.2.2 Strategy used in the Agricultural Sector
 - 6.2.3 Pattern of Investment in the Agricultural Sector
 - 6.2.4 Agricultural Progress under the Five Year Plans: Brief Summary
 - 6.2.5 Progress from the Fourth Plan Onwards
 - 6.2.6 Progress Since the Sixth Plan
 - 6.2.7 Agricultural Sector under the Tenth Plan: Growth Projection in the Tenth Plan
 - 6.2.8 Pattern of Outlay on Agriculture in the Tenth Plan
 - 6.2.9 Agriculture in the Eleventh Plan (2007-12)
- 6.3 Green Revolution: The Future Prospects
 - 6.3.1 Future Prospects
- 6.4 Thrust Areas in Agriculture Sector
- 6.5 Agriculture in India Since 1961
- 6.6 Summary
- 6.7 Keywords
- 6.8 Review Questions
- 6.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the agricultural development essentials for economic growth
- Identify the progress of agriculture under the Five-Year Plans
- Explain the future prospects of Green Revolution

Introduction

Agriculture has always been the spine of the Indian economy and in spite of concerted industrialisation in the past six decades; agriculture still occupies a position of pride. It provides employment to about 60 per cent of the total work force in the country. The importance of agriculture in the national economy can be best described by considering the function of

Notes

agriculture under various heads. Importance of agriculture in the national economy is depicted by many facts. For instance, agriculture is the chief support for India's transport systems, secure bulk of their business from the movement of agricultural goods. Internal trade is mainly in agricultural products.

Additionally, good crops implying large purchasing power with the farmers result in greater demand for manufactures and, hence, better prices. In other words, prosperity of the farmers is also the prosperity of industries. Similarly, bad crops result in a depression in business.

In this unit, you will learn about the agricultural development essentials for economic growth, progress of agriculture under the Five-Year Plans and future prospects of Green Revolution.

6.1 Role of Agricultural Development in the National Economic

Growth

Now let us the unit with the role of agricultural development in national economic growth. The importance of agriculture in India emerges from the fact that the development in agriculture is essential necessary condition for the development of the national economy. Ragnar Nurkse argues that the excess population in agriculture should be moved to the newly started industries. Nurkse's thesis is that agricultural productivity will be enhanced on the one hand and on the other latest industrial units would be established with the use of surplus labour. The Nurksian thesis, though broadly welcomed at one time, has been questioned currently:

- (a) Industrialisation does not comprise only of shifting of workers from agriculture to industries. It needs a specific set of motives and values which an agricultural economy cannot supply. A change in agriculture itself is necessary before these motivations and values are evolved.
- (b) The marketable agricultural excess will have to be increased substantially to feed the growing urban population and to offer raw materials to industries.
- (c) New uses have been found for food grains and other agricultural crops. With fossil oils becoming progressively expensive, ethanol is being utilised as an alternative fuel. Com, sugarcane, beetroot and other crops are progressively converted into ethanol and alcohol.
- (d) The new industries and the rapidly growing services sector, however fast they may develop, they will not be able to offer sufficient employment for the ever-growing millions in India. There is a limit to the capacity of employment in industries in the short duration. Necessarily, hence, increased employment will have to be discovered in agriculture and in rural industries.



Example: During 2002-03, failure of the agricultural sector spelt disaster to the whole planning process.

Hence, any change in the agricultural sector-positive or negative-has a multiplier effect on the whole economy. The agricultural sector serves as a bulwark in maintaining food security and in the process, national security as well. Identifying the crucial role played by the agricultural sector in facilitating the widest dispersal of economic benefits, the Tenth Plan laid stress that agricultural development is central to quick economic development of the country.



Caution Rapid economic development will require rapid agricultural development either to precede or to go hand in hand with it. Indian planners learnt a bitter lesson during the Second and Third Five-Year Plan periods and in recent years.

Notes

You must note that the unfortunate thing is that majority of the economic plans failed constantly to achieve agricultural targets. In fact, agricultural development has always been offered lower priority at the cost of industries and service sectors.

Self Assessment

Fill in the blanks:

1. has always been the backbone of the Indian economy and despite concerted industrialisation in the last six decades; agriculture still occupies a place of pride.
2. Agriculture provides employment to around of the total work force in the country.
3. The significance of agriculture in the can be best explained by considering the role of agriculture under different heads.
4. Importance of agriculture in the national economy is by many facts.
5. Any change in the agricultural sector-positive or negative-has a on the entire economy.
6. The acts as a bulwark in maintaining food security and in the process, national security as well.



Caselet

Hello Bangladesh

Bharti Airtel has been trying to expand its footprint overseas for the past couple of years. Bharti is planning to pick 70% stake in Warid Telecom, the fourth largest telecom operator of Bangladesh. Abu Dhabi group will hold 30% stake. Bharti will invest over \$ 1 billion in the Bangladeshi Telecom market in the coming years. Warid has operations in Uganda, Pakistan and Congo. Bharti will be the first Indian operator to enter the Bangladeshi market. In Bangladesh, it will compete against the state-run Teletalk, the Bangladesh-Singapore JV Citycell, Grameenphone (Bangladesh - Norway JV) and AKTEL (Japan Malaysia JV).

Bharti is already operating in overseas market such as Seychelles, Sri Lanka, and Channel Islands. The Dropping ARPU (Average Revenue per User) forced it to further expand its footprint in new markets.

Indian Telecom market is very competitive as 13 players are competing for the share in price and price put is the most common strategy among the players. Telecom companies are searching opportunity overseas. There are three major geographies that hold opportunity for ambitious Indian telecom companies – The Middle East, Africa, and South East Asia. In India, EBIDTA is high but ARPU is as low as ₹ 200. Compare this with ARPU of as high as ₹ 2,000 in some of other markets, and it makes obvious sense for a low cost player to foray there.

The Subscriber base in Bangladesh is growing rapidly. It has increased from 2 lakh in 2001 to more than 50 million in 2009. The population of Bangladesh is 150 million and telecom density is very low. The subscriber base is expected to increase to 70 million by 2011. Joint Venture or Acquisition is the most viable route for overseas investment in Telecom sector. This move provides an operator with scale to negotiate with infrastructure vendors.

Contd...

Indian telecom companies are considered to be most cost efficient telecom operators of the world. They have an expertise in cutting cost and offering services at lower tariffs than anywhere in the world. Applying the Low – Cost Model to higher APRUs market will maximize the returns. Bharti can leverage on the economies of scale it is operating in Indian Market. Bharti is very good at rolling out networks fast and effortlessly and have got some unique contracts and relationships that they can leverage internationally. For instance, Bharti has tied up with IBM (on the IP front) Nokia and Ericsson (for Networks).

There are many first to Indian Telecom Companies as India is the first country in the world to outsource the IT network, India is the first to start infrastructure sharing, Indian telecom players were the first to hive off their towers into separate companies. Such innovative strategies will help Bharti fight it out in the Bangladesh telecom market.

Notes

Source: Business Environment, Dr Vivek Mittal, Excel Books

6.2 Progress of Agriculture under the Five-Year Plans

In this section, you must appreciate the progress of agriculture under the five-year plans. On the eve of the First Plan (1951-56), agriculture was in a desperate and deplorable situation. Our farmers were in huge debt to the village money-lenders. They were possessing small and scattered holdings. They had neither the money nor the knowledge to utilise proper equipment, good seeds and chemical manures. Except in particular selected irrigated areas, they were dependent upon rainfall and upon the vagaries of the monsoons. Productivity of land and of labour had been decreasing and was generally the lowest in the world. Despite the fact that more than 70 per cent of our working population was involved in cultivation, the country was not self-sufficient in food grains but had to rely on imports of food grains. Also, the partition of the country in 1947 worsened the agricultural situation, as India was allocated more people but less land to support them.

6.2.1 Objectives of Economic Planning for the Agricultural Sector

You should remember while planning to create the agricultural sector, the Planning Commission has generally kept four broad goals in view:

- (a) **Increase Agricultural Production:** The ambition has always been (i) to bring more land under cultivation, (ii) raise the per hectare yield via intensive application of such agricultural inputs as irrigation, improved seeds, fertilisers, etc. and therefore (iii) bring about enhanced agricultural production.
- (b) **Increase Employment Opportunities:** Aside from increase in production, the agricultural sector has to produce extra employment opportunities and offer scope for increasing the incomes of the poorer sections in our villages.
- (c) **Decrease the Pressure of Population on Land:** Another fundamental goal of planning in the agricultural sector has been to decrease the number of people working on land, on the assumption that there are too many people working on land. The excess labour on land should be shifted to secondary and tertiary sectors, rather in rural and semi-urban regions.
- (d) **Decrease Inequality of Incomes in the Rural Sector:** The Government should eliminate the exploitation of tenants, and should distribute excess land among small and marginal farmers in such a manner that there would be some amount of equality and justice in the rural regions.

All these four goals are generally followed in all our five year plans but in practice, agricultural planning in India has come to depict increase in agricultural production, namely, the achievement of the first objective; all other goals have either been avoided or given lower priority.

Notes

6.2.2 Strategy used in the Agricultural Sector

You must understand that to cause increase in agricultural production and also increase in rural employment, the Five Year Plans use various programmes such as: establishing of community development programmes and agricultural extension services all through the country, agricultural machinery, expansion of irrigation amenities, fertilisers, pesticides, high-yielding varieties of seeds and expansion of transportation, power, marketing and of institutional credit.

To decrease the pressure of population on land, the strategy utilised by the Planning Commission was rural development that is, set up agro-based industries and handicrafts in rural regions, to promote rural transport and communications and to motivate the movement of people from agriculture to industries and service sectors.

Ultimately, to bring about equality and justice in rural India, the strategy utilised by the Planning Commission was land reforms which involved the elimination of intermediaries, like the Zamindars, the defence of tenants via tenancy legislation, ceiling of land holdings and distribution of excess land among landless labourers and small and marginal farmers.

6.2.3 Pattern of Investment in the Agricultural Sector

It is important for you to note that at the outset, a word of explanation is essential about the meaning and content of "agricultural sector". In the first three Plans, "agricultural sector" was comprised of agriculture as well as allied sectors (horticulture, animal husbandry and fisheries) and irrigation and flood control. In the consecutive Plans, "rural development" and "special area programmes, were inserted and "irrigation and flood control" was omitted. In Table 6.1, outlay on agriculture is comprised of agriculture and allied sectors, special region programmes and rural development, irrigation and flood control.

It would be obvious that the total outlay in each Plan had enhanced and, correspondingly, the outlay on agriculture allied sectors had also risen. But, the percentage of plan outlay on agriculture and allied sectors to total plan outlay differed between 31 per cent and 14.9 per cent from the First Plan to the Tenth Plan.

Table 6.1: Pattern of Government Outlay on Agriculture and Allied Sectors

(₹ Crore)

Plans		Periods	Total Plan Expenditure (Actual)	Agriculture and Allied Sectors	%age of Agriculture and Allied Sectors to Total Outlay
I Plan	(Actual)	1951-56	1,960	600	31
II Plan		1956-61	4,670	950	20
III Plan		1961-66	8,580	1,750	21
IV Plan		1969-74	15,800	3,670	24
V Plan		1974-79	39,430	8,740	22
VI Plan		1980-85	1,09,300	26,100	24
VII Plan		1985-90	2,18,730	47,100	23
VIII Plan	"	1992-97	4,75,480	1,01,590	21
IX Plan		1997-02	8,59,200	1,76,217	20.5
X Plan		2002-07	15,25,639	3,05,055	20.0
XI Plan		2007-12	36,76,936	7,23,465	19.7
XII Plan		2012-17	76,69,807	13,23,119	17.3

Source: Indian Economy, Datt and Sundharam, S. Chand

The Indian Planning Commission specified several programmes for increasing agricultural production such as irrigation, dry farming, soil conservation, and land reclamation, supply of fertilisers and manures, enhanced agricultural implements, adoption of scientific practices, etc. The Government offered substantial attention to institutional changes like the setting up of community development programme and agricultural extension services all through the country, the use of land reforms, expansion of rural transportation, power, marketing and other fundamental amenities, enhancement of the system of co-operative credit, etc. From the Third Plan onwards, the greatest focus was laid on irrigation-fertilizer-seed technology which resulted in the green revolution,

Actual outlay on the agricultural sector varied between 18 and 24 per cent of the total Plan outlay (except during the first Plan, it was as great as 31 per cent). During Eleventh Plan it has decreased to only 19.7 per cent. For twelfth Plan it has been aimed at 17.3 of total outlay.

You must understand that the progress made by India in the area of agriculture under the first nine plans. In the subsequent section, we shall take up the advancement of agriculture under the Tenth Plan separately.

6.2.4 Agricultural Progress under the Five Year Plans: Brief Summary

First Three Plans (1951-61)

It is important to note that the First Five Plan (1951-56) targeted at solving the food crisis India was facing at that time and also ease the critical agricultural raw material situation, especially the acute shortage of raw cotton and raw jute. Accordingly, the First Plan gave the greatest priority to agriculture, particularly food production, by allocating 31 per cent of the total Plan outlay on agriculture.

The production target in food grains during the First Plan was exceeded-for example, as against the target of nearly 62 million tonnes, real production of food grains came to about 67 million tonnes (Table 6.1). But, the targets fixed for sugarcane, cotton and jute were not attained.

You must understand that the Planning Commission wished the Second Plan to lay the foundations of industrialisation. Out of total expenditure of ₹ 4,600 crore during the Second Plan, a sum of ₹ 950 crore or nearly 20 per cent was devoted on agriculture. In spite of the percentage decrease in Plan outlay on agriculture, the progress on the agricultural front was important.



Example: Food grain production recorded about 80 million tonnes in 1960-61, as against the target of 81 million tonnes.

Similarly, the production of oilseeds, sugarcane and cotton was much more in 1960-61 than in 1955-56. There was, however, a deficit in the production of all groups of commodities, as against the target fixed, except in the instance of sugarcane in which there was considerable progress. Experience in the Second Plan had depicted clearly that the rate of growth in agricultural production was a main limiting factor in the advancement of the Indian economy.

As the Government sensed that the success of the agricultural sector was a necessary condition for the success of the whole Plan, the Third Plan fixed ambitious targets of production for all agricultural crops.

The Government launched the new agricultural technology known as Intensive Agricultural District Programme (IADP), which was soon pursued by a programme of using improved seeds, viz., High Yielding Varieties Programme (HYVP). The new agricultural technology was anticipated to usher in the green revolution. However, as a consequence of the extensive and

Notes

serious drought situations in 1965-66, agricultural production was adversely influenced. (Table 6.1).

- (a) None of the agricultural targets- except sugarcane-was attained during the Third Plan period; and
- (b) The real output at the end of the Third Plan in the instance of food grains, oil seeds and raw cotton was lesser than the output at the end of the Second Plan, pointing out that the Third Plan was a wash-out as far as agriculture was involved.

As a result of the shortfall in food production and severe famine conditions in many portions of the country, the Government was compelled to import food grains widely during the last year of the Third Plan. Besides, or the initial time, the public lost interest in the planning process and the Government accepted “plan holiday” for three years.

The experience of the Third Plan made the Planning Commission realise the bitter fact that economic planning would be a failure unless agricultural production was enhanced quickly. Accordingly, the Planning Commission allotted high priority to agriculture in the successive plans.

6.2.5 Progress from the Fourth Plan Onwards

You should take into consideration that the approach paper to the Fourth Plan emphasised the necessity to develop favourable economic situations for the promotion of agriculture and a systematic attempt to extend the application of science and technology to enhance agricultural practices. Aspiring targets were fixed for the Fourth Plan.

Table 6.2: Achievements in the Agricultural Sector in the Various Plans

	Food Grain		Oilseeds		Sugarcane		Cotton		Jute	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Actual
First Plan	62	67	5.5	5.6	63	60	4.2	4.0	5.4	4.2
Second Plan	81	80	7.6	6.5	78	104	6.5	5.4	6.5	4.0
Third Plan	100	72	9.8	6.4	100	127	7.0	4.6	6.2	4.5
Fourth Plan	129	104	10.5	8.7	150	140	8.0	5.8	7.4	6.2
Fifth Plan	125	132	12.0	8.9	165	165	8.0	7.1	7.7	7.1
Sixth Plan	154	146	11.1	13.0	215	170	9.2	8.5	9.1	7.8
Seventh Plan	180	171	18.0	17.0	217	210	9.5	10.5	9.5	7.9
Eighth Plan	210	199	23.0	25.0	275	277	14.0	14.3	9.5	11.0
Ninth Plan	234	211	30.0	20.7	336	300	15.7	10.1		11.6
Tenth Plan	234	216	30.0	24.0	336	345	16.0	23.0		11.0
Eleventh Plan		257.4	-	30.0	-	357.7	-	35.0	-	11.6

Source: Indian Economy, Datt and Sundharam, S. Chand

Table 6.2, however, discloses clearly that none of the targets fixed in agriculture in the Fourth Plan was realised. For instance, the target for food grains was 129 million tonnes for 1973-74 but the real production in that year was merely 104 million tonnes—the highest level of production during the Fourth Plan was 108 million in 1970-71. Think further about the targets fixed and real production of oilseeds, sugarcane, cotton and jute during the Fourth Plan. It would be clear that the Fourth Plan failed to attain the agricultural targets.

You must understand that the Fifth Plan (1974-1979) was planned with great care, with total Plan outlay at ₹ 39,430 crore out of which outlay on agriculture and allied sectors would be ₹ 8,740 crore (which was 24 per cent of the total Plan outlay). The targets for production of several crops and the necessary inputs to achieve attain these targets were also clearly set out. Unluckily, all the financial calculations went wrong due to the serious inflationary condition during 1973-74. But, after the declaration of emergency (1975) agricultural progress was steady and plan targets were nearly realised.

The Janata Party which came to power in 1977, but, suspended the Fifth Plan midway – quite foolishly – and began preparing the Sixth Plan. It will be obvious from Table 6.2 that the real production of food grains in the past year (1978-79) of the Fifth Plan was 132 million tonnes, as against the target of 125 million tonnes. In truth, apart from the First Plan the Fifth Plan was the just period when the real production of food grains surpassed the targeted production.

6.2.6 Progress Since the Sixth Plan

You may already be aware that of all the Plans, the Sixth Plan (1980-85) was welcomed as a great success, especially due to the success on the agricultural front. As against the annual growth rate of 3.8 per cent for agriculture, the real growth rate was 4.3 per cent. The production of food grains in 1983-84 was 152 million tonnes (opposed to the target of 154 million tonnes) and was welcomed by the Indian Government as the Second Green Revolution. Whereas the First Green Revolution from 1967-68 arose from the launch of new high yielding varieties of Mexican wheat as well as dwarf rice varieties, the Second Green Revolution from 1983-84 was stated to be from expansion in supplies of inputs and services to farmers, better management and agricultural extension.

While the First Green Revolution was restricted mainly to Punjab, Haryana and Western U.P., the Second Green Revolution had extended to eastern and central states involving West Bengal, Bihar, Orissa, Madhya Pradesh and eastern U.P. These states had made huge progress in recent years.



Notes However, it is important to emphasise the fact that, despite all the great claims of the Government, none of the targets (except in oilseeds) of agricultural production was achieved during the Sixth Plan.

The Seventh Plan (1985-90), the Eighth Plan (1992-97) and the Ninth Plan (1997-2002) aimed at 4 per cent annual rate of growth and laid stress on specific projects in the field of agriculture. They involved an exclusive rice production programme in the eastern area, national watershed programme for rainfed agriculture, social forestry, national oilseeds development project, etc.

The Seventh Plan was not successful in the sense that the targets fixed for several sectors (except cotton) were not acquired. But, the level of production at the end of the Seventh Plan was much greater than at the start of the Seventh Plan.

The Eighth Plan (1992-97) was fundamentally sound in its approach in the strategy of development and in the targets of agricultural crops. Luckily, weather and climate conditions were favourable and widely many of the targets could be fulfilled.



Example: The actual outputs in 1996-97 (the last year of the Eighth Plan) of oilseeds, of sugar cane, of cotton and of jute were greater than the targets for these crops in the Eighth Plan.

Notes

The only exception was food grains – the Eighth Plan target was 210 million tonnes however the real production was 199 million tonnes. In truth, the production of food grains at 199 million tonnes was the highest output recorded by India till then.

The Ninth Plan (1997-2002) was not much of a success, so far as the agricultural targets were involved. For example, the Ninth Plan fixed the target of food grain production at 234 million tonnes in 2001-02, but the real production was only 211 million tonnes. The same story of under-achievement was to be observed in other sectors of agriculture also. One is again persuaded to ask the question: why should the planners fix unrealistic as well as unrealisable targets?

6.2.7 Agricultural Sector under the Tenth Plan: Growth Projection in the Tenth Plan

You should keep in mind that the Tenth Plan accepted the prescriptions of the National Agricultural Policy, 2000 (NAP, 2000). The Tenth Plan, particularly, stressed the following types of growth envisaged by NAP, 2000:

- (i) growth that was based on effective use of resources and conservation the soil, water and bio-diversity of the country;
- (ii) growth with equity that is growth which was widespread across areas and covered all farmers;
- (iii) growth that was demand driven and met domestic markets as well as maximised benefits from exports of agricultural products in the face of the challenges brought about by economic liberalisation and globalisation; and
- (iv) growth that was sustainable environmentally, technologically and economically.

The NAP, 2000 envisioned a growth rate more than 4 per cent per annum in the agricultural sector. The Tenth Plan also aimed a 4 per cent rate of growth. Towards this motive, the Tenth Plan visualised:

- (a) the estimated food grains need at the end of the Tenth Plan: 230 million tonnes.
- (b) the estimated supply position is anticipated to be between 225 and 243 million tonnes.

The Tenth Plan planned to acquire this volume of production of food grains via:

- (i) sufficient thrust on maize cultivation which has good scope for enhancing production of minor cereals to 43 to 48 million tonnes; and
- (ii) thrust on commercialisation of hybrid rice on a huge scale and enhanced technologies in wheat.

Strategy and Thrust in the Tenth Pan

The Tenth Plan accepted the enhancing biotic pressure on the natural resources in the country, particularly land, water and biodiversity; with the rising population, the fragmentation of holdings had increased, leading to smaller and unviable units of land holdings. The Tenth Plan focused on this problem via:

- (a) simple transfers of agricultural land to facilitate farmers to augment their holdings to viable units;
- (b) enable leasing and contract farming via more freedom to lease in and lease out; and
- (c) developed technologies appropriate to raise productivity of small and marginal holdings which comprise 78 per cent of all holdings and function about 32 per cent of total agricultural region.

Notes

The second feature of this strategy included waste lands – estimated at 64 million hectares – and degraded regions which are either unutilised or underutilised assessed to cover 107 million hectares. All such lands are under the control of the Government or of Panchayats. The Tenth Plan projected that:

- (a) all these lands under the control of the Government or the Panchayats would be packaged out in viable units and allocated to landless, small and marginal farmers, scheduled caste and scheduled tribe farmers, retired defence personnel, and educated rural youth, for cultivation.
- (b) greatly degraded wastelands, should be specially used for forestry, tree cropping and agro-forestry.
- (c) the areas under reserved forests but which are presently unutilised or under-utilised should be distributed to the resource poor particularly landless and marginal farmers, to generate grasses and fodder and medicinal and aromatics plants.
- (d) the Tenth Plan persisted rain-water harvesting and conservation so as to enhance productivity of rain-fed farm lands. Rain water conservation as well as harvesting hold the means for sustainable development of rain-fed regions. Such a programme should make sure that the minimum fundamental water needs of the rural communities are met.

In this relation, the Tenth Plan proposed to persist vigorously, minor irrigation development and the adoption of enhanced on-farm water management practices and also the use of water saving devices, like sprinkler irrigation and drip irrigation system in low-rainfall regions.

Generally, the Tenth Plan believed that recent land and water-use practices in the country were unsustainable, less productive and influence adversely on regeneration of natural resources. Therefore, for sustainable development of natural resources, the Tenth Plan would continue to pursue, as already stated, a regionally differentiated strategy founded on agro-climatic situations and land and water availability. The promotion of proper cropping patterns formed a necessary part of the Tenth Plan strategy.

- (e) the Tenth Plan imagined a radical thrust in crop diversification. Small as well as marginal farmers, by and large, offer a prime place to cereals in the cropping system, even though Indian agriculture is moving quickly towards commercialisation. The focus on cereals is due to regard of food security, low risk and easy market access. Also, the Government's minimum support price (MSP) policy, including only three crops (paddy, wheat and sugarcane) has motivated mono-cropping and even exploitation of natural resources in few regions. All this has occurred in the face of acute shortage of pulses and oilseeds.

It is important for you to note that the Tenth Plan's new purpose was diversification towards high value as well as more remunerative crops, regarding the agro-climatic conditions, donation of land and water resources and the market demand both within the country and outside. The Tenth Plan stressed on the production of fruits, agro-forestry, vegetables, flowers, tree farming, animal husbandry, aquaculture, dairying, etc.

To motivate such activities, the Tenth Plan developed the essential infrastructure for post-harvest handling, marketing, processing, storage, etc. and also endorsed pro-active production policies to encourage farmers and entrepreneurs.

- (f) the Tenth Plan set out radical schemes influencing production and distribution of quality seeds, fertilisers and plant nutrients, farm implements, soil testing and pest management.
- (g) finally, the Tenth Plan motivated organic farming in a big manner. The Plan appreciated the growing demand for organically generated food all over the world and the high prices

Notes

they command. India is a low-chemical fertiliser utilising country, especially in the rain-fed regions, north eastern and hill areas. India has, hence, good opportunity to take up production of organic foods for exports and domestic use. In this relation, the Tenth Plan motivated organic fertilisers use in agriculture by transforming farm waste and municipal solid waste into good quality compost/manure.

6.2.8 Pattern of Outlay on Agriculture in the Tenth Plan

The Tenth Plan aimed 8 per cent rate of growth in GDP and accordingly, assessed the needed level of investment (at 2001-02 prices) of ₹ 15,92,300 crore in the public sector – this was 67% increase over the Ninth Plan outlay. As relation to agriculture, the Tenth Plan set a target growth rate of 4% per annum during the Plan period, and increased Plan allocations on agriculture and allied sectors, rural development, special area programmes and irrigation as well as flood control.

Table 6.3: Plan Allocation on Agriculture

	Ninth Plan		Tenth Plan		Eleventh Plan	
	Amount (₹ crore)	%	Amount (₹ crore)	%	Amount (₹ crore)	%
1. Agriculture and allied activities, rural development, special area Irrigation and flood control	1,76,217m	20.5	3,05,055	20.0	6,74,105	18.5
2. Total Plan outlay	8,59,200	100.0	15,25,639	100.0	36,44,718	100.0

Source: Indian Economy, Datt and Sundharam, S. Chand

The public sector outlay on agriculture as well as allied activities irrigation and flood control, rural development and special area programme which was of the order of ₹ 1,76,217 crore in the Ninth Plan, enhanced to ₹ 3,05,055 crore in the Tenth Plan which was 20% of the total Plan outlay; this was nearly the same as that in the Ninth Plan. In fact, as stressed earlier, public sector outlay on agriculture irrigation and others has varied between around 20 and 24% of the total outlay in all the Plans. It may be observed that if we take agriculture and allied activities solely, public sector outlay has been handling 4.9 per cent of total outlay in ninth plan, 3.9% in tenth plan projected expenditure an agriculture and allied activities in simply 3.7% of total plan outlay in 11th plan.

Targets of Crop Production in the Tenth Plan

The Tenth Plan was the earliest Plan which did not fix targets of crop production.

For each Plan, the Planning Commission used to:

- the rate of growth in the agricultural sector as a whole,
- the planned target growth of production in each main crop namely, sugar-cane, cereals, pulses, oilseeds, cotton, jute and so on,
- the targets of production of main inputs like seeds, fertilizers, irrigation etc., and
- the strategy to be adopted to attain the targets of crop production generally and the rate of growth in agriculture in particular.

The Tenth Plan was a clear departure from this conventional presentation. It explained the achievement/non-achievement of the Ninth Plan (Table 6.4).

Table 6.4: Crop Production during Ninth and Tenth Plans

Crop	Base Level	Plan Target	Actual Output	
	(1996-97)	(2001-02)	in 2001-02	2006-07
	Output			
All food grains (m. tonnes)	199	234	213	216
Oilseeds (m. tonnes)	24	30	21	24
Sugarcane (m. tonnes)	278	336	297	345
Cotton (m. bales of 170 kg.)	14	16	10	23

Notes: Tenth and Eleventh Plan figures are at 2006-07 prices.

Source: Indian Economy, Datt and Sundharam, S. Chand

The Planning Commission must have been obviously ashamed of its target projections in the Ninth Plan. It is clear from Table 6.3 that the real production of food grains for the year 200 1-02 (final year of the Ninth Plan) was 212 million tonnes, as opposed to the planned target of 234 million tonnes – a great shortfall of 22 million tonnes. In the instance of oilseeds the real output in 2001-02 was 21 million tonnes as against the targeted figure of 30 million tonnes. This was also the instance of sugarcane and cotton.

What was actually pathetic was that the real production of oilseeds and cotton during the Ninth Plan was not only lower than the target production but less than the base level (1996-97) output. This was certainly negative rate of growth. It is unfortunate that we could not acquire Ninth plan targets even at the end of Tenth Plan.

Table 6.4 gives agricultural accomplishment during 9th and 10th Plans. During the Tenth Plan period (2002-07), food grain production had enhanced to 216 million tonnes – it may be stated that the target of food grain production was set at 234 million tonnes for the Ninth Plan period (200 1-02). There was, however, clear growth in oilseeds, sugarcane and cotton. Generally, it is assessed that the annual rate of growth in agriculture was 2.3%, as opposed to the targeted 4 per cent.



Notes Generally, it is the failure in the agricultural front that has led to failure of economic planning in particular periods.

6.2.9 Agriculture in the Eleventh Plan (2007-12)

You must be aware that at the time of the 11th Plan also, the Planning Commission has fixed the target of 4 per cent, rate of growth in agriculture, as if this is the initial time such a “high” rate of growth has been fixed. The Planning Commission has appointed a special Agricultural Commission to regulate this rate of growth.

The corporate sector is actively motivated to go for contract farming in vegetables, fruits and other crops. It is motivated to offer seeds, fertilisers and assured marketing. Simultaneously, the Government is encouraging the establishment of Special Economic Zones (SEZ) by buying huge tracts of an agricultural land for establishing industries and service sectors. There is substantial confusion in the agricultural sector in India.

The volatile variation in crop production from year to year depicts that there is very little planning in Indian agriculture. The old proverb that “Indian agriculture is a gamble in the

Notes

rains” maintains good even today, after closely six decades of planning. In simple terms, agricultural planning has been a failure.

Self Assessment

Fill in the blanks:

7. During the, the Planning Commission has fixed the target of 4 per cent, rate of growth in agriculture, as if this is the first time such a “high” rate of growth has been fixed.
8. The Planning Commission has appointed a special to monitor this rate of growth.
9. The in crop production from year to year shows that there is very little planning in Indian agriculture.

6.3 Green Revolution: The Future Prospects

It is important for you to note that green Revolution started in the 1960's centred around the usage of semi-dwarf high yielding varieties responsive to irrigation and chemical fertilisers produced good outcomes in giving a big boost to the production of wheat in the initial stage and the production of rice in the subsequent stage. But more currently, it has been felt that high yielding varieties have attained a plateau and the scope for future increase in production seems to be very restricted. In other words, the seed-water-fertilizer technology has possibly exhausted its potential and is at present at a point of diminishing returns.

The Planning Commission put a target of food grains production of the order of 300 million tonnes by 2007-08 but the real production was 216 million tonnes. The question broached is: What are the prospects of achieving this target?

Table 6.5: Average Food grain Yield

	Kg per hectare				
	1960s	1970s	1980s	1990s	2011-12
Food grains	719	894	1,156	1,490	2,059
Wheat	950	1,382	1,921	2,449	3,140
Rice	1,000	1,158	1,470	1,827	2,372

Source: Indian Economy, Datt and Sundharam, S. Chand

Some such as Harish Damodaran do not subscribe to the opinion that agricultural production has attained a plateau. Data given in Table 6.5 points out that food grain yield has continued to rise from 719 Kg in 1960s to 1,490 kg. The rise in yield has been more pronounced in the instance of wheat from 950 Kg in 1960s to about 2,450 Kg in 1990s and 3,140 in 2011-12, though in rice too yield has increased from 1,000 Kg in 1960s to 2,372 Kg in 2011-12. While bringing more regions under High Yielding Varieties, highest yield rates may have depicted some signs of stagnation.

It would, hence, be essential to understand the theoretically obtainable maximum yield and the actual realizable maximum. It may be observed that the first Green Revolution variety Sharbati Sonora had illustrated a yield potential of about 3.4 tonnes per hectare. The subsequent jump in yield variety arrived from Kalyansona in 1970 to 4.2 tonnes. For a main breakthrough, the country had to wait till 1994 when latest rust-resistant varieties such as UP2338 jacked up yields to 5.1 tonnes and PBW 343 in 1995 to increase it further to 5.4 tonnes per hectare.

But, in rice, the picture has not been very motivating. Consequently, the sceptics believe that conventional Green Revolution breeding methods have come to a dead end. Whatever success has been acquired in rice is the consequence of spreading the pioneering varieties to more and more regions so that the country can realize the potential.

But this does not mean that we have exhausted all the latent potential of the prevailing HYV varieties. Field trials in Punjab confirm the illustrated potential of 5.5 tonnes per hectare, but real mean yields are around 4.25 tonnes per hectare. Evidently, one tonne of unharvested yield potential exists in Punjab. Likewise, the situation in other wheat growing states points out the gap between attainable and real yields to rise to over two tonnes per hectare. Mr Harish Damodaran, hence, concludes: "Even with the current high yielding varieties, it is possible for farmers in the Indo-Gangetic plain, which accounts for 18 million hectares out of 26 million hectares under wheat to produce an additional 25 million tonnes of wheat by adopting improved crop management practices and ensuring timely supply of inputs, attractive prices and so on. A half-a-tonne increase in average per hectare rice yield can similarly generate an additional 20 million tonnes from the country's 42 million-odd hectares area planted under paddy."

A point frequently made by critics that as against average yield of 4 to 4.5 tonnes of wheat in Punjab, the farmers in cold countries such as Netherlands raise about 8 tonnes per hectare, but this comparison neglects one vital difference in the cropping systems of the two countries.

The famous agricultural scientist Dr M. S. Swaminathan stresses that it is unscientific to make comparisons merely on the basis of individual crops, but it would be more scientific to compare the cropping system as a whole.



Example: A farmer in Punjab may attain only 4 to 4.5 tonnes per hectare yield on spring wheat of 140 days duration, however his counterpart in Netherlands attains 8 tonnes per hectare on a 10-month winter wheat crop.

The difference is covered by the Punjab farmer by raising a rice crop during the same year offering a yield of 3 to 3.5 tonnes per hectare. He may also be raising a crop of potato or legume or some short-duration vegetable. Evidently, for the Indian farmer, the more significant consideration is the total yield during the year, instead of simply yield per crop.

Hence, you must understand that the transformation from a mono cropping to multi-cropping system has facilitated the development of rice or wheat varieties of various maturities, which have been integrated in the phenomenon explained as the Green Revolution. Evidently, the success of the Green Revolution should be judged with relation to the over-all yield (income) produced by the farmers per hectare in a year instead of in terms of productivity per hectare of a single crop.



Did u know? Agricultural development is central to economic development of the country.

6.3.1 Future Prospects

It is important to note that scientists in India have been attempting to develop hybrid varieties of rice and wheat so that the yield barrier functioning at present can be broken. In the instance of rice, on-farm-trials of hybrid rice in Andhra Pradesh, Tamil Nadu and Karnataka have been discovered to yield an average of 6.8 tonnes per hectare as against 5.2 tonnes attained from traditional pure-line rice varieties. This amounts to an extra yield of 31 per cent viz., 1.6 tonnes per hectare. In some instances, hybrid rice yield is even greater by 35 to 44 per cent than the traditional varieties. In other words, gains from hybrid rice have been assessed to be 1.5 to 1.75 tonnes per hectare. In spite of success at on-farm trials, India has been able to attain only 0.15

Notes

million hectares under hybrid rice as against the target of 2 million hectares by the year 2000. The following factors are accountable for the slow progress:

- (a) Since the extra seed costs for hybrid seeds are of the order of ₹ 1,500 per hectare, the yield gain has returns to the farmer. As a result, the farmers have not felt inspired about the use of hybrid rice.
- (b) The existence of an aroma and stickiness in the hybrid-rice grain has not been able to make it acceptable to the consumers, especially in South India. Consequently, hybrid rice fetches lower prices, which again generates an unfavourable influence on the rate of return to farmers.
- (c) Hybrid rice is also said to be more vulnerable to pests and diseases.

As per Mr Harish Damodaran, China is “the only country that has so far actually managed to adopt hybrid technology in any important way. Over 50 per cent of China’s 32 million hectares rice area is recently covered under hybrid rice, which also explains for 70 per cent of total rice output. To turn hybrid rice more acceptable to the farmers, China offered seeds to farmers at subsidised prices. Also, the Chinese government offered incentives to hybrid seed growers to diminish costs. China has also standardised its hybrid seed production methods, with seed yields averaging 2.5 tonnes per hectare, against 1 to 1.5 tonnes being attained by experienced breeders in India.

But, the hybrid technology in wheat is still at an initial stage of development and research attempts shall have to be reinforced for quite some time so as to acquire a break-through in the yield barrier.



Task

Research on the progress of agriculture in Haryana and Punjab economy.

Self Assessment

Fill in the blanks:

10. Audit is
11. India has been able to bring only million hectares under hybrid rice as against the target of 2 million hectares by the year 2000.
12. in India have been making efforts to develop hybrid varieties of rice and wheat so that the yield barrier operating at present can be broken.

6.4 Thrust Areas in Agriculture Sector

You must understand that on the basis of topography and climatic conditions of the State and endeavour for accomplishment in food self-sufficiency, urgency will remain to be given to food-grains production. Though area extension under food-grains is imperfect due to the hilly terrain, the main policies will be to further develop the present rice fields with irrigation facilities for numerous cropping, increase the level of efficiency per unit area over efficient use of fertilizers and organic manure, more area attention under high yielding varieties, adequate and need-based plant safety measures and adoption of better crop production technology. Further, land otherwise unsuitable for food-grain crops will be profitably exploited for rising of horticulture and plantation crops. The priority areas are:

- Attempting to increase crop intensity by facilitating the availability of proper inputs and other necessary resources.

Notes

- Attempts to improve marketing facilities and marketing linkages.
- Attempts to popularise cultivation of Maize, Wheat and Pulses through crop demonstration and mini-kit programmes.
- Development of necessary infrastructure for phyto-sanitary facilities.
- Emphasis on the development of rural infrastructure for effective storage facilities and market infrastructure.
- Encouraging farmers for production of organically produced crops through use of organic manure, etc.
- Encouraging rabi (winter) crop cultivation with concentration on rabi maize and winter vegetables with local improved and high yielding varieties.
- Ensuring availability of irrigation facilities from minor irrigation projects, diesel pump-sets and shallow-tube wells and maximizing utilization of command areas especially in the winter months for multiple cropping.
- Ensuring of adequate and need-based plant protection measures to reduce losses in crop production.
- Extension of subsidies on both organic and inorganic fertilizers and encouraging use of organic manure. Awareness programmes through farmers' training and demonstration on technology for production of vermiculture, etc.
- Frequent and widespread publicity campaigns.
- Implementation of existing developmental schemes in right earnest and formulation of schemes for employment generation that would provide ample scope for involvement of unemployed youth for earning their livelihood.
- Implementation of Watershed Development programmes with involvement of watershed functionaries at the management level.
- Increasing the availability of proper agricultural machineries through schemes for mechanization of agriculture and popularization of power tillers, small tractors, hand tools and other farm implements.
- Introduction of high yielding varieties of seeds and more area coverage under such seeds with higher yields wherever suitable to be grown with proper package of practices. To encourage farmers to replace the improved and traditional varieties with low yield records by HYV seeds including maintenance of germplasms of indigenous local varieties.
- Production and multiplication of quality, disease-free certified and true to type seeds through establishment of seed farms in all the districts of the State to be supplemented with the setting up of seed certification agency. Introduction of the seed village concept in the pattern of registered growers for seed potato to be looked into as an alternative.
- Raising the level of productivity per unit area through increased and judicious use of fertilizers.
- Strategic interventions through timely delivery of agriculture inputs and efforts to encourage the farmers to go in for timely sowing of seeds and transplanting of seedling.
- Strengthening and modernisation of the Extension wing for the purpose of wide publicity and improving efficiency in transfer of technology to farmers in aspects of package of practices, new technique and improved cultivation methods so that the production and productivity can be increased. Effective mobility of extension personnel through provision of two-wheelers on loan basis.

Notes

- Stress on evaluation and monitoring through on-going programmes to realize the impact of the schemes being implemented.
- Systematic interaction with Research organisations like ICAR for technical guidance in various areas of crop production, evolving of specific rice varieties for mid and high altitude regions and varietal improvement of local cultivars for better productivity.
- Thrusts on land development and management.
- Use of Information Technology through setting up of computer network for imparting new technology and for providing marketing intelligence system.
- Use of Sprinkler irrigation, Drip irrigation, mulching and rain-water harvesting to be given more emphasis.

6.5 Agriculture in India Since 1961

In this section, you will study about the agriculture in India. The status of agriculture in India can be understood by the help of taking an example of a state of India like Goa.

Goa is a small State situated on West Coast of India, extent over in an area of 3,702 sq. km. The State is bordered on the east by Sahyadri Mountains and on the West with Arabian Sea. The Northern slope of Goa borders Maharashtra State while Southern zone is bordered by Karnataka State. Goa has rich wealth of biodiversity. The State of Goa was governed by Portuguese for nearly 450 years till it was liberated in 1961. For last 50 years of Liberation, the State has made an extraordinary development in agricultural area besides numerous other scopes of economic upliftment. The GSDP of Goa stands at ₹ 80,000 per annum. Though tourism and mining are at front position in terms of employment generation, agriculture has been providing employment support to almost 12% of the population. The Agriculture along with Forests in Goa is instrumental in keeping Goa green and cover nearly 65% of the total area of the State. In the last fifty year of liberation, the State has seen main changes in the agriculture sector. At the time of liberation, nearly 70% of the population was involved in agriculture as their full time occupation. Paddy was the main crop of the State tracked by Cashew and Coconut. The cropping design is altering and today, we have Cashew nut which is refined in nearly 55,000 ha with paddy covering about 31,000 ha. The cultivation of horticultural crops is gaining importance due to the better returns, lower risk and tolerance of these crops for part time farming.

Climate and Rainfall

You may already be aware that Goa gets rain from the South-West monsoons. The normal rainfall is 2800 mm. rainy season is spread over four months from June to September. Occasional thunder showers are experienced in May and October. Goa involvements warm and humid tropical climate. The summer temperature ranges from 24°C to 36°C. In winter, the mercury hovers between 21°C and 30°C.

Humidity

The average relative humidity is 75.90%.

Altitude

In Goa, the land elevation ranges from sea level to 1,022 meters. The highest point is the Wagheri Hills in Sattari taluka. The Ghat section of NH-4, rises to 650 meters MSL near Anmod.

Soils

Notes

The soils of Goa are generally lateritic (81%). They are sandy loam to silt-loam texture, well drained and very acidic (5.5 to 6.5 pH). These soils have reasonable organic carbon and are poor in potash.

About 11% of the soils placed along the seacoast and estuaries are sandy-to-sandy loams. They comprise the Ker lands and beach fronts. The remaining 8% of the soils are alluvial in nature. The Khazans and attached areas have alluvial soil with high water tables and are subject to inundation by saline water.

Land Types

The various types of land are as follows:

1. **Khazan Land:** It comprises low-lying areas, often below sea level laterally the estuaries. This land is used for monsoon paddy crop followed by Rabi vegetables. In limited areas, pisciculture is also completed by regulating flow of water.
2. **Ker Land:** This is flat land at low elevation above sea level and having a high water table. Rabi paddy vegetables, pulses, etc. are grown in these areas.
3. **Morod Land:** It refers to upland or terraced field suitable for horticultural/plantation crops or single rain fed crop of rice.

Irrigation

It is important to note that in Goa old-fashioned foundations of irrigation were storage tanks, small change bandharas, natural springs and wells. For rabi paddy (vaigon) irrigation was frequently from storing tanks located in Salcete and Bardez. The normal practice is to nurture kharif paddy in tank bed and the water dyke is closed early in September after harvest of Kharif paddy. In Panda, Sanguem and Bicholim small kucha "diversion" works are built on Nalas to irrigate paddy fields during Rabi. Substantial area under arecanut depends on various springs at higher altitudes.

After liberation of Goa, a number of Government "lift irrigation schemes" were appointed. Irrigation wells were also unlocked. Further by appointing of Salaulim Irrigation Project at Sanguem and Anjunem Irrigation Project, State has added to irrigate an area of more than 10,000 ha.

Agricultural Development Programme

You must understand that the State of Goa is providing help to agriculture at all heights to provide substantial revenues to rural people. The Department of Agriculture delivers support for farmer from land homework to the degree of marketing of the produce. The Department of Agriculture with its head quarter at Tonca, Panaji implements developmental programme through Zonal Agricultural Offices located in each taluka of Goa. The Department has plant manufacture centers in their agricultural farms. Machinery facility centres at the Taluka Level and Training Centre at District Level. The Soil Testing Laboratories are positioned at district level where soil health cards are issued for major and micronutrients.

Being a progressive State, the farmers face wonderful shortage of manual labour. The requirement of machines for activities in agriculture is the developing trend. The land holding of farmers of Goa is small and nearly 80% of farmers own less than 1 ha of land. The smaller machines are desired and government offers financial assistance for such machines. The Government

Notes

encourages large scale cultivation of numerous crops for which assistance for seed, pesticides, manures besides land preparation is delivered.

Goa is perhaps the only State where the farmers are guaranteed of the price for their produce. The State provides declaration of support price in case of paddy. Coconut, arecaut, oil palm, sugarcane which safeguard the farmers against any losses due to breakdown in market price to keep farming at its prime level.

The farmers are provided assistance at the taluka level which is located at Pernem, Bardez, Bicholim, Sattari, Tiswadi, Salcete, Ponda, Sanguem, Canacona and Quepem.

Agro Processing

It is essential to understand that processing adds value to agricultural produce. Fruit processing such as Mango, Kokum, Jamun are supportive to the sector. Agro cottage industries making Papad, Pickles, Medicine, Masala, etc. are also coming up.

Marketing

The marketing of the agriculture harvest is done in the Govt. market yards, co-operative societies, private dealers, local market, etc.

Agro Tourism in Goa

Goa is well-known for tourism all over the world. It is picking up as one of the desired Agro Eco Tourism destination. Farmers having Agriculture as base with spice plantation/horticulture plantation, floriculture and nature resources like rivers, ponds, rich biodiversity, jungles with various flora and fauna, adventurous sports, healthy and peaceful environment with entertainment are offering in to this business along with Agriculture. Visitors and tourists also desire this as they have a soothing place where they can revive themselves over a weekend.

Agriculture Scenario and Land utilization in Goa (Pattern of land area in Ha-2009)	
Total Area for Land Utilisation	3,61,113
Forest cover	1,25,473 - 34.74%
Land not available for cultivation	37,137
Permanent pastures & other grazing land	1,305
Cultivable waste land	52,533
Net area sown	1,31,387
Area sown more than once	28,733
Food grain crops	55,148 ha. - 37.65%
Horticulture crops	1,01,481 ha. - 59.54 %
Sugarcane, oil seeds	3,721 ha. - 2.81%
Irrigated area	38,563 ha. - 22%
Rain-fed area	1,21,757 - 78%
Population supported by agriculture	16%
Holding up to 2 ha.	92%
Total cropped area	1,60,320 - 46 .94%

Source: <http://www.agri.goa.gov.in/agriculture-in-go>

Progress in Agriculture (Since Liberation) – 50 Years

Name of the Crop		1960-61		2009-10	
		Area (Ha)	Total Production (Ton)	Area (Ha)	Total Production (Ton)
Agriculture	Paddy	50302	79948	47104	150919
	Pulses	6998	3500	7890	8535
	Groundnut	50	49	2828	8055
	Sugarcane	70	2822	893	52343
	Cashew nut	32517	3000	55732	17556
	Coconut	18497	70	25686	128.76
			(million nuts)		(million nuts)
	Arecanut	1721	1735	1713	2795
	Banana	1100	6600	2219	24662
	Pineapple	40	400	273	4520
	Vegetables	78	634	5671	58130
	Black Pepper	–	–	717	230

Source: <http://www.agri.goa.gov.in/agriculture-in-go>



Case Study

Tapping the Opportunities in Environment: A Case Study of Yes Bank

Yes Bank is the country's youngest bank – and the first greenfield to be set up in 12 years – very much optimistic about its future. It is already drawing up ambitious expansion plans, not just at home but also internationally. Yes Bank began operations in August 2004. It had a successful Initial Public Offering (IPO) in June 2005, when its issue was oversubscribed about 25 times. Today, it has managed to carve a niche for itself in areas like cross-border deals and currency strategies.

“One of the strengths and differentiating features of Yes Bank is its knowledge banking approach. Our approach is service oriented; we offer what is missing in the market place. We offer choice and convenience to customers.”

—*Rana Kapoor*
Late founder, Yes Bank

It was December of 2006 when Business World rated Yes Bank as the third largest bank in a survey that included both public and private sector banks. This was not the only award the bank got. It has received a number of accolades since its inception in 2004. Considering a late entry in an industry where all others have a prominent set up in the market and the scepticism it faced from the experts on the announcement of entering into this overcrowded market, the bank differentiated itself, by employing what they called “knowledge banking approach”, which has a huge emphasis on technology and human resource. The knowledge banking concept was the main differentiator and using this approach, they were planning to give specialized services.

Yes Bank focuses on three distinct segments: corporate and institutional banking, business and transactional banking, and retail banking and wealth management. The wholesale (corporate and institutional) banking division made waves, when it managed two major overseas Mergers and Acquisitions (M&A) deals on behalf of its Indian clients.

Contd...

Notes

Its investment bankers helped stitch up the second largest Indian cross-border acquisition, when Pune-based Suzlon, the world's fifth largest wind turbine maker acquired Belgium-based Hansen Transmissions International NV, the world's second largest wind turbine gearbox maker, for \$560 million. The other major overseas M&A deal it was involved was of United Phosphorous, which acquired Advanta Netherlands Holding BV for almost \$120 million. Leading international financial data and news provider, Bloomberg, recently ranked Yes Bank No 1 in the M&A Outbound cross-border transactions category, and No 5 in the M&A "overall" category.

The focus of its corporate division is on knowledge-driven banking. The bank has built up specialized domain knowledge and understanding in some key sectors, including food and agribusiness, life sciences, telecommunications, media and technology, infrastructure, and select manufacturing industries including textiles. The bank has recruited 'technocrat bankers' – with engineering and MBA backgrounds – who can offer in-depth insights into these sectors to its clients. The bank has also invested considerably in its treasury practise and aims to ultimately emerge as a rupee bank.

In the corporate finance segment, Yes Bank's strengths are in structured lending programmes, long-term funding for infrastructure projects, funding of acquisitions, and financial restructuring. One sure-fire segment of the corporate world, offering tremendous potential for growth, is "Emerging Indian companies". Yes Bank hopes to play the role of 'money doctor,' providing a 360-degree approach, thanks to its domain knowledge and expertise in specific fields. Many of these mid-size companies have overseas expansion ambitions, and Yes Bank will be there to help them in acquiring other firms, or setting up overseas operations. The bank will of course also be catering to large companies (with turnover exceeding \$100 million), and small and medium enterprises (in the \$1 million to \$10 million bracket).

Like other PSU and Private Banks, Yes Bank is also focusing on retail sector, but its retail focus will be on owners of tiny businesses and firms in the unorganized sector, and affluent individuals with incomes exceeding \$10,000 annually. There are about 12 million households in this category in India. Some can be found outside the metros and large cities and state capitals.

The Yes Bank believes that despite the growing emphasis on the retail sector, there is vast room for improvement in service standards. The bank, which has entered into alliances with best-of-breed technology partners – and has won awards from AC Nielsen (for Technology Innovation) and the National Association of Software and Service Companies (for IT innovations in Emerging India) – aims "to create a delightful experience" for its customers, and fill "the missing link" in the Indian banking sector.

The bank also offers wealth management services to both resident high net worth individuals and for 'global Indians'. Besides expanding its domestic network, Yes Bank does hope to emerge as a global bank – with a strong presence in countries with a significant ethnic Indian population. But in its first phase of expansion, it focused predominantly on building a strong home-country bank. With a critical mass of Indian companies expanding overseas into Europe and South East Asia, there is strong need for advisory services from Indian banks, and a very compelling case for their overseas presence.

Questions

1. Discuss the Yes Bank's strategy to grow.
2. Explain how Yes Bank is capitalizing on the changing environmental factors.

Source: Business Environment, Dr Vivek Mittal, Excel Books; "Wireless Banking getting nod", www.Intel.com./casestudies/yes_bank.pdf

6.6 Summary

Notes

- Agricultural growth has direct impact on poverty eradication.
- It is also an important factor in containing inflation, raising agricultural wages and for employment generation.
- Indian agriculture has been the source of supply of raw materials to our leading industries. Cotton and jute textile industries, sugar, flour mills vanaspati and plantations—all these depend on agriculture directly.
- In recent years, the significance of agriculture to industries is going down as many new industries have come up which are not dependent on agriculture.
- Under the Five-Year Plans, iron and steel industry, chemicals, machine tools and other engineering industries, automobiles, information technology etc., have come up in a big way.
- However, in recent years, the importance of food processing industries is being increasingly recognised both for generation of income and for generation of employment.
- India should make an effort to bring down the seed costs by standardizing hybrid rice seed production techniques. The Government should also provide hybrid rice seed at subsidised rates to farmers.

6.7 Keywords

Agriculture: The science, art, or occupation concerned with cultivating land, raising crops, and feeding, breeding, and raising livestock; farming.

Farming: The activity or business of growing crops and raising livestock.

Food Grains: Foodstuff prepared from the starchy grains of cereal grasses.

Green Revolution: A large increase in crop production in developing countries achieved by the use of fertilizers, pesticides, and high-yield crop varieties.

Irrigation: It refers to the supply of water from Indian rivers, tanks, wells, canals and other artificial projects for the purpose of cultivation and agricultural activities.

6.8 Review Questions

1. Briefly explain the concept of green revolution in concern with Indian agriculture.
2. Explain the essentials of agricultural development for economic growth.
3. What are the objectives of economic planning for the agricultural sector?
4. Discuss the pattern of investment in the agricultural sector.
5. Give a brief summary on agricultural progress under Five Year Plans.
6. Highlight the pattern of outlay on agriculture in the Tenth Plan.

Answers: Self Assessment

- | | |
|---------------------|----------------|
| 1. Agriculture | 2. 60 per cent |
| 3. National economy | 4. Indicated |

Notes

- | | |
|----------------------|----------------------------|
| 5. Multiplier effect | 6. Agricultural sector |
| 7. 11th Plan | 8. Agricultural Commission |
| 9. Volatile | 10. Variation |
| 11. 0.15 | 12. Scientists |

6.9 Further Readings



Books

Hanumantha Rao, C.H. (1994) *Agricultural Growth and Stagnation in India*, in Readings in Agricultural Development, ed., A.M. Khusro.

Government of India, Ministry of Finance, *Economic Survey*, 2007-2008.

Damodaran, Harish (1999) *Green Revolution Fatigue - Have yields begun to plateau?* Business Line.

Bhalla G.S. (2007), *Indian Agriculture Since Independence*.



Online links

<http://ageconsearch.umn.edu/bitstream/17342/1/ar560021.pdf>

<http://www.ibef.org/industry/agriculture-india.aspx>

<http://agriinfo.in/?page=topic&superid=9&topicid=185>

Unit 7: Indian Industries

Notes

CONTENTS

Objectives

Introduction

7.1 Industrial Pattern and Plans

7.1.1 Role of Industrialisation

7.1.2 Pattern of Industrialisation

7.2 Industrial Pattern on the Eve of Planning

7.3 Industrial Pattern and the Five-Year Plans

7.3.1 Industries in the Second Plan (1956-61)

7.3.2 Industries in the Third Plan (1961-66)

7.3.3 Industries in the Fourth Plan (1969-74)

7.3.4 Industries in the Sixth Plan (1980-85)

7.3.5 Industries in the Seventh Plan (1985-90)

7.3.6 Industries in the Eighth Plan (1992-97)

7.3.7 Industries during the Ninth Plan (1997-2002), Tenth Plan (2002-07) and Onward

7.4 Role of Small-scale Industry

7.5 Industrial Policy Resolutions and SSIs

7.5.1 Industrial Policy Resolution, 1948

7.5.2 Industrial Policy Resolution, 1956

7.5.3 Industrial Policy Resolution, 1977

7.5.4 Industrial Policy Resolution, 1980

7.5.5 Industrial Policy Resolution, 1990

7.5.6 Industrial Policy Resolution, 1991

7.5.7 Comprehensive Policy Package for SSIs and Tiny Sector, 2000

7.5.8 Industrial Policy Package for SSI, 2001-02

7.5.9 Industrial Policy on SSIs, 2003-04

7.5.10 Policy Initiatives on SSI, 2004-05

7.5.11 Policy Package for SME, 2005-06

7.6 Summary

7.7 Keywords

7.8 Review Questions

7.9 Further Readings

Notes**Objectives**

After studying this unit, you will be able to:

- Describe the industrial pattern and plans
- Know about the Five-Year Plans
- Elaborate few large scale industries

Introduction

Industry is the production of an economic good or service inside an economy. Manufacturing industry turned into a key sector of production and labour in European and North American countries at the time of the Industrial Revolution, upsetting earlier mercantile and feudal economies. This happened through many successive quick advances in technology, like the production of steel and coal. Following the Industrial Revolution, maybe a third of the world's economic output is extracted from manufacturing industries. Several developed countries and many developing/semi-developed countries (People's Republic of China, India etc.) rely vitally on industry. Industries, the countries they inhabit in, and the economies of those countries are interlinked in a complicated web of interdependence.

In this unit, you will understand the industrial pattern and plans and on the eve of planning. You will also study about the five-year plans and the large scale industries.

7.1 Industrial Pattern and Plans

In this section, you will understand about the industrial pattern and plans. The industrial revolution resulted in the development of factories for large-scale production, with subsequent changes in society. Initially, the factories were steam-powered, but later transitioned to electricity once an electrical grid was created. The mechanised assembly line was launched to assemble parts in a repeatable manner, with individual workers performing particular steps during the process. This resulted in important increases in efficiency, lowering the cost of the end process. Later automation was progressively used to replace human operators. This process has speeded with the development of the computer and the robot. An industrial society can be described in several ways. Today, industry is a vital part of most societies and nations. A government must have some type of industrial policy, monitoring industrial placement, industrial pollution, financing and industrial labour.

7.1.1 Role of Industrialisation

It is important to note that industrialisation has a main function to play in the economic development of the underdeveloped countries. The space in per capita incomes between the developed and underdeveloped countries is hugely mirrored in the disparity in the structure of their economies; the former are largely industrial economies, whereas in the latter production is restricted predominantly to agriculture. Table 7.1 clearly discloses the positive relationship between per capita income as well as the share of manufacturing output (industry involving construction). Undoubtedly, some countries have attained comparatively high per capita incomes by virtue of their privileged natural resource endowments. Petroleum exporting countries such as Saudi-Arabia, Kuwait, and UAR have attained higher per capita income by exploiting the strong benefit that they enjoy in international trade. However these countries are a somewhat special case.

Notes

The pattern of 'growth via trade' in primary commodities was, however, understood in the nineteenth century when industrialisation was intimately connected with international trade, because (a) countries earlier isolated by high transport costs and other barriers came to specialize, and (b) economic development via trade was diffused in outlying regions because the pattern of advance in the rising industrial countries occurred to be such as to cause a quickly growing demand for crude products of the soils which those regions were well-fitted to supply. This conventional pattern of growth through trade is out of place at present. As rising levels of per capita consumption have slowly converted the composition of demand for goods and services and as technological modifications have led to the more economic use of new materials or the development of synthetic substitutes, the growth of import demand of the advanced countries for majority primary products has lost the momentum of the previous period and, at present, it lags behind the growth in their domestic incomes and output. The volume of exports from the underdeveloped countries spread at a rate of 3.6 per cent per annum whereas the exports from the developed countries increased at the rate of 6.2 per cent. This export lag is escorted by deterioration in their terms of trade. Hence in view of unfavourable trends in world trade of primary commodities, industrialisation is the just effective response to the issues of under-developed countries. They can no longer rely upon trade for their development; they have to activate dynamic elements within their economies.

Table 7.1: Percentage Industrial Distribution of Gross Domestic Product and per Capita Income (2009)

Industrial origin of Domestic Product at factor cost (Percentages)	Per capita income in U.S. Dollar (2008)	Agriculture	Industry	Services
U.S.A.*	46,436	1.3*	20.8*	77.3*
Belgium	44,429	.8*	23.1 *	76.1 *
U.K.*	35,164	.7*	23.7*	75.1 *
Japan	39,726	1.4*	29.3*	69.3*
China	3,744	10.3	46.3	43.4
India	1,134	17.1	28.2	54.6

Source: Indian Economy, Datt and Sundharam, S. Chand

Also the limitation of 'trade gap', these countries are confronting a relentless increase of population combined with a possibility of diminishing returns in agriculture which is instrumental in developing the trap of poverty. The necessary precondition for development (and to break this vicious circle) is an all-inclusive rise in low productivity occupations to high productivity occupations. Generally, the net value of output per person is greater in industry than in agriculture. In industry, the scope for internal as well as external economies is higher than in other sectors and definitely greater than in agriculture. As industrialisation advances, economies of scale and inter-industrial linkages (complementarity) become more pronounced. It also results in the creation of economic surplus in the hands of industrial producers for additional investment.

You must understand that the industrial sector which owns a comparatively high marginal propensity to save and invest contributes considerably to the eventual attainment of a self-sustaining economy with continued high levels of investment and quick rate of increase in income and industrial employment. Also, the process of industrialisation is related to the development of mechanical knowledge, attitudes as well as skills of industrial work, with experience of industrial management and with other aspects of a modern society which in turn, are advantageous to the growth of productivity in agriculture, trade, distribution and other

Notes

associated sectors of the economy. As a result of these factors, any successful transfer of labour from agriculture to industry results in economic development. Industrialisation is hence inseparable from substantial, sustained economic development as it is both a consequence of higher incomes and a way of higher productivity. With the increase in income levels people tend to bestow more on manufactured goods than on food. The differential income elasticity of demand confers an advantage on the manufacturing countries in the form of providing expanding market higher productivity makes it an appealing occupation to influence population transfer so as to arrest the tendency of diminishing returns in agriculture. Industrialisation serves as an instrument both of developing capacity to absorb surplus labour power and of catering for the diversification of the market needed at higher stages of economic development.

In many situations, the diversion of underemployed rural labour to non-agricultural occupations is an urgent need for development. But it does not depict that industrial development can be dissociated from progress in the agricultural sector. Enhancement in productivity in agriculture develops surplus which can be used to support increasing labour force in industries. Besides offering a large portion of the sustenance for the growing urban population, the agricultural sector supplies a market for manufactured goods out of greater real incomes and a source of foreign exchange to pay for imported capital goods for industry; it also offers a source of capital for industry via the medium of capital accumulated by traders and results in the growth of an exchange economy – all such factors promote the growth of manufacturing industry. In fact, unless agriculture is modernised substantially, industrial expansion is likely to proceed at a slow speed because of lack of purchasing power in the hands of the bulk of population. The issue confronting the less developed countries is, hence, not one of choosing between primary and secondary activities but instead one of ensuring the balanced expansion of all proper sectors of the economy.

7.1.2 Pattern of Industrialisation

It is important to understand that while there is now nearly universal agreement on the significance of industrialisation, there is still much debate related to the proper pattern of industrial development. Historically, industrial development has proceeded in three stages. In the initial stage, industry is involved with the processing of primary products: milling grain, extracting oil, tanning leather, spinning vegetable fibres, preparing timber and smelting ores. The second stage consists of the conversion of materials making bread and confectionery, footwear, metal goods, cloth, furniture and paper. The third stage comprises of the manufacture of machines and other capital equipment to be utilised not for the direct satisfaction of any instant want but in order to enable the future process of production. Hoffmann grouped all industrial output into two categories, consumer goods and capital goods output and grouped various stages with relation to the ratio of consumer goods output to that of capital goods productivity. "In stage one the consumer goods industries are of overwhelming importance, their net output being on the average five times as large as that of capital goods industries." This ratio is 2.5:1 in the second stage and declines to 1:1 in the third stage and still lower in the fourth stage. Both these kinds of classifications stress on the increasing role of the capital goods industries in the economy as industrial development occurs.

You may already be aware that although the general development of industry itself has advanced from consumer goods to the capital goods, there are several variations of this pattern, both with relation to time taken to attain later stages and in terms of comparative importance of each of the stages. Soviet pattern of industrialisation includes a straight jump from the first to the third stage while British pattern is that of a slow evolution. Likewise, underdeveloped countries may also develop a different pattern of industrialisation appropriate to their economic conditions. It has been advised that the pattern of industrialisation in under-developed countries should be directed primarily by considerations arising from the comparative scarcity of capital. Since

Notes

labour is comparatively plentiful and capital scarce, the development of labour-intensive consumer goods appears quite legitimate. But, the basic premise of this approach is inappropriate. The issue is not how to economise the utilisation of capital (this has to be done as an inevitable situation) but how to increase its supply. As most underdeveloped countries do not produce these goods at home, the only option to increasing their supplies is via imports. This relies upon the rate of growth in exports of primary commodities as well as manufactured goods. As it has been indicated above, the countries are confronting an “export lag” in their exports of primary commodities. Consequently, you must take into consideration that primary commodity exports do not appear to be a reliable source of foreign exchange earning so as to increase the import of capital goods.

The option to the increase of exports of primary products from under-developed countries would be to establish export promoting manufacturing industries. However, the main trouble is that in producing goods of this sort, say textiles, the advanced industrial countries themselves are probably to have an overpowering comparative advantage. This does not essentially mean that export promoting industries should not be developed; it only depicts that specialisation in some industries for export is not an alternative for the growth of a diversified domestic industry. In case, however, the growth in foreign exchange earnings cannot be reinforced by the promotion of export industries, the spread of import replacing consumer goods industries can issue foreign exchange for imports of capital goods. Import substitution is of two kinds:

- (a) the substitution of home produced goods for imported goods, and
- (b) the substitution of capital goods imports for consumer goods imports.

Hence, if a country cannot increase its export earnings adequately, it can still increase its import of capital equipment by decreasing its imports of consumer goods. This process of import substitution, itself develops import demand for specific ancillary goods which are required for the production of those consumer manufactures. We are hence confronted with a problem of choice between expansion of export-oriented industries or of import substitution industries. The capital accessible for investment in an under-developed economy being restricted, the allotment of funds to an export project decreases the scope of investment oriented towards import-substitution. In case export-oriented industries are successful in inspiring exports, they raise the supply of foreign exchange and if import substitution is effective, it issues foreign exchange so that the influence of these alternatives on the supply of foreign exchange is similar. How should we choose between these two alternatives?

Although, you must understand that the influence of the development of these two types of industries on foreign exchange is identical, yet an import-substituting industry reinforces the economic independence of the country, whereas export-oriented prospect, on the contrary, increases its reliance on the fluctuations of prices and volume of trade in foreign markets. Hence, in general, an import-substitution project should be chosen over an export-oriented project.

Self Assessment

Fill in the blanks:

1. The which possesses a relatively high marginal propensity to save and invest contributes significantly to the eventual achievement of a self-sustaining economy with continued high levels of investment and rapid rate of increase in income and industrial employment.
2. In many cases, the diversion of rural labour to non-agricultural occupations is an urgent requirement for development.

Notes

3. Though the of industry itself has proceeded from consumer goods to the capital goods, there are many variations of this pattern, both in terms of time taken to attain later stages and in terms of relative importance of each of the stages.
4. of industrialisation involves a straight jump from the first to the third stage while British pattern is that of a gradual evolution.
5. The alternative to the increase of primary products from under-developed countries would be to develop export promoting manufacturing industries.



Caselet

Himachal Govt. Supporting Industrial Growth in Large Scale: Virbhadra Singh

Chief Minister Shri Virbhadra Singh said Himachal had made significant progress in field of industrialization in past few years. He said that government had taken various steps to encourage industrial growth by simplifying cumbersome processes and other formalities. A Land Bank had been established for setting of new industries and infrastructural facilities in all industrial areas were being improved to ensure availability of quality power and better communication.

Shri Virbhadra Singh said that State Government was fully dedicated and geared-up to extend all support to prospective entrepreneurs by way of a provision of infrastructure, fiscal and other incentives, speedy clearances and other measures. He was interacting with the Baddi-Barotiwala-Nalagarh Industries Association (BBNIA) on 'Sustainability and Investment Promotion' here, on Friday evening.

He said the government had taken a significant decision to provide all clearances within 90 days for setting up new industrial projects and procedure for the transfer of land for industrial purposes. The procedures had been simplified for the approval of industries especially medium, small and micro projects so that apart from generating revenues, youth could get employment avenues at large scale.

Chief Minister said that State government was coming out with a new industrial policy wherein it had been proposed to effectively address the issue as regards fiscal concessions and initiative measures to ensure simplification of various procedures to facilitate the entrepreneurs.

Shri Virbhadra Singh said it was unfortunate that industrial package to the State was withdrawn before fixed time period due to pressure from the neighbouring States who feared that industries were shifting to Himachal Pradesh adding that it was not correct. He had taken up the matter vigorously with the Prime Minister Dr Manmohan Singh, UPA Chairperson Smt. Sonia Gandhi and Union Industries Minister Shri Anand Sharma for restoring the industrial package till 2020, He expressed hope that industrial package would be restored to the State and it would help in further acceleration of industrial growth.

Shri Virbhadra Singh said that BBN had emerged as industrial hub of the State which was generating more than 70 per cent of industrial revenue. The BBN Development Authority (BBNDA) was constituted during his last tenure as Chief Minister with an IAS officer as its Chairman but previous government kept this post vacant and additional charge was given to Deputy Commissioner of Solan. He said that a senior IAS officer would be posted as Chairman of BBNDA to ensure smooth functioning and gearing up the industrial growth.

Contd...

Notes

Industries Minister Shri Mukesh Agnihotri said on the occasion that industries were being encouraged by creating favourable infrastructure in the State. He said presently 494 medium and large scale and 39276 small scale industries units had been established with an investment of over ₹ 17,000 crore and employment to about three lakh people. He said that steps were being taken to promote Himachal Pradesh on industrial map of the Country.

Shri Agnihotri said that proposals worth ₹ 48,000 crore were received after withdrawal of industrial package but industries worth only ₹ 13,000 crore could materialize. The government was extending full support to prospective entrepreneur in the hilly State by way of providing proper infrastructure, incentives, speedy clearances and other measures to facilitate smooth business in the State.

Industries Minister said that new 'Industries Policy-2013' had been drafted and put on the official website of the Industries Department for seeking suggestions of the entrepreneurs and other stake holders. He requested the Members of BBNIA to give their valuable suggestions to make it more practical and relevant. He said that Industries Advisory Council would also be constituted soon.

Shri Agnihotri said that Mini Tool Room whose foundation was laid by Shri Virbhadr Singh at Parwanoo was being set up as full-fledged Tool Room on which ₹ 100 crore would be spent. He said that ₹ 100 crore would be spent for skill development in the State and three new industrial areas were being developed in Solan, Kangra and Una districts.

He said that BBNIA and other entrepreneurs should come forward to meet their Corporate Social Responsibility (CSR) by encouraging green industrialization and launching suitable welfare schemes for the employees and innovative welfare projects under PPP modes.

President BBNIA Shri Rajinder Guleria gave presentation on sustainability issues and road map of industries in the State.

Leading Industrialist of State and Chairman Vardhman Group Shri Sachit Jain gave presentation on industrial status and its growth potential in the State.

Former President BBNIA and Vice Chairman Chamber of Industries Shri Arun Rawat gave presentation on challenges and expertization of MSNE.

Chairman Pollutions Control Board Shri Kuldeep Singh Pathania, Chairman Labour Welfare Board Baba Hardeep Singh, Chief Secretary Shri Sudipta Roy, Principal Secretary Revenue & Industries Shri Tarun Shridhar, Principal Secretary Finance Dr Shrikant Baldi, Principal Secretary MPP & Power-cum-Chairman HPSEBL Shri S.K.B.S. Negi, Principal Private Secretary to the Chief Minister Shri Subhash Ahluwalia, Director Information & Public Relations and Managing Director SIDC Shri Rajinder Singh, Labour Commissioner Smt. Nandita Gupta, Director Industries Shri Mohan Chauhan, DC Solan Shri Madan Chauhan, other officers and entrepreneurs were also present on the occasion.

Source: <http://news.realhimachal.com/himachal-govt-supporting-industrial-growth-in-large-scale-vb-dingh.html>

7.2 Industrial Pattern on the Eve of Planning

This section emphasises on the industrial pattern on the eve of planning. Prior to the rise of the modern industrial system Indian manufacturers had a global market. Indian muslin and calicoes were in huge demand the world over. Indian industries not only supplied all local wants but also facilitated India to export its finished products. Indian exports comprised chiefly of manufactures such as cotton and silk fabrics, artistic ware, calicoes, silk and woollen cloth. The void developed by decay of Indian handicrafts was not filled by the rise of modern industry in

Notes

India due to the British policy of motivating the import of manufactures and export of raw materials from India.



Caution The impact of the British connection and industrial revolution led to the decay of Indian handicrafts. Instead, machine-made goods started pouring into India.

The British Government in India offered distinguishing protection to some chosen industries since 1923. This protection was escorted by the most preferred nation clause for British goods. In spite of this factor, some industries like cotton textiles sugar paper, matches and to some degree iron and steel did make advancement. But one thing was quite apparent that during the British period no attempt was made to foster the development of capital goods industries. Instead the British Government put definite obstacles and cold-shouldered their development. The chief features of the industrial pattern in India on the eve of planning (1950) were as below:

1. **Lop-sided Pattern of Industry:** The Indian industrial structure mirrored a lop-sided size-pattern. The total number of persons hired in manufacturing in mid-1956 was nearly 15 million. Out of this, only 3.9 million were hired in factories (described by the Act as unit of production employing 10 or more persons); 11.1 million were hired in household enterprises and workshops hiring less than 10 persons. Out of total factory employment 00.9 million persons, 1.2 million or 3.1% were in small factories, 1.0 million or 26 were in medium factories and 1.7 million or 43 per cent were focused in large factories. The distinctiveness of the industrial pattern of India was the high concentration of employment either in small factories and household enterprises, that is, the lowest size-group or that there was a high concentration of employment in large factories, that is, the highest size group. The medium size factories did not develop in India. The existence of this lopsided industrial pattern was because of the colonial nature of our economy. The foreign firms and those owned by big business and industrial magnates were of a very huge size arriving at the top of the pyramid, and at the bottom were a very huge number of indigenous small size firms. The lop-sidedness of the industrial pattern was shown in the absence of the middle entrepreneurs operating medium sized firms.
2. **Low Capital Intensity:** You must understand another characteristic of the Indian industrial pattern was the occurrence of low capital intensity. It was the outcome of two factors-first, the general level of wages in India was low, and, second, the small size of the home market in opinion of the low per capita income and the restricted use of mass production (or high capital intensity) techniques led to low capital per worker hired.

A comparison of the two sets of figures offered by the United Nations discloses that capital employed per worker was very less in India vis-a-vis U.S.A. Low capital intensity was mirrored not only in consumer goods industries such as bakery, cloth, sugar, etc., but also in capital goods industries such as iron and steel. (Table 7.2.)

Table 7.2: Capital Per Worker Employed in Some Industries

(In Thousands of dollars at 1960 prices)

	U.S.A	India
Alcoholic Beverages	16.0	6.1
Bread bakery products	5.0	3.5
Cotton yarn and cloth	8.7	1.8
Flour and gristmill products	39.1	5.6
Iron and steel	32.1	5.7

Contd...

Sugar-refinery	26.8	2.6
Wood-pulp, paper and paper products	10.2	0.6

Notes

Source: Indian Economy, Datt and Sundharam, S. Chand

3. Composition of manufacturing output mirrors the preponderance of consumer goods industries vis-a-vis producer goods industries. In 1953, the ratio of consumer goods to producer goods was computed to be 62: 38. As per the criteria advised by Hoffmann, India seems to have entered the second stage of industrial development. However even then, there is no doubt that the capital-goods sector is under-developed and there is a requirement for the expansion of this sector so as to make sure a quick rate of growth to make the economy self-reliant and finally foster the pace of industrialisation in the country. Only then can per capita income be pushed up at a quick rate.

There was a structural imbalance in the industrial pattern. In instance of consumer goods, domestic supply was over the demand. The index of domestic supplies of consumer goods was 112 in comparison to domestic demand equal to 100. But in instance of producer goods, the domestic supplies fell short of domestic demand. The index number of domestic supplies with respect to demand was 80. This enhanced our dependence on other countries in the capital goods sector. The conclusion is evident. There was a huge need for increasing the output of ultimate and intermediate producer goods so as to rectify the imbalance between their demand and supply. Industrial development "is not solely a process of expanding output to meet the rising demand created by growing per capita incomes, it is also a process in which existing demand for manufactures is met increasingly from domestic production instead of from foreign sources."

In brief, the industrial pattern in India on the eve of planning was indicated by low capital intensity, restricted development of medium sized factory enterprises as well as imbalance between consumer goods and capital goods industries. It would be of interest to inspect the extent to which the Five-Year Plans have made an effort to improve the industrial pattern, rectify its lopsidedness and develop the capital goods sector.

Self Assessment

Fill in the blanks:

6. The in India provided discriminating protection to some selected industries since 1923.
7. Composition of manufacturing output reflects the of consumer goods industries vis-a-vis producer goods industries.
8. Before the rise of the Indian manufacturers had a world-wide market.
9. and calicoes were in great demand the world over.

7.3 Industrial Pattern and the Five-Year Plans

In this section, you will study about the industrial pattern and their relationship with the five-year plans. The Government of India introduced the process of industrialisation as conscious and intentional policy of economic growth in initial fifties. The Government identified the important contribution industrialisation could make to the development process, "as a base for the growth of the primary sector, as a catalytic agent for the development of infra-structure, as a stimulant to generation of technologies through R & D effort ... and as a growth multiplier."

Notes

7.3.1 Industries in the Second Plan (1956-61)

You must understand that the Second Five-Year Plan programme for industrialisation imagined a big expansion of the public sector. A base of heavy industry was sought to be developed. The real investment in the public sector on organised industry was ₹ 870 crore. Private sector investment was ₹ 675 crore during the Second Plan period-more than envisaged in the Plan. Likewise, investment in village and small industries was ₹ 265 crore (in both public and private sectors). Taken jointly, total investment in industries was ₹ 1,810 crore, that is, 27 per cent of the total investment during the Second Plan.



Did u know? The Second Five-Year Plan programme for industrialisation was based on the Industrial Policy Resolution of 1956.

It is important to note that the industrial pattern sought to be created during the Second Plan was conceived with relation to the following priorities:

1. enhanced production of iron and steel and of heavy engineering and machine building industries;
2. expansion of capacity with relation to other development commodities and producer goods like chemical pulp, aluminium, cement, dyestuffs and phosphatic fertilisers, and of essential drugs;
3. modernisation and re-equipment of vital national industries which have already come into existence like jute and cotton textiles and sugar;
4. fuller utilisation of prevailing installed capacity in industries where there are gaps between capacity and production; and
5. expansion of capacity of consumer goods bearing in mind the needs of common production programmes as well as the productions targets for the decentralised sector of industry.

During the Second Plan, a main task in industry was the construction of three steel plants in the public sector: Bhilai Steel Plant in Madhya Pradesh, Rourkela Steel Plant in Orissa and Durgapur Steel Plant in West Bengal. The other programmes of industrial development involved the manufacture of electrical equipment, expansion of Hindustan Machine Tools, expansion of Sindri Fertiliser factory and the set-up of a fertilizer plant at Nangal, additional expansion of Hindustan Shipyard and Chittaranjan Locomotive factory. The Second Plan observed a main diversification of the industrial spectrum. It reinforced further the programmes of development with relation to oil exploration and coal and made a starting with the development of atomic energy.

Majority of the investments in the Second Plan were in heavy and basic industries. There was also quick expansion of machine-building industries for use in agriculture and transport and for these industries as paper, chemicals, cement, textile, jute, tea, sugar, flour and oil mills, mining, etc. Good progress was also recorded in modernisation and re-equipment of vital industries such as jute, cotton textiles and sugar. Quite a number of new industrial items were also generated in large quantity.



Example: Tractors, industrial boilers, milling machines, motor cycles, scooters.

In the area of village and small industries, substantial progress was recorded. Nearly 60 industrial estates consisting of 1,000 small factories were set up. The period also observed the rise of a vigorous class of small entrepreneurs. In numerous items such as machine tools, bicycles, sewing machines, electric motors, fans, hand tools, etc. production enhanced from 25 to 50 per cent

during the five-year period. Khadi, handloom and power loom cloth production enhanced from 1,610 million metres to 2,150 million metres.

Notes

7.3.2 Industries in the Third Plan (1961-66)

In this section, you must understand that with the base developed in the first two Plans, the Third Plan called for the maximum rate of investment to (a) reinforce industry, power and transport, and (b) quicken the process of industrial and technological change.

The complete financial outlay in organised industries and mining during the Third Plan era was ₹ 3,000 crore, out of which the outlay in the public sector was nearly ₹ 1,700 crore and that in the private sector ₹ 1,300 crore.



Notes The key role in industrial development programme is for the public sector.

The target of industrial development programme was to make the economy self-sustaining in producers' goods industries like steel, machine building, etc., so that the quantum of external assistance required could be curtailed to a very low level. A total target of 7 per cent rise in industrial production was envisioned in the Plan.

Apart from the year 1965-66, industrial output enhanced steadily at the rate of 7.6 per cent annually. The accomplishment was lower than the average of 14 per cent per annum observed in the plan. Although the rise in the output of producer and basic industries was greater than the real growth in the general index of production, yet it was much lesser than the target set out in the Third Plan.

In spite of the overall under-achievement of targets the Third Plan mirrored the first stage of a decade or more of intensive development resulting in a self-reliant and self-generating economy. Engineering industries such as automobiles, diesel engines, cotton textile machinery, electric transformers and machine tools, advanced as per set-targets as did industries like heavy chemicals, petroleum products, cement, etc. Mining and extractive industries also depicted considerable progress. It was during this era that a fairly sound base for future industrial growth was laid through the conclusion of projects of the HEC for manufacture of machinery and equipment for steel plants, the MAMC for the production of mining equipment as well as Bharat Heavy Electricals for power generation and transmission equipment.

7.3.3 Industries in the Fourth Plan (1969-74)

You must be aware that the Fourth Plan intended to finish industrial projects assumed in the Third Plan. It also targeted to increase capacities in export promotion and import substitution industries.

During the Fourth Plan, the real outlay on organised industry was of the order of ₹ 2,700 crore in the public sector. Hence, the financial investment was short of the targets set out in the Fourth Plan. Nearly three-fourths of the total investment was in the core sector, namely, iron and steel, fertilisers, non-ferrous metals, petroleum and petrochemicals, coal and iron ore.

The performance in industry was far short of even the modest targets set out in the Fourth Plan. On an average, the growth rate in industry was nearly 5 per cent which was much under targeted growth rate of 8 per cent envisioned in the Plan.

It is important for you to understand programmes of industrial development in the Fifth Plan were framed keeping in view the goals of self-reliance and growth with social justice.

Notes

The Plan proposed to lay stress on the following:

1. Quick growth of core sector industries by providing high priority to steel, mineral oils, non-ferrous metals, fertilisers, coal and machine building.
2. Development of industries which promise a quick diversification and growth of exports.
3. Enlarging the production of industries supplying mass consumption goods, namely, cloth, drugs, edible oils and vanaspati, sugar, bicycles.
4. Restraint on the production of unnecessary goods, except for exports.
5. Development of small industries by reserving 124 items especially for them and by starting an intensive programme for the development of ancillary industries as feeder industries to large-scale units.

Against the targeted annual growth rate of 8.1% in the industrial sector, the real annual industrial growth rate was of the order of 5.3 per cent during 1974-75 to 1977-78-much under the target.

7.3.4 Industries in the Sixth Plan (1980-85)

You must be aware that the Sixth Plan (1980-85) intended to work within the total developmental strategy particularly with relation to the objectives of structural diversification, modernisation and self-dependence. The other elements of policy involved the following:

- (a) To meet foreign exchange needs, export of engineering goods and industrial products, as also project exports would be intensified.
- (b) A judicious blend of allowing import of contemporary technology and promoting the development of indigenous know-how via domestic research and development.
- (c) New strategies for development of backward areas would be devised. The thrust would be to execute a new model of development which would stop concentration of industry in prevailing metropolitan areas.

A review of the progress of the industrial growth during the Sixth Plan discloses that as against the target of 7% growth in industrial productions, the growth rate attained, however, was just 5.5 per cent. This was lower than the trend growth rate of 6 per cent observed in the previous three decades.

7.3.5 Industries in the Seventh Plan (1985-90)

In consonance with the guiding principles of the Seventh Plan, viz., to attain growth with social justice, and enhancing productivity, the goals of the development programmes in the industrial sector were:

1. to make sure sufficient supply of wage goods and consumer articles of mass consumption at reasonable prices and of acceptable quality;
2. to maximise the utilisation of the prevailing facilities through restructuring, enhanced productivity and upgradation of technology;
3. to focus on development of industries;
4. with large domestic market and export potential to evolve as world leaders in them;
5. to usher in 'sunrise' industries with great growth potential and importance to our needs; and
6. to emerge an integrated policy towards self-reliance in strategic fields and opening up of avenues for employment of skilled and trained manpower.

Notes

The Seventh Plan offered for an investment of ₹ 19,710 crore in large and medium industries and ₹ 2,750 crore for the development of village as well as small industries. Total investment in the industrial sector would hence be of the order of ₹ 22,460 crore or 12.5% of the total Plan outlay. The annual target growth rate was 8 per cent.

It is essential to note the chief elements of the Seventh Plan industrial strategy were:

1. Rapid elimination of infrastructural constraints, by placing greater stress on additional availability of power via more efficient use of prevailing capacity as well as the set-up of new power stations involving super thermal and nuclear plants.
2. Motivation of modernisation and technological upgradation in industries such as textiles and sugar where a large number of units were established in the early portion of the 20th century.
3. Particular targets of productivity for major industries such as steel, petro-chemicals, fertilizers, non-ferrous metals, paper and cement were to be set for the Plan.
4. Export production was to be made an important portion of production in the domestic economy. An exclusive effort was to be made in chosen industries in which the country has comparative advantage and has attained a degree of industrial maturity.
5. Motivation of 'sunrise' industries such as telecommunications, computers, micro-electronics, ceramic composites and bio-technology. Industries were to be motivated to adopt technologies such as fibre optics, lasers, robotics etc. for improving productivity and quality.
6. Location of industries adjacent to the small district towns which were not industrialized so far would be promoted with a view to eliminating regional disparities and motivating dispersal of industries.
7. Nearly 30 per cent of industries-large and medium-had already installed pollution control system. The Seventh Plan intended to expand the coverage of this programme as also to reinforce it.

It is important to note that a review of the progress of the Seventh Plan discloses that the annual growth rate of the industrial sector involving mining, manufacturing and electricity generation during the Seventh Plan era was 8.5% which although marginally lower than targeted 8.7% was much greater than the 5.5% attained during the Sixth Plan.

7.3.6 Industries in the Eighth Plan (1992-97)

You are required to remember that the Eighth Plan was framed under a new environment when numerous reforms in industrial, fiscal, trade and foreign investment policies were launched in the economy - commonly termed as economic liberalisation. In the setting of the new Industrial Policy of July 1991, the function of the public and private sector was reviewed. In the first phase of planned development the public sector played an innovative role but its principal weakness was its exceedingly poor performance and its inability to produce adequate resources for sustaining the growth process. During this era, the private sector has come of age and has developed substantial entrepreneurial, technological, managerial, financial and marketing strengths. Hence, the private sector should henceforth play a greater function in the process of development. This new method is reliable with the general philosophy of positioning greater reliance on competitiveness of industries and effectiveness of operations. Future growth would, hence, be more in those sectors where the nation has comparative cost advantage.

Eighth Plan assigned a total investment of ₹ 38,083 crore for industry and mineral production (at 1991-92 prices). A review of the progress of actual outlay disclosed that at current prices,

Notes

₹ 40,759 crore were spent, but when assessed at 1991-92 prices, this worked out to be ₹ 31,382 crore. In other words, real investment worked out to be about 82% of planned investment. There was, hence, a serious shortfall of the order of 18%.

Performance of the industrial sector in the Eighth Plan is depicted in Table 7.3.

Table 7.3: Annual Growth Rates of Industrial Production

(Base 1993-94 = 100) Per cent

Mining Manufacturing Electricity General				
CAGR (1992-97) 3.8		8.0	6.6	7.3
Ninth Plan				
1997-98	6.9	6.7	6.6	6.7
1998-99	-0.8	4.4	6.5	4.1
1999-00	1.0	7.1	7.3	6.7
2000-01	3.7	5.3	4.0	5.0
2001-02	1.8	2.9	3.1	2.8
CAGR (1997-02) 2.5		5.3	5.5	5.0
Tenth Plan				
2002-03	5.8	6.0	3.2	5.7
2003-04	5.2	7.4	4.9	7.0
2004-05	4.4	9.1	5.1	8.4
2005-06	1.0	9.1	5.2	8.2
2006-07	5.3	12.5	7.3	11.5
CAGR (2002-07) 5.5		9.0	5.2	8.2
2007-08	5.1	9.0	6.3	8.5
2008-09	2.6	2.7	2.8	2.7
2009-10	9.9	10.9	6.0	10.5
2010-11	5.2	8.9	5.5	8.2
2011-12	-1.9	3.0	8.2	2.8
2012-13	-2.4	1.2	4.0	1.1

CAGR: Compound Annual Growth Rate.

Note: Growth rates from 1994-95 onwards are based on Index of Industrial production (IIP): Base 2013-94 = 100

Source: Indian Economy, Datt and Sundharam, S. Chand



Notes It may be noted that the overall rate of industrial production witnessed an average growth rate of 7.3 per cent against the target of 7.4 per cent in the Eighth Plan.

It will be surprising for you to know that analysing the factors for the slow growth of the industrial sector, it may be mentioned that the sudden opening up of the economy to the private sector and enabling the entry of foreign investors as anticipated in the Industrial Policy of 1991 uncovered the industry to foreign competition for which it was rarely prepared since it has been operating under a wholly protected environment for the last four decades. As a result, the slowdown was reflected in very low growth rates realised in the initial two years of the Eighth

Notes

Plan because of a slowdown in investment. Capital goods sector was hit the most and it registered negative growth rate of (-) 12.8%, (-) 0.1% and (-) 4.1% during 1991-92, 1992-93 and 1993-94 respectively. But, it did pick up during 1994-95 and 1995-96.

Numerous industries could not confront foreign competition as a consequence of decrease in import duties. Copper and paper industry were not in a position to confront external competition. In hydrocarbon sector also, numerous petroleum products were imported while domestic capacity faced under-utilisation. Dumping by foreigners also developed issues for many industries. The Government was not able to prepare anti-dumping machinery to confront the challenge.

Insufficiency availability of infrastructure such as power and transport bottlenecks and inadequate handling amenities at ports, also affected industrial production. It is actually disappointing that the addition to power capacity in the Eighth Plan was lower than that in the Seventh Plan even in absolute conditions. The average growth rate of electric energy during the Eighth Plan was 6.6% as against the target of 7.8 per cent for the Plan. This also served as a constraint. In fact, the Government retreated from investment in electricity generation in the hope that the private sector would fill the gap, but this did not emerge.

All the above factors led to shortfalls in industrial production. Although the overall target was almost fulfilled, but still in many crucial regions production targets could not be attained. The capital goods sector was particularly a victim of new Industrial Policy.

7.3.7 Industries during the Ninth Plan (1997-2002), Tenth Plan (2002-07) and Onward

It is important for you to note that the ninth Plan aimed at a growth rate of 8 per cent for industry, but realized growth rate was merely 5.0 per cent which was even lesser than the growth rate of 7.3 per cent achieved in the Eighth Plan. In this manner, it may be mentioned that the Ninth Plan was a failure. As against the target of 5.9 per cent for mining, the realised growth rate was hardly 2.5 per cent. Likewise, achievement in manufacturing was 5.3 per cent as opposed to the target of 8.2 per cent and in electricity, the realised growth rate was 5.5 per cent as opposed to the target of 9.3 per cent.

Ninth Plan allotted ₹ 69,972 crore for industry at 1996-97 prices, but the Tenth Plan discloses that the total allotment to industry in the public sector was ₹ 44,695 crore at 2001-02 prices. If we revalue the suggested allocation of the Ninth Plan of ₹ 69,972 at 1996-97 prices, it comes out to be ₹ 88,730 crore at 2001-02 prices. Comparing it with the public sector outlay of ₹ 44,695 crore, it infers that real expenditure of the public sector was only 50.3% of the proposed outlay. It was hoped that the private sector would fill the gap, but this did not occur.

Reviewing the internal as well as external factors for the strike during the Ninth Plan, the Tenth Plan states:

“The industrial slowdown is widespread, covering all broad sectors, e.g. manufacturing, electricity and mining and all end-use based groups such as capital goods, intermediate goods and consumer goods (both durables and non-durables). The slowdown in domestic and global demand appeared to be a major factor constraining industrial growth. Another major reason has been the decline in investment, noticeably by the private sector.”

The difficulties brought about by internal factors were intensified by the gradual growth of the world economy, which led to a substantial slowdown in manufacturing exports. This infers that failure of the Ninth Plan in industry can be credited to the decline in public sector investment which was not rewarded by an upturn in private investment.

You must take into consideration that analysing the performance of the Tenth Plan, Eleventh Plan mentions the following: “Industrial performance in the Tenth Plan period enhanced to a

Notes

respectable level of 8.9% from the very low level of growth rate of 4.3% in the Ninth Plan. The revival of industrial growth is a main accomplishment of the policy in current years. However, industrial performance requires to be improved if high quality employment in non-agricultural sector is to be produced. Within industry, the manufacturing sector, explaining for 77 per cent of industrial output has depicted vital growth acceleration in the past two years. This revival of dynamism in industry has to be continued to reverse the unacceptable decrease in the share of manufacturing in GDP that has occurred since 1991. This will also produce more employment opportunities for the burgeoning workforce. The Eleventh Plan targets at double digit growth both in manufacturing as well as in industry simultaneously, it will be critical to enhance the performance of the core sector (Cement, Steel, Coal, Oil, Fertilizers and Refined Petroleum) to make sure that their supply response is sufficient to sustain double digit manufacturing and industrial growth. It may be stated that the Eleventh Plan has set a target of 10-11 per cent growth in industry, both in industry and in manufacturing. In initial year of Eleventh Plan (2007-08) industrial growth was satisfactory, but performance in the year 2008-09 was not satisfactory. However it again enhanced in 2009-10 and 2010-11. Industrial growth plunged in the second, third and fourth quarters of 2011-12. This led to slippage of industrial growth rate to 2.8% in 2011-12. Industrial growth further plunged to only 1.1% in 2012-13.

Self Assessment

Fill in the blanks:

10. Inadequate availability of like power and transport bottlenecks and inadequate handling facilities at ports, also affected industrial production.
11. A number of industries could not face as a result of reduction in import duties.

7.4 Role of Small-scale Industry

In this section, you will learn about the role of small-scale industry. In a developing country like India, the character and status of small-scale industries is very important near poverty extinction, employment generation, rural development and making regional balance in elevation and growth of numerous development activities.

You must recognise that it is projected that this sector has been causative about 40% of the gross value of output shaped in the industrial sector and the group of employment by the small-scale sector is more than five times to that of the large-scale sector.

This evidently shows the reputation of small-scale industries in the monetary development of the country. The small-scale industry has been playing a significant role in the development process of Indian economy from the time of independence in spite of stiff struggle from the large sector and not very inspiring support from the government.

The following are some of the essential roles played by small-scale industries in India that you must keep in mind:

1. **Employment Generation:** The rudimentary difficulty that is challenging the Indian economy is the growing pressure of population on the land and the need to generate massive employment prospects. This problem is resolved to larger degree by small-scale industries for small-scale industries are labour concentrated in character. They produce huge number of employment prospects. Employment generation by this segment has shown a remarkable growth. It is a powerful tool of job formation.

2. **Mobilisation of Resources and Entrepreneurial Skill:** Small-scale industries can organise a good quantity of savings and entrepreneurial skill from rural and semi-urban areas continue unharmed from the clutches of large trades and put them into creative use by capitalizing in small-scale units. Small entrepreneurs also recover social well-being of a country by harnessing dormant, previously overlooked talent.

Thus, a massive amount of latent incomes are being prepared by the small-scale sector for the growth of the economy.

3. **Equitable Distribution of Income:** You must understand that small entrepreneurs arouse a redeployment of wealth, income and political control within societies in ways that are economically optimistic and without being politically upsetting.

Thus, small-scale industries safeguards reasonable distribution of income and wealth in the Indian society which is largely considered by more concentration of income and wealth in the prepared section keeping unorganised sector undeveloped. This is mostly due to the fact that small industries are general in comparison to large industries and are consuming large employment potential.

4. **Regional Dispersal of Industries:** There has been huge attentiveness of productions in a few large cities of dissimilar states of Indian union. People migrate from rural and semi-urban areas to these highly established focuses in search of employ and sometimes to earn an improved living which eventually leads to many evil significances of overcrowding, pollution, creation of slums, etc. This difficult of Indian economy is better resolved by small-scale industries which exploit local resources and carries about dispersal of industries in the various parts of the country therefore, encourages balanced regional development.

5. **Provides Opportunities for Development of Technology:** Small-scale industries have incredible volume to produce or absorb improvements. They deliver plenty opportunities for the growth of technology and technology in return, creates an environment favourable to the growth of small units. The entrepreneurs of small units play a strategic role in commercialising new developments and products. It also facilitates the transfer of technology from one to the other. Consequently, the economy reaps the benefit of improved technology.

6. **Indigenisation:** Small-scale industries make improved use of original structural and organization competences by drawing on a pool of entrepreneurial talent that is incomplete in the initial stages of economic growth. They deliver creative outlets for the innovative independent people. They also deliver a seed bed for entrepreneurial talent and a testing ground for new ventures.

7. **Promotes Exports:** You will find it interesting to note that small-scale trades have recorded a remarkable growth in export over the years. The value of exports of goods of small-scale industries has amplified to ₹ 393 crore in 1973-74 to ₹ 71,244 crore in 2002-03. This donates about 35% India's total export. Therefore they support in growing the country's foreign conversation reserves in that way reduces the pressure on country's balance of payment.

8. **Supports the Growth of Large Industries:** The small-scale industries play a vital role in supporting greater industries and developments so that the deliberate activity of development work is timely attended. They provision the growth of large productions by provided that, components, accessories and semi-finished goods mandatory by them. In fact, small industries can breathe vitality into the life of large industries.

9. **Better Industrial Relations:** Better industrial relationships between the employer and employees supports in growing the competence of workers and dropping the incidence of industrial arguments. The loss of manufacture and man-days are reasonably less in

Notes

small-scale industries. There is scarcely any strikes and lock out in these industries due to good employee-employer connection.

Certainly, growth in number of units, production, employment and exports of small-scale industries over the years are careful vital for the economic development and progress of the country. It is inspiring to mention that the small-scale initiatives accounts for 35% of the gross value of the yield in the manufacturing sector, about 80% of the total industrial employment and about 40% of total transfer of the country.

7.5 Industrial Policy Resolutions and SSIs

In this section, you will be acquainted with the industry policy resolution and SSIs. Government's approach and objective to industries in general and SSIs in specific are reflected in Industrial Policy Resolutions.

7.5.1 Industrial Policy Resolution, 1948

You must understand that the government stressed the part of SSIs for composed industrial growth. It was specified that SSIs are predominantly suited for the use of local resources and formation of employment prospects. The main accountability for emerging small industries by making organization has been provided to state governments. Central government surrounds the broad policies and organises the struggles of State Governments for the development of SSIs.

7.5.2 Industrial Policy Resolution, 1956

You must note that it is stated that other than enduring the policy support to cottage, village and small industries by differential taxation or direct-subsidies, the goal of state policy would be that the growth of this sector is combined with that of large scale industry. The emphasis was to recover the economic strength of SSIs. To attain these 128 items were completely held in reserve for production in SSIs, and 166 items were held in reserve for special acquisitions by government from this sector.

7.5.3 Industrial Policy Resolution, 1977

It is important to note that this highlights that whatever can be shaped by SSIs must only be so shaped. The main insertion of policy was actual raise of cottage, village and small industries extensively detached in rural areas and small towns. This rational specified the following things:

- (a) 504 items were held in reserve for select production in the small-scale industries.
- (b) The concept of District Industries Centres (DICs) was familiarized so that in each region a single activity could meet all the supplies of SSIs under one roof.
- (c) Technological up gradation was emphasised in traditional sector.
- (d) Special marketing preparations through the delivery of services, such as, product adjustment, quality control, market survey, were laid down.

7.5.4 Industrial Policy Resolution, 1980

It is important to note that the policy absorbed on the need of endorsing SSIs through combined industrial development between large and small sectors. Technologically backward districts were recognized for faster growth of existing network of SSIs.

Following measures were specified in the policy:

Notes

- (a) Investment limit was elevated for tiny, small, and ancillary units to ₹ 2 lakh, ₹ 20 lakh, and ₹ 25 lakh, respectively.
- (b) “Nucleus plants” in each technologically diffident district substituted the “district industries centers.” These were to focus on collecting the products of SSIs and to crop contributions needed by large number of small units.
- (c) Reservation of items and marketing provision for small industries was to endure.
- (d) Obtainability of credit to rising SS units was sustained.
- (e) Buffer stocks of critical inputs were to continue.
- (f) Agricultural base was to support by providing favoured treatment to agro based industries.
- (g) An early cautioning system was to create to circumvent sickness and take suitable remedial measures.

7.5.5 Industrial Policy Resolution, 1990

You must note that the main features of this Resolution are as follows:

- (a) It raised the asset maximum in plant and machinery for SSIs.
- (b) It shaped dominant investment funding for this sector in rural and backward areas. Also, help was decided to women entrepreneurs for spreading the entrepreneurial base.
- (c) Reservation of items to be formed by SSIs was amplified to 836.
- (d) Small Industries Development Bank of India was recognized to safeguard satisfactory flow of credit to SSIs.
- (e) Stress was repeated to upgrade skill to recover competitiveness.
- (f) Special stress was placed on training of women and infancy under Entrepreneurial Development Programme.
- (g) Activities of Khadi and Village Industries Commission and Khadi and Village Industries Board were to expand.

7.5.6 Industrial Policy Resolution, 1991

It is essential to know that the basic thrust of this resolution was to simplify regulations and procedures by delicensing, deregulating and decontrolling. Its salient features are:

- (a) SSIs were released from certifying for all articles of manufacture.
- (b) The investment boundary for tiny creativities was raised to ₹ 5 lakh regardless of location.
- (c) Equity participation by other industrial activities was allowable up to a limit of 24 per cent of shareholding in SSIs.
- (d) Factoring services were to presentation to resolve the problem of delayed payments to SSIs.
- (e) Priority was rendered to small and tiny units in distribution of indigenous and raw materials.
- (f) Market campaign of products was stressed through co-operatives, public institutions and other marketing actions and corporations.

Notes

7.5.7 Comprehensive Policy Package for SSIs and Tiny Sector, 2000

You should note that the main focus of this policy is as follows:

- (a) The exception for excise duty limit raised from 50 lakh to ₹ 1 crore to recover the attractiveness.
- (b) Credit related capital subsidy of 12% compared to loans for technology upgradation was provided in specified industries.
- (c) The third census of small scale industries by the ministry of SSI was showed, which also enclosed sickness and its reasons in SSI's.
- (d) The limit of investment was enlarged in industry related service and business creativities from ₹ 5 lakh to ₹ 10 lakh.
- (e) The pattern of granting ₹ 75000 to each small scale enterprise for gaining ISO 9000 documentation was continued till the end of 10th plan.
- (f) SSI connotations were interested to develop and operate challenging laboratories. One time capital grant of 50% was given on repayment basis to each association.
- (g) The limit of composite loan was improved from ₹ 10 lakh to ₹ 25 lakh.
- (h) A group was established for rationalization of inspection and repeal of redundant laws and regulations.
- (i) The coverage of on-going Integrated Infrastructure Development (IID) was improved to protection all areas in the country with 50% arrangement for rural areas and 50% allocating of plots for tiny sector.
- (j) The family income eligibility limit of ₹ 24000 was enhanced to ₹ 40000 per annum under the Prime Minister Rozgar Yozna (PMRY).

7.5.8 Industrial Policy Package for SSI, 2001-02

You need to take into consideration that this policy emphasises the following:

- (a) The investment limit was enhanced from ₹ 1 crore to ₹ 5 crore for units in hosiery and hand tool sub sectors.
- (b) The corpus fund set up under the Credit Guarantee Fund Scheme was increased from 125 crore to 200 crore.
- (c) Credit Guarantee cover was provided in contradiction of a collective credit of ₹ 23 crore till December 2001.
- (d) 14 items were de-reserved in June 2001 related to leather goods, shoes and toys.
- (e) Market Development Assistant Scheme was thrown wholly for SSI sector.
- (f) Four UNIDO assisted projects were ordered during the year under the Cluster Development Programme.

7.5.9 Industrial Policy on SSIS, 2003-04

You must understand that the following are the highlights of this endeavour:

- (a) 73 items held in reserve for high-class manufacture in the SSI sector were de-reserved in June 2003. These comprise chemical and their products, leather and leather products, laboratory reagents, etc.

Notes

- (b) Selective improvement of speculation in plant and apparatus from ₹ 1 crore to ₹ 5 crore. It was for 13 items in motionless sector and 10 items of drugs and pharmaceuticals sector, from June 2003.
- (c) Banks were absorbed to deliver credit to SSI sector within a notice rate band of 2 per cent above and below their Prime Lending Rates (PLR).
- (d) The complex loan limit for SSI was raised up from ₹ 25 lakh to ₹ 50 lakh.
- (e) The limit of allowance of collateral condition was raised from ₹ 15 lakh to ₹ 25 lakh on the basis of good path record and financial position of the unit.
- (f) The lower limit of ₹ 5 lakh on loans enclosed under the Credit Guarantee Scheme was detached. All loans up to ₹ 25 lakh were made qualified for guarantee cover under the Credit Guarantee Scheme.
- (g) 417 specialised bank branches were made working for SSIs.
- (h) Third all India census for SSI was conducted throughout the country and its final results were released on January 17, 2004.
- (i) 60 clusters were recognized in July 2003 for focused progress.
- (j) Small and Medium Enterprise (SME) fund of ₹ 10000 crore was set up under SIDBI to resolve the problematic of insufficient finance for SSIs.
- (k) Laghu Udyami Credit Card Scheme was liberalized. In this scheme, the credit perimeter was improved to ₹ 10 lakh from ₹ 2 lakh. But, it was only for borrowers with acceptable track record.

7.5.10 Policy Initiatives on SSI, 2004-05

You must note that the policy initiatives for this year are as follows:

- (a) The national command on Enterprises in the Un-organised/Informal Sector was set up in September 2004. It recommended events measured essential for development in the output of these enterprises, compeers of large scale employment prospects, bond of the sector to institutional outline in areas such as credit, raw material supply, infrastructure, technology up gradation, marketing amenities and skill development by training.
- (b) 85 items were de-reserved in October 2004.
- (c) The speculation limit in plant and equipment was raised from ₹ 1 crore to ₹ 5 crore in October 2004, in reverence of seven items of sports goods to assist in upgrading the technology and improve competitiveness.
- (d) The Small and Medium Enterprise (SME) fund of ₹ 10000 crore was started by SIDBI since April 2004, with 80% of the giving for SSI units. The interest rate was 2% below the prevailing Prime Lending Rate (PLR) of the SIDBI.
- (e) The reserve Bank of India raised the composite loan limit from ₹ 50 lakh to ₹ 1 crore.
- (f) Promotional Package for small enterprises was initiated.

7.5.11 Policy Package for SME, 2005-06

It is essential to note that this policy package covers the following points:

- (a) The Ministry of Small Scale Industries has recognised 180 items for de-reservation.

Notes

- (b) Small and Medium Enterprises were accepted in the services sector, and were preserved on par with SSIs in the industrialised sector.
- (c) The corpus of the Credit Guarantee Fund was upraised from ₹ 1132 crore in March 2006 to ₹ 2500 crore in five years.
- (d) Credit Guarantee Trust for Small Industries (CGTSI) was directed to cut short the one time promise fee from 2.5 per cent to 1.5 per cent for all loans.
- (e) Insurance cover was prolonged to around 30,000 borrowers, recognised as chief promoters, under the CGTSI. The certain sum would be ₹ 200000 per beneficiary and the best will be paid by CGTSI.
- (f) The stress was placed on Cluster Development model not only to endorse manufacturing but also to reintroduce industrial towns and build new industrial townships. The model is now being executed, in nine sectors including khadi and village industries, textiles, handicrafts, handlooms, agricultural products and medicinal plants.



Task

Prepare a short report on industrial pattern and the Five Year Plans.

Self Assessment

Fill in the blanks:

- 12. On the displaced person as had their own workshops for the manufacture of sewing machine parts in Lahore and other places in West Pakistan, resumed this activity in a small way at Ludhiana.
- 13. In the industrial boom which occurred in the wake of independence, ... and cycle-parts is by far the most important of the industries developed in the district.
- 14. In the, India saw the emergence of large factories, machinery, and government regulation of industrial work—three features that define a large-scale industry.
- 15. In India, industries with a of more than one hundred million rupees are called large scale industries.



Case Study

Polyplastics

Polyplastics was established in the year 1967 for the manufacturing of components for Telecommunication Industry. Products were exported to many European countries in seventy's and eighty's. Till the year 1983, it manufactured products for telephone, textile, defence and home appliance industries. It was in the year 1983, that Polyplastics started moving towards auto components manufacturing and currently, it makes parts only for the automotive industry.

Polyplastics, though being not located in one of the auto component manufacturing hubs has succeeded in building its business brick by brick. Polyplastics is engaged in the business of electroplating of various components, Painted and Hot stamped badge and Monograms, Wheel rim covers, Radiator grills, RR Garnishes/Ducklid Handles Assembly control

Contd...

Notes

brackets, Dash board components, Door handles, Ash trays, Auto electrical assemblies. Polyplastics realized early in its growth journey that it needs to be the best manufacturer of the critical components that it manufactures. In order to achieve this, it entered into technical collaboration with Sakae Riken Kogyo Co., Japan for Electroplating on plastics and Extrusion mouldings. It also entered into technical collaboration with Zanini Auto Group, Spain in the year 2006 for manufacturing Wheel covers.

Polyplastics has developed expertise and experience to make products meet global specifications. The collaborations have helped to build up further confidence in the domestic OEMs, Maruti Udyog Ltd., Tata Motors Ltd., Toyota Kirloskar Motors Pvt. Ltd., General Motors India Pvt. Ltd., Swaraj Mazda Ltd., Ford India Ltd., Honda Sael Cars India Ltd., Mahindra Renault, Fiat. Further it has also helped it to upgrade its manufacturing technology with the result get orders from Global OEMs such as General Motors, Nissan and Renault for their overseas locations to endless but serious enquiries are being released from all over the Globe.

Polyplastics has also been a supplier to General Motors, Thailand. The quality of its products has helped it get bigger orders from other OEMs. The increased demand for its products has necessitated expansion of its facilities. Two years ago, a manufacturing facility was created in Gurgaon which is almost 100% utilized. The Pune facility, which will manufacture the similar components, is coming up with an investment of ₹ 25 crore. This facility will become operational by end of the year 2008. Also the groundwork for a manufacturing facility in Chennai has already started.

While Polyplastics did not have any major problem in any of the Joint Ventures so far, it feels that the Government shall work towards making Indian arbitration institutions and systems internationally credible. Such an arbitration process will install confidence between the two Joint Venture partners.

Polyplastics though feels that continuously increasing prices of raw material and disparity in the pricing policy of the global raw material suppliers is fast making Indian auto component manufacturers less competitive in the globalized economy. Another factor that is making India less competitive is the lack of availability of dedicated manpower. The quality of its products has helped it get bigger orders from other OEMs. Till the year 2004, it exported very small components like emblems to GM-Thailand. In 2004, it got an order from GMT Thailand for the supply of Chevy Bowtie. This component was a very complicated one. Because, there were three processes, Injection moulding, vacuum metalising and painting involved to produce the parts.

The design of the part was in Unigraphics, for which the company did not have software in-house; yet, it successfully developed the part, without any major problem. It was one of the first auto components (Assy of two parts ABS +PMMA with vacuum metalising), which Polyplastics had developed in-house for the overseas customers.

Keeping in mind the successful development and supply of above part, GM again selected Polyplastics for their new programme S4200 car for their Mexico plant and awarded order for 4 components to it. These parts are presently under approval stage.

The growing confidence of GM in the company has resulted in some of its getting tested in China and USA and have resulted in satisfactory quality. This is likely to help them getting selected as approved global suppliers. Similar situation happened with the Renault. Polyplastics was an unknown supplier to Renault. But after the successful development of components for Logan car (Being produced by their Indian JV company Mahindra Renault), they awarded order to it for two more components for their manufacturing plant in Turkey and France. Testing of these parts have been cleared by Renault approved test labs

Contd...

Notes

in France. This further deepened the relationship and further orders are likely to place with Polyplastics. Renault is having alliance with Nissan. The successful development of the above projects has helped it in getting business from Nissan for their plant in UK and Spain as well. The Renault/Nissan requirements in terms of Systems are very stringent. The OEM has worked with the Polyplastics in guiding them improve their systems from the score "D" to "C" and is further guiding the company to improve its systems to level B. Recently, it finalised three emblems and one wheel rim cover for their forthcoming project in Chennai.

The management of Polyplastics is excepting orders for their many more projects in future also. The management of the Polyplastics credits team spirit in the company to its current and future growth. Looking into the success of Polyplastics to deliver quality products and rapid improvement in the system, OEMs are sending many Requests for Quotation (RFQ) for its products. While the company did not have any major problem in any of the JVs so far, it feels that the Government should work towards making Indian arbitration institutions and systems internationally credible. Such an arbitration process will instil confidence between the two JV partners.

Case Notes

More than 60 per cent of the exports of auto components are to USA and Europe, which constitute high AQL (Accepted Quality Level) countries. The global focus of the Indian auto component sector is expected to gain further momentum with a shift in the focus of Indian component companies from the replacement market to the OE (original equipment) market. The structure of the customer base in the global markets has also undergone a major change. In the last decade, the aftermarket share of exports has come down from 65 per cent to 25 per cent in 2007. The share of the component exports to OEMs and tier-I suppliers is increasing gradually, ensuring long-term relationships and repeat orders on a regular basis. Geographically, there has been a shift in the markets with the more developed markets of USA and Europe accounting for a majority of exports. Of the total auto component exports to OEMs and tier-I Suppliers, America and Europe together accounts for 57.5 per cent, Asia accounts for 20 per cent and Africa accounts for 10.8 per cent of the export earnings and other regions such as Oceania, etc. constitute the rest. The share of Asia in the global pie is gradually on the rise. This signifies that the Indian component industry has now reached a high degree of maturity in terms of quality and productivity and has also developed capabilities in the area of design and engineering, which are critical requirements for being a part of the global supply chain.

The total exports to OEMs and tier-I suppliers in 2006 amounted to INR 8,400 crore and the rest were supplied to tier-II/tier-III suppliers.

The PTA was signed between India and MERCOSUR in 2004 Implications for the Indian Auto Components Industry: The auto components industry in MERCOSUR enjoys significant economies of scale in comparison to India. Both the imports and exports of components are significant in MERCOSUR vis-à-vis India. The component market in MERCOSUR is mainly Brazil and Argentina. The auto component industry of Brazil is three times that of India and that of Argentina is marginally less than India.

Global tier-I suppliers have followed their OEMs into Brazil and have set up significant capacities. The Brazilian auto component industry is very competitive but is not profitable at the moment and most local tier-II/tier-III manufacturers are getting out of the business. Brazil imports stamping components, engines, gearboxes and other sub-assembly (e.g. steering column). Brazil is a highly protected market and is expected to remain so. The Argentina auto component industry lacks economies of scale but component manufacturing is profitable. Imports account for 50 per cent of the turnover of the component industry.

Contd...

Argentina imports electrical motors and systems, differentials, transmission systems, body components and interiors. Argentina is competitive in stampings, seats, glass, plastics, panels and tyres where logistics cost is high and natural protection is thus ensured. Argentina is a highly protected market and is expected to remain so. Importing components by OEMs in MERCOSUR is mainly a strategic issue.

Question

Discuss how MERCOSUR - India Preferential Trade Agreement will influence the future course of action of the Polyplastics.

Notes

Source: Business Environment, Dr Vivek Mittal, Excel Books

7.6 Summary

- Industrial development depends upon the rate of capital formation.
- Supply of capital goods can be augmented either through imports or through domestic production.
- Increase in the imports of capital goods depends upon the rate of growth of exports.
- Since the scope for the expansion of the exports of primary commodities is limited, export promoting manufacturing industries may be developed or alternatively, certain import substituting domestic industries may be developed, the effect of which will be to release foreign exchange for the imports of capital goods.
- In addition, within the current volume of imports, capital goods may be substituted in place of consumer goods. Thus, export-promoting industries, import-substituting industries and domestic capital goods industries are not mutually exclusive alternatives.
- Simultaneous development of all the three classes of industries will prove to be the most effective strategy of industrialisation.
- The relative role of each is likely to vary with the particular economic circumstances of individual countries as well as with their current phase of industrialisation.

7.7 Keywords

Developed Country: A developed country or “more developed country” (MDC), is a sovereign state that has a highly developed economy and advanced technological infrastructure relative to other less developed nations.

Industrial Society: It refers to a society driven by the use of technology to enable mass production, supporting a large population with a high capacity for division of labour.

Industry: It is the production of an economic good or service within an economy.

Large Scale Industries: Industries with a fixed asset of more than one hundred million rupees are called large scale industries.

Production: It is the act of creating output, a goods or service which has value and contributes to the utility of individuals.

7.8 Review Questions

1. Briefly explain the pattern and plans of Indian industries.
2. Write a short note on large-scale industries.

Notes

3. Briefly discuss the industrial patterns in Five Year Plans.
4. Explain the industrial pattern on the eve of planning.
5. Elaborate the industries during the Ninth and Tenth Plan onwards.

Answers: Self Assessment

- | | |
|---------------------------|-----------------------------|
| 1. Industrial sector | 2. Underemployed |
| 3. General development | 4. Soviet pattern |
| 5. Exports | 6. British government |
| 7. Preponderance | 8. Modern industrial system |
| 9. Indian muslin | 10. Infrastructure |
| 11. Foreign competition | 12. Partition |
| 13. Manufacture of cycles | 14. Nineteenth century |
| 15. Fixed asset | |

7.9 Further Readings



Books

Krahn, Harvey J., and Graham S. Lowe. (1993) *Work, Industry, and Canadian Society*. Second ed. Scarborough, Ont.: Nelson Canada, xii, 430 p. ISBN 0-17-603540-0

Low, L (2000), *Economics of Information Technology and the Media*.

Hanna, Nand Dugonjic, V. (1995), "Why a National Strategy of Exploiting Information Technologies", in UNCTAD, Advanced technology) Assessment System.

NASSCOM-Mckinsey Reports, 1999 and 2002.

Ministry of Information Technology (MIT), Report for Tenth Plan (2002-07).

IT Task Force, Ministry of Information Technology, Government of India.



Online links

<http://www.preservearticles.com/201103314849/large-scale-industries.html>

http://punjabrevenue.nic.in/gaz_ldh15.htm#ch5

<http://www.techrepublic.com/resource-library/whitepapers/an-integrated-solution-for-large-scale-industry-problems/>

http://cultural.maharashtra.gov.in/english/gazetteer/KOLHAPUR/ind_large.html

<http://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198074175.001.0001/acprof-9780198074175-chapter-7>

Unit 8: Foreign Trade of India

Notes

CONTENTS

Objectives

Introduction

8.1 Foreign Trade

8.1.1 Three Types of Foreign Trade

8.2 Need and Importance of Foreign Trade

8.3 Introduction to India's Foreign Trade

8.4 Composition of India's Exports

8.5 Composition of India's Imports

8.6 Balance of Payment on Current Account

8.6.1 Import and Export Policy

8.7 Summary

8.8 Keywords

8.9 Review Questions

8.10 Further Readings

Objectives

After studying this unit, you will be able to:

- Discuss about the foreign trade
- Describe the need and importance of foreign trade
- Explain the introduction to India's foreign trade
- Recognise the composition of India's exports
- Evaluate the composition of India's imports and balance of payment on current account

Introduction

In this unit, you will learn about the foreign trade, the need and importance of foreign trade and introduction to India's foreign trade. You will also study the composition of India's exports, composition of India's imports and balance of payment on current account.

Foreign trade has got a significant place in the economic progress of a country. The significance of foreign trade for economic development of country is stated below:

- Foreign trade supports to yield those supplies which have a relatively inexpensive t than others. As a result of this is the cost of production in producing a commodity is reduced. If all the countries accept this process to yield these goods in which they have less relative cost, it will lead to handiness of goods at a lower price.

Notes

- Foreign trade raises the possibility of market as of domestic demand and foreign demand for the product. So there is mass fabrication. If the manufacture of goods rises, average cost drops and price of goods drops.
- Foreign trade benefits the people to get dissimilar ranges of things both in extents terms and qualitative terms.
- Foreign trade supports an unindustrialized country like India in its financial development. Iron and steel industry, has been formed due to stored iron-ore and coal. But for the formation of this type manufacturing, we have to import technical understanding from foreign countries. Had there been no foreign trade, then it would not have been only problematic but also too costly.

Without foreign trade, it is not possible to fulfil the request for petroleum products and it will retard the economic development of our country. There is also shortage of consumer goods due to usual disasters or due to any other reason. During the time of shortage of consumer goods, we import these goods from foreign countries and keep prices steady which support people to get their supplies.

8.1 Foreign Trade

Now let us begin the unit with the meaning and types of foreign trade. Foreign trade is nothing but trade between the different countries of the world. It is also called as International trade, External trade or Inter-Regional trade. It consists of imports, exports and entrepot. The inflow of goods in a country is known as import trade whereas outflow of goods from a country is known as export trade. Many times goods are imported for the purpose of re-export after some processing operations. This is called entrepot trade. Foreign trade basically takes place for mutual satisfaction of wants and utilities of resources.

8.1.1 Three Types of Foreign Trade

Foreign Trade can be divided into following three groups:

1. **Entrepot Trade:** Entrepot trade can be named as Re-export. It mentions the acquisition of goods from one state and then selling them to another state after some giving out processes.
2. **Export Trade:** Export trade is related to the sale of goods by one nation state to another nation state or outflow of goods from home country to foreign country.
3. **Import Trade:** Import trade can be defined as the procurement of goods by one state from another state or inflow of goods and services from distant country to home country.

8.2 Need and Importance of Foreign Trade

In this section, you will learn about the need and importance of foreign trade. The below points clarify the need and significance of foreign trade to a nation:

1. **Division of Labour and Specialisation:** Foreign trade leads to division of labour and specialisation at the world level. Some countries have plentiful natural wealth. They should distribute raw materials and import finished goods from republics which are progressive in skilled manpower. This gives profits to all the states and thus leading to separation of labour and specialisation.
2. **Optimum Allocation and Utilisation of Resources:** Due to specialisation, uncreative lines can be removed and waste of resources sidestepped. In other words, resources are

Notes

channelized for the construction of only those properties which would give maximum returns. Thus there is balanced distribution and utilisation of resources at the international level due to foreign trade.

3. **Equality of Prices:** Prices can be stabilised by foreign trade. It supports to keep the request and supply location stable, which in turn stabilises the prices, making payments for transport and other marketing expenses.
4. **Availability of Multiple Choices:** Foreign trade benefits in providing a better choice to the consumers. It supports in making obtainable new changes to consumers all over the world.
5. **Ensures Quality and Standard Goods:** Foreign trade is highly modest. To preserve and raise the request for goods, the exporting states have to retain the quality of goods. Thus, quality and standardised goods are produced.
6. **Raises Standard of Living of the People:** You must keep in mind that imports can enable standard of living of the people. As people can have a choice of new and better changes of goods and services. By overriding new and better diversities of goods, people can increase their standard of living.
7. **Generate Employment Opportunities:** Foreign trade supports in making employment chances, by increasing the mobility of labour and resources. It makes direct service in import sector and indirect employment in other sector of the economy. Such as Industry, Service Sector (insurance, banking, transport, communication), etc.
8. **Facilitate Economic Development:** Imports assist in economic development of a nation. This is because with the import of capital goods and knowledge, a country can make growth in all sectors of the economy, i.e. agriculture, industry and service sector.
9. **Assistance during Natural Calamities:** During natural disasters for instance earthquakes, floods, famines, etc., the exaggerated countries face the problem of scarcity of essential goods. Foreign trade allows a country to import food grains and medicines from other countries to support the affected people.
10. **Maintains Balance of Payment Position:** Every country has to continue its balance of payment position. Ever since, every country has to import, which marks in discharge of foreign exchange, it also deals in trade for the inflow of foreign exchange.
11. **Brings Reputation and Helps Earn Goodwill:** A country which is complicated in spreads earns kindness in the global market.



Example: Japan has received a lot of goodwill in global markets due to its exports of feature electronic goods.

12. **Promotes World Peace:** You must understand that foreign trade takes countries closer. It enables handover of technology and other assistance from established countries to emerging countries. It brings various countries faster due to economic relationships arising out of trade agreements. Thus, foreign trade generates a friendly atmosphere for sidestepping wars and conflicts. It endorses world peace as such countries attempt to preserve friendly relationships among themselves.



Did u know? India's key exports in 2012 were petroleum products which generated \$56bn, followed by gems and jewellery with \$47bn. Pharma products, transport equipment, machinery and readymade garments are also big exports for India.

Notes



Caselet

Condition of Labourers in Malwa

Malwa is the prime agricultural belt of Punjab. In this region agriculture is the principal source of livelihood. The role of the secondary and tertiary sector is minimal in providing alternative employment. The influx of migrant labour is also quite substantial in this region. It grew phenomenally during the 1980s and 1990s and has begun to cause unemployment among local agricultural labourers. The impact of mechanization, particularly the role of combine harvesters in paddy and wheat harvesting, also leads to unemployment among local agriculture labourers.

This region is different from the Majha and Doaba region. The phenomenon of Siri and attached labour is still strongly embedded in the agrarian structure of this region. Migrant labourers are gradually replacing locals as attached labourers.

Both the Siri and attached labourers are deeply indebted and find it difficult to extricate themselves from the debt trap. Indebtedness and impoverishment lead to a high incidence of suicides both among farmers, as well as agricultural labourers. The number of days of employment of a casual agricultural labour is limited to 70 days in Sangrur district and 152 days in Faridkot district. In the absence of alternative sources of employment, labourers become severely dependent on local landowners and moneylenders to meet their survival needs.

Source: <http://www.im4change.org/docs/49009-agriculture.pdf>

Self Assessment

Fill in the blanks:

1. enables a country to import food grains and medicines from other countries to help the people affected by the natural calamities.
2. A country which is involved in exports earns in the international market.
3. There is of resources at the international level due to foreign trade.
4. Foreign trade brings countries



Notes India is a country of Mixed Economy

8.3 Introduction to India's Foreign Trade

In this section, you will learn about the introduction to India's foreign trade. Foreign Trade is one of the important macro important variables of an economy. India till in recent times was mainly a principal goods exporting and an industrial goods importing country. In 1950s, India's portion in the world trade was 1.78% which was decline to 0.59% in 1990 and lasts to continue around 0.60% till now. India's share in world exports was 0.8% in 2006.

8.4 Composition of India's Exports

Here, you will learn about the composition of India's exports. British strongly considered that India was a country well-matched to resource raw ingredients and other major goods and a

Notes

good market place for British companies. So at the time of our freedom our exports were primarily of main goods and imports were of makers. At the time of independence, agricultural supplies and light manmade consumer goods controlled India's export basket. During the post-independence period India's arrangement of exports altered.

Now exports of India are broadly classified into following four categories:



Table below shows composition of India's export from 1990-91 to 2005-06:

Table 8.1: Composition of India's Exports

Commodity Group	Percentage Share	
	1990-91	2005-06
Agricultural & Allied Products	19.5	10.2
Ores and Minerals	4.4	5.2
Manufactured Goods	73.0	72.0
Crude & Petroleum Product	2.9	11.5
Other Unclassified items	0.2	1.1
	100.0	100.0

Source: Economic Survey 2003-07

The arrangement of India's export can be summarised as follows:

1. **Agricultural and Allied Products:** The share of agriculture substances in the total exports of India has dropped from 1990-91 to 2005-06. The part of agriculture exports was 19.5% in 1990-91. It originated about 10.2% in 2005-06.

The top items of agriculture exports consist of:

- ❖ Fish Products,
- ❖ Rice,
- ❖ Oil Cakes, and
- ❖ Fruits and Vegetables.

The most important export item in 'Agriculture and Allied products' group over the period 1991-92 to 2005-06 has been 'Fish and Fish Preparations'. From \$ 585 million in 1991-92 export pays from fish and fish preparations rose to \$ 1,589 million in 2005-06. On the other hand, in percentage terms, their portion fell marginally from 3.3 per cent in 1991-92 to 1.5 per cent in 2005-06.

As far as agricultural exports are worried, an important progress during the period since 1991 has been the significant exports of rice in certain year. In fact, exports of rice were as

Notes

extraordinary as \$ 1,366 million in 1995-96 which was 4.3 per cent of total export getting in that year. In 2005-06, exports of rice were worth \$ 1,405 million which was 1.4 per cent of total export earning in that year.

2. **Ores and Minerals:** The general export presentation of ores and reserves is not acceptable. In measurement terms, the export performance of ores and mineral has improved from 4.4% in 1990-91 to 5.2% in 2005-06.

A major share of ores and minerals exports originates from the export of iron ore.

3. **Manufactured Goods:** The part of manufactured substances in the total export pays of India is on the increase. In 1990-91, the share of manmade items in the total trade earnings was about 73% of the total export earnings.

In 2005-06, the share of man-made items in the total export pays of India continued stagnant at 72%.

The top manufactured export items include:

- ❖ Engineering Goods,
- ❖ Gems and Jewellery,
- ❖ Chemicals and Allied products, and
- ❖ Readymade Garments.

The export of engineering goods improved from \$ 2,234 million in 1991-92 to \$ 21,315 million in 2005-06. In proportion terms, the portion of engineering goods rose from 12.5% in 1991-92 to 20.7% in 2005-06. Over the period 1991-92 to 2002-03, engineering goods engaged the second position in India's export pays after gems and jewellery. Conversely, thereafter engineering goods have engaged the first place. In 2005-06 they donated 20.7% (i.e. one-fifth) of total export earnings.

For most of the era since 1991, largest transfer earnings came from the exports of gems and jewellery. The share of gems and jewellery in India's total export was 15.3% in 1991-92 and 15.1% in 2005-06. Though, gems and jewellery industry is an extremely import demanding industry needing large amount of imports of pearls and valuable stones.

Exports of chemicals and allied products rose expressively from \$ 1,583 million in 1991-92 to \$ 11,935 million in 2005-06. In percentage terms, their share stood at 11.6% in 2005-06 and they engaged the third place in India's export earnings in this year.

In percentage terms, readymade garments preserved an almost continuous share all through the period since 1991. They contributed 12.3% of export earnings in 1991-92 and 12.5% of export earnings in 2000-01. In 2003-04, their share fell to 9.8% and in 2005-06 to 8.3%.

4. **Mineral Fuel and Lubricants:** There has been a development in the export of mineral fuels and lubricants both in relations of value and in terms of percentage. In percentage terms, its portion has improved from less than 2.9% in 1990-91 to 11.5% in 2005-06.

Some other facts concerning structural change in India's export since 1991 are as follows:

- (i) There is signal that during 1990s, some of Indian exports have stimulated upwards in value addition chain whereby in its place of exporting raw materials, the country has substituted over to export of processed goods.
- (ii) There were important compositional changes within the main manmade product groups such as engineering, goods, chemicals and allied products, etc.

8.5 Composition of India's Imports

In this section, you will learn about the composition of India's imports. In 1947-48, the leading items of India's imports were machines, oil, grains, cotton, cutlery, hardware implements, chemicals, etc. They established 70% of India's imports. Thereafter due to the importance on industrialization in the second 5-Year plan required the imports of capital goods.

Now, imports of India's are broadly classified into following four categories:

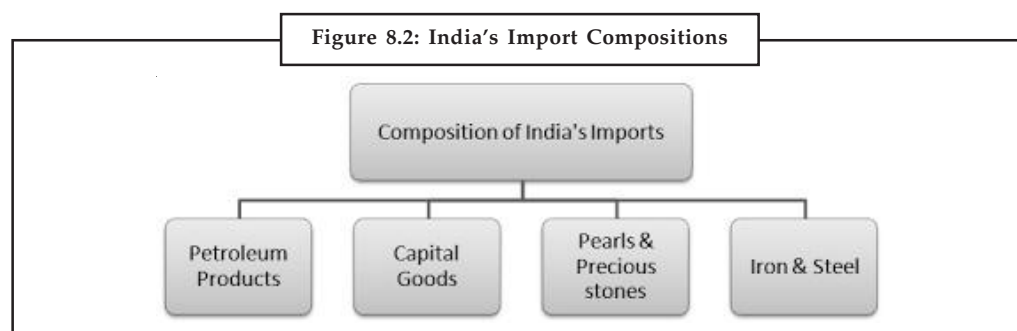


Table below shows composition of India's import from 1990-91 to 2005-06.

Table 8.2: Composition of India's Imports (Percent)

Year	1990-91	2005-06
Pertroleum Products	24.9	30.9
Capital Goods	24.1	22.3
Pearls & Precious Stones	8.7	6.4
Iron & Steel	5.0	3.1
Fertilizers	4.1	1.5
Edible Oils	0.8	1.4
Other	32.4	34.4
	100	100

Source: Statistical Outline of India 2006-07

The composition of India's imports can be summarised as follows:

1. **Petroleum Products:** Imports of petroleum oil and lubricants rose considerably from \$ 5364 million in 1991-92 to \$ 43,963 million i.e. more than eight times.
Because of high price of crude oil, the POL imports flew to \$ 15,650 million in 2000-01. In 1990-91, petroleum products accounted for nearly 25% of total imports of India. In 2005-06, it has additionally amplified to nearly 31% of the total introduction of bill of India.
2. **Capital Goods:** The imports of capital goods were \$ 3,610 million in 1991-92. In 1995-96 due to sharp increase in non-electrical equipment imports, the imports of capital goods jumped up to \$ 8,458 million. Though due to decelerating domestic request imports of capital goods fell successive. The capital goods and connected items were 24.1% of the entire imports of India in 1990-91, which has derived slightly in 2005-06 to about 22.3%.
3. **Pearls and Precious Stones:** To meet the necessities of the gems and jewellery manufacturing pearls and precious stones are imported in large amounts. In 1990-91, the share of pearls and precious stones was 8.7% which has condensed in percentage terms to 6.4% in 2005-06.

Notes

4. **Iron and Steel:** The imports of iron and steel have weakened over the years in percentage terms. In 1990-91, the share of iron and steel imports was 5%, which has come down to 3% in 2005-06. This is because; a good quantity of iron ore is now removed in India which has reduced imports.
5. **Fertilisers:** Import of fertilisers in 1991-92 stood at \$ 954 million. In 2003-04 spending on import of fertilizers was \$ 635 million.

The imports of fertilisers have weakened, which specifies less dependence of India on introduced fertilisers. The share in total introductions of fertilisers was 4.1% in 1990-91, which came down to 1.5% in 2005-06.



Notes Punjab State is predominantly an agricultural state with two-third of its population directly or indirectly dependent on agriculture. And, thus, helps in increasing the Indian Economy.

8.6 Balance of Payment on Current Account

This section emphasises on the balance of payment on current account. Balance of Payments (BoP) statistics methodically reviews the economic dealings of an economy with the rest of the World for a definite period. The Reserve Bank of India (RBI) is accountable for compilation and distribution of BoP data. BoP is approximately consistent with the strategies and rules contained in the BoP Manual of the International Monetary Fund.

Balance of payment (BoP) comprises current account, capital account, errors and omissions and changes in foreign exchange reserves. Below current account of the BoP, dealings are categorised into merchandise (exports and imports) and invisibles. Invisible transactions are further categorised into three categories, namely:

- Income
- Services—travel, transportation, insurance, Government not included elsewhere (GNIE) and miscellaneous (such as, communication, construction, financial, software, news agency, royalties, management and business services)
- Transfers (grants, gifts, remittances, etc.) which do not have any quid pro quo

Under the Capital Account, capital influxes can be categorised by instrument (debt or equity) and maturity (short or long-term). The main workings of the capital account comprise foreign investment, loans and banking capital. Foreign investment, comprising Foreign Direct Investment (FDI) and Portfolio Investment consisting of Foreign Institutional Investors (FIIs) investment, American Depository Receipts/Global Depository Receipts (ADRs/GDRs) represents non-debt liabilities, although loans (external assistance, external commercial borrowings and trade credit) and banking capital, comprising non-resident Indian (NRI) deposits are debt liabilities.

The data on merchandise skill are offered from two sources namely:

- (a) From the Directorate General of Commercial Intelligence and Statistics (DGCI&S) on customs basis;
- (b) From RBI on payments (which includes both receipts and payments) basis.

The Daily Trade Return (DTR) is the main cause of recording spreads data at DGCI&S, while RBI trusts mainly on the R-return furnished by Authorised Dealers (ADs) to collect the exports and

Notes

imports data. The data on merchandise exports in BoP are collected on the basis of info accessible from the DGCI&S, after correcting for time and exchange rate differences. The merchandise export data is documented on free on board (F.O.B.) basis. It may be renowned that export of software in physical form is captured by DGCI&S.

You must understand that the customs record data on imports on the base of the Bill of Entry ready for goods incoming in the customs area. The data on introductions under BoP figures are accumulated mainly on the basis of returns surrendered to by Ads accompanied by information on the transactions not passing through the investment channel such as imports financed through credit taken abroad.

Imports under the BoP data are noted on the source of date of payment or date of disbursal of loans, which may vary suggestively from the recording of imports at the Customs end on the base of real influx of goods. Under the Capital Account, both equity and debt flows are enclosed. Debt flows include commercial borrowings, external assistance, short-term trade credits and Non-Resident Indian (NRI) deposits, whereas the equity flows include Foreign Direct Investment (FDI) and Portfolio Investment. At the moment, direct investment into the country by non-residents is spontaneously permissible in most divisions subject to certain sectorial upper limit on equity holdings.

It is important for you to note that the FDI within the recommended sectorial ceilings is spontaneously allowed under RBI automatic route, FDI in delimited activities and in extra of the prescribed sectorial ceilings needs prior Government support through the Secretariat for Industrial Assistance (SIA) and the Foreign Investment Promotion Board (FIPB). The non-resident FDI investors are also permitted to increase their stakes through procurement of shares. The collection investment involves the amount upraised by Indian corporate through Global Depositary Receipts (GDRs) or American Depositary Receipts (ADRs), investments in Indian stock markets by foreign institutional investors (FIIs) and extraordinary net worth individuals and offshore funds.



Did u know? Crude petroleum is India's biggest import with \$155 bn spent on it in 2012. Imports of gold and silver amounted to \$62 bn and electronic goods and pearls and precious stones are also top import items for the country.

8.6.1 Import and Export Policy

Now let us discuss the highlights of the Annual Supplement 2010-11 to the Foreign Trade Policy 2009-14:

- 256 new products added under FPS (at 8 digit level), which shall be entitled for benefits @ 2% of FOB value of exports to all markets.
- Additional benefit of 2% bonus, over and above the existing benefits of 5%/2% under Focus Product Scheme, allowed for about 135 existing products.
- Clarification on the availability of 4% SAD refund benefit.
- Concessional Export Credit: Interest subvention of 2% for pre-shipment credit for export sectors namely, Handloom, Handicraft, Carpet and SMEs for all export sectors.
- Duty Entitlement Passbook (DEPB) scheme has been extended beyond 31.12.2010 till 30.06.2011.
- Duty free import of specified trimmings, embellishments etc. shall be available on Handloom made-ups exports @ 5% of FOB value of exports.

Notes

- Exporters shall now have the flexibility to get a high value EPCG authorisation by filing their EPCG application on Annual basis.
- Facility of a data preparation module for Advance Authorization and Export Promotion Capital Good (EPCG) has been provided on an offline mode.
- Finished Leather export shall be entitled for Duty Credit Scrip @ 2% under FPS.
- Readymade Garment sector granted enhanced support under MLFPS for a period of further 6 months.
- Tea and CSNL Cardinol included for benefits under VKGUY @ 5% of FOB value of exports.
- Zero duty EPCG scheme, introduced in August 2009 and valid for only two years up to 31.3.2011, has been extended by one more year till 31.3.2012.

Export Import Policy or better known as EXIM Policy or foreign trade policy is a set of guiding principle and orders related to the import and export of goods.

Objectives of Exim Policy

- To simplify continual growth in exports from India and import in India.
- To encourage continuous economic development by providing access to crucial raw materials, intermediates, constituents, consumables and capital goods arrangement compulsory for enhancing production and providing services.
- To increase the technological power and competence of Industry Agriculture industry and services, thus refining their modest asset while making new employment openings, and to inspire the attainment of globally accepted standards of quality.
- To deliver customers with excellent goods and facilities at globally modest rates. Canalisation is a chief feature of Exim Policy under which certain goods can be imported only by chosen agencies.



Example: An item like gold, in bulk, can be imported only by indicated banks like SBI and some foreign banks or designated agencies.

The Government of India informs the Exim Policy for duration of five years (1997-2002) under Section 5 of the Foreign Trade (Development and Regulation) Act, 1992. The current policy covers the period 2002-2007. The Export Import Policy is reorganised every year on the 31st of March and the modifications, developments and new schemes became effective from 1st April of every year.

All kinds of changes or alterations related to the Exim Policy is usually broadcasted by the Union Minister of Commerce and Industry who co-ordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of daft regional offices.



Case Study

The Shrimp Export Industry in Bangladesh

By the end of the 1970s, the Bangladesh seafood processing industry had expanded rapidly. But sanitary facilities, technology adaptation, and adequate training did not keep pace. Shrimp exports suffered in the late 1970s, and the U. S. Food and Drug Administration placed seafood imports from Bangladesh under automatic detention.

Contd...

Notes

This was only the beginning of the export market problems arising from substandard product safety and quality that Bangladesh's shrimp industry faced over the next two decades. This case study illustrates the actions taken by Bangladesh, with the aid of external partners, to overcome substantial obstacles to participation in world shrimp markets.

The Need to Build a Safe Industry

Recognising both the potential for Bangladesh's exports and the problems with safety and quality of the product, the Food and Agriculture Organisation of the United Nations (FAO) helped Bangladesh develop product standards, regulations, and fish inspection schemes in the early 1980s. In 1983, the Bangladesh government created a Fish and Fish Product Ordinance (Inspection and Quality Control) and in 1985 upgraded the inspection laboratory and its personnel. FAO initiated a 1996 project to assist in the preparation of a fish safety and quality control program for the shrimp and fish plants in Bangladesh, based on the Hazard Analysis Critical Control Point (HACCP) approach. The program provided training in HACCP procedures to both the public and private sectors. It also informed the government about new requirements of major importing countries. A parallel Common Fund for Commodities/FAO project carried out by the Intergovernmental Organization for Marketing Information and Technical Advisory Services for Fishery Products in the Asia Pacific Region (INFOFISH) focused on the export promotion of value-added products and their sustainable development. Activities ranged from industry training to the development of export opportunities. Despite these efforts to upgrade product quality and safety, Bangladeshi shrimp exporters continued to suffer from real problems and those that importers perceived as real. In 1997, the fourth leading export item in Bangladesh was frozen shrimp and fish, with a 7.3 per cent share of the total export market. The major importers at the time were the European Union (EU), accounting for 34–50 per cent of Bangladesh's exports, the United States at 23–38 per cent, and Japan at 15–26 per cent, depending on the year. At that time, the value per kilogram of Bangladesh's frozen shrimp was lower than average for the Asian region. Furthermore, Bangladesh had a reputation for producing seafood that sometimes did not meet minimum international standards as specified by the Codex Alimentarius Commission. With a low percentage of the world market, a lower-valued product, and a negative reputation in quality, Bangladesh has been a price taker, rather than a price-setter.

The EU BAN

On July 30, 1997, the EU banned imports of fishery products from Bangladesh as a result of EU inspections of Bangladesh's seafood processing plants. Inspections found serious deficiencies in the infrastructure and hygiene in processing establishments and insufficient guarantees of quality control by Bangladeshi government inspectors. The ban was estimated to cost the Bangladesh shrimp-processing sector nearly US\$15 million in lost revenues from August to December 1997. (In this brief all dollars are US dollars.) The impact on both the industry and the economy of Bangladesh was substantial. The only way Bangladesh can improve its export position in the shrimp market is to improve the safety and quality of its exports. Safety improvements over the last two decades, with a major effort in the late 1990s, have been made by the industry and government, and by bilateral and multilateral agencies providing technical assistance. While the short-term loss in foreign currency from the EU ban was high for a developing country, the ban did increase the commitment by industry and government to raise product quality to meet international standards. Both exporters and government made major investments in plant infrastructure and personnel training in order to achieve international technical and sanitary standards. This included new employee acquisition and employee training, sanitation audits, plant repair and modification, new equipment, new laboratories, and other costs.

Contd...

Notes

Investing in Safety

Some upgrades were in progress at the time of the EU ban. By 1997, the Bangladesh shrimp processing industry had invested \$17.6 million in plant upgrades, the government had invested \$382,000 in laboratory and personnel upgrades, and outside partners had invested \$72,000 in training programs in Bangladesh. Unfortunately, these improvements were not in place early enough to prevent the ban. The total fixed investment cost of \$18 million was only slightly more than the nearly \$15 million in lost revenue from the ban over a period of five months. These improvements would have almost been paid for had they been implemented in time to make the ban unnecessary. Research has also determined that the annual recurring costs to maintain HACCP programs and meet international standards would be \$2.2 million for industry and \$225,000 for government. Subsequent inspections by the EU determined that some plant improvements now met EU standards. Subject to certain provisions, the EU ban was lifted for six approved establishments for products prepared and processed after December 31, 1997. By July 1998, a total of 11 plants had been approved for export to the EU. Collective efforts by the industry, the Bangladesh Department of Fisheries, and the Bangladesh Frozen Food Exporters Association have continued to strengthen the export-processing sector. By 2002, out of 65 plants licensed for export by the government, 48 plants had EU approval.

The Challenges Ahead

As the industry faces new challenges, ensuring safety and quality continue to be important elements in industry development. One concern is the sustainability of shrimp production. The revamped factories, having greater capacity, are mostly operating at about 20 per cent of capacity due to limited supplies of shrimp. This has resulted in a growing focus on sustainability in the production sector with increased emphasis on hatchery production of shrimp post larvae for seeding the ponds, rather than harvesting from natural stocks. As hatchery production expands, Bangladesh has also placed increased emphasis on good aquaculture practices as well as certification of aquaculture facilities.

A second challenge is the need to become more diversified in terms of both products and markets. A large number of export processors are now producing increasing amounts of value-added products such as individually quick-frozen, peeled and deveined, and butterfly cut shrimp, as well as cooked products. In 2001 these value-added exports made up almost 25 per cent of the total exports of 32,500 metric tons, valued at \$363 million. Technical assistance from FAO and INFOFISH continues to play a role in industry development by transferring simple, low-cost technologies for adding value and by matching buyers and sellers to facilitate market diversification. Industry and the government also continue to upgrade the export sector as a whole. Improvements are making a difference because the unit price of exports has risen steadily over recent years, in contrast to the sharp decline in 1997.

Some exporters are now recording an average unit price of more than \$15 per kilogram, a price comparable to that received by major exporters from the region. The average volume of exports has also increased from about 24,000 metric tons in 1990–92 to about 30,200 metric tons in 1999–2001. Improvements in food safety have thus set the stage for Bangladesh to become more competitive in the global market for seafood. Moreover, improvements in the shrimp sector have undoubtedly impacted the seafood and food-processing sectors as a whole, due to the intertwined nature of the food-processing industries in the country. Even in 2002, however, Bangladeshi shrimp exporters did experience some safety problems, and more testing laboratories were established.

Developing countries can often compete in world food commodity markets because export products can be produced at a lower cost than in developed countries, provided the product

Contd...

can meet minimum safety and quality standards. To accomplish this, developing countries need assistance not only with technology, but also with training workers to use technology and conform to world food-handling, sanitation, and personal hygiene standards. This normally requires a cooperative effort between a country's industry and government and its external partners. The Bangladeshi shrimp export case demonstrates that these efforts can be successful. It shows that developing countries, with careful guidance and focused effort, can successfully face the challenges of the global market.

Questions

1. What are the challenges faced by the shrimp export industry?
2. What do you infer from this study?

Notes

Source: http://www.ifpri.org/sites/default/files/publications/focus10_09.pdf

Self Assessment

Fill in the blanks:

5. The objective of Exim Policy is to in exports from India and import in India.
6. is to simplify continual growth in exports from India and import in India.

8.7 Summary

- As India is a growing country, the composition of India's foreign trade has undergone a positive change.
- It is a remarkable achievement that India has transformed itself from a predominantly primary goods exporting country into a non-primary goods exporting country. Under import too India's dependence on food grains and capital goods has declined.
- The trend indicates structural transformation of Indian economy. The import and export policies had played an important role in the development of Indian Economy.

8.8 Keywords

Industrialization: The process in which a society or country (or world) transforms itself from a primarily agricultural society into one based on the manufacturing of goods and services.

Production: The action of making or manufacturing from components or raw materials, or the process of being so manufactured.

Productivity: Productivity is the ratio of output to inputs in production.

8.9 Review Questions

1. Explain the foreign trade policy of India.
2. What are the compositions of the foreign trade policy of India?
3. Explain briefly the India's balance of payment on current account.

Notes

Answers: Self Assessment

- | | |
|--|------------------------------|
| 1. Foreign trade | 2. Goodwill |
| 3. Rational allocation and utilization | 4. Closer |
| 5. Facilitate sustained growth | 6. Objectives of Exim Policy |

8.10 Further Readings



Books

Datt and Sundharam.(2008), *Indian Economy*, S Chand and Company, New Delhi
Misra S.K and Puri (2009), *Indian Economy*, Himalaya Publication, New Delhi
Kapila Uma (2008), *India Economy*, Academic Foundation Publication, New Delhi
Gupta K.C. and Kaur Harinder, (2004) *New Indian Economy and Reform*, Deep and Deep Publication, New Delhi



Online links

http://www.ifpri.org/sites/default/files/publications/focus10_09.pdf
<http://www.economicshelp.org/india/problems-indian-economy/>

Unit 9: Indian Currency System

Notes

CONTENTS

Objectives

Introduction

9.1 Indian Currency System

9.1.1 Decimal System

9.1.2 Demonetisation of Currency

9.2 Indian Rupee

9.2.1 Overview

9.2.2 History

9.2.3 International Use

9.3 Tactile and Security Features

9.3.1 Tactile Features

9.3.2 Security Features

9.4 Reserve Money

9.4.1 RBI Creates Reserve Money

9.4.2 Impact of Reserve Money

9.5 Money Multiplier

9.5.1 Money Multiplier Impacts Money Supply

9.6 Foreign Exchange Reserves

9.7 Capital Account Convertibility and Current Account Convertibility

9.8 Summary

9.9 Keywords

9.10 Review Questions

9.11 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the concept of Indian currency system
- Discuss the various tactile and security features
- Define reserve money and money multiplier
- Explain the concept of foreign exchange reserves
- Know the concept of convertibility of the current and capital account

Notes

Introduction

In this unit, you will learn about the concept of Indian currency system, Indian Rupee, and the tactile and security features. You will also understand about the reserve money, money multiplier, foreign exchange reserves and Capital account convertibility and Current Account Convertibility.

Indian economy is the 4th largest economy in the world as per the purchasing power parity (PPP), with a GDP of US \$3.36 trillion. When measured in USD exchange-rate terms, it is the tenth biggest in the world, with a GDP of US \$691.87 billion (2004). India was the second fastest developing major economy in the world, with a GDP growth rate of 8.1% at the end of the first quarter of 2005–2006. On the other hand, India's enormous population marks in a somewhat low per capita income of \$3,100 at PPP. The country's economy is varied and includes agriculture, handicrafts, industries and a multitude of services. Services are the main cause of economic growth in India today, however two-thirds of the Indian workforce earns their livelihood by way of farming directly or indirectly. Lately, India has also capitalised on its large number of highly polished people who have fluency in English language to develop a main exporter of financial services, software services, and software engineers.

India has followed to a socialist-inspired method for most of its self-governing history, with strict control of the government over participation of the private sector, foreign trade, and foreign direct investment. Since the beginning of 1990s, India has progressively opened up its marketplaces through economic changes by reducing government reins on investment and foreign trade. Privatisation of public-owned industries and opening up of certain sectors to private and foreign players has continued slowly amid political debate.

The socio-economic problem faced by India takes account of growing population and lack of infrastructure, in addition to growing disparity and unemployment. Poverty also continued to be a problem even though it has seen a reduction of 10% since the 1980s.

The Rupee is the only lawful tender recognised in the India and is also recognised as legal tender in neighbouring Nepal and Bhutan, the latter's exchange value being attached to the rupee.

The rupee is divided into 100 paise. The highest currency note printed is the 1000 rupee note, and the lowest denomination in circulation is the 10 p coin.

9.1 Indian Currency System

Now let us study about the Indian Currency system. Thus, you will begin with studying the historical background of the Indian currency system which is as follows:

- First gold coins were introduced during the reign of the Gupta's in 390-550 A.D.
- In 1947, India became the member of the IMF and exchange value of the Rupee came to be fixed by IMF standard.
- Paper currency in India was introduced in 1882 by the British Government.
- Rupees was the first minted in India during the reign of Sher Shah Suri around 1542 A.D.
- With the establishment of the RBI in 1935, the Indian Rupee became an independent currency, although for exchange purposes it continued to be dependent on sterling.

9.1.1 Decimal System

Let us now discuss the decimal system of the Indian currency:

- All Coins and One Rupee notes are issued by the Government of India and therefore, the one Rupee notes does not bear the signature of the Governor of the RBI.

Notes

- Each note has its amount written in 15 languages (English and Hindi and 13 other languages), illustrating the diversity of the country.
- The Currency notes of ₹ 500, bearing a portrait of Mahatma Gandhi and Ashoka Pillar emblem were issued by RBI from 3 October 1987.
- The Current Series which began in 1996 is called the “Mahatma Gandhi Series”.
- The first one-Paise coin under the decimal system was issued in March 1962 and the first one Rupee coin in July 1962.
- The Indian currency system was converted into decimal system by the Indian Coinage Amendment act 1955 which was brought into force from 1 April 1957. The old system of Rupee, Annas, and Paise was replaced by Rupee and Paise system.
- The Mahatma Gandhi Series of banknotes is issued by the Reserve Bank of India as the legal tender of Indian Rupee. As the name suggests, the series is so called because the obverse of the banknotes prominently display the portrait of Mahatma Gandhi. Since its introduction in 1996, this series has replaced all issued banknotes.
- The Indian rupee symbol (officially adopted in 2010) is derived from the Devanagari consonant (Ra) with an added horizontal bar. The symbol can also be derived from the Latin consonant “R” by removing the vertical line, and adding two horizontal bars (like the symbols for the Japanese and the euro). The first series of coins with the rupee symbol was launched on 8 July 2011.

9.1.2 Demonetisation of Currency

It is important to note that demonetisation refers to the removal of flow of currency from circulation which is done in order to trap black market currency and unaccounted money. So far demonetisation takes place twice.

1. **First Demonetisation:** It was done in 1946 which called for announcement of notes of ₹ 100 and above. All notes of Rupees denomination and above were demonetised.
2. **Second Demonetisation:** - It was done in January, 1978 through which Currency notes of higher denominations of ₹ 1000, ₹ 5000 and ₹ 10000 were demonetised.

Devaluation of Currency: You must understand that devaluation refers to dropping value of the Indian Rupee in contrast to the US dollar in the world market. In 1947, India became a supporter of the IMF (International Monetary Fund) which compelled fixing of exchange value of the Indian rupee as per International Monetary Fund standard. Consequently, India was indulged to devalue the rupee and so far the following devaluation takes place:

- In June, 1949 the Indian Rupee was devaluated by 30.5%. Dr John Mathai was the Finance Minister.
- Second Devaluing took place in June 1966 when Sachindra Chaudhary was the Finance Minister, whereby the Indian Rupee was further devalued by 57%.
- Third and Fourth Devaluation on 1 July 1991, the Indian Rupee was devalued by nine per cent and yet again more devalued by eleven per cent on 3 July 1991, total twenty per cent, During the course of which, Finance Minister was Dr Man Mohan Singh. The existing currency system in India i.e., after World War II is managed by the Reserve Bank of India and is based on inconvertible paper currency system.

It has two aspects: (a) internal aspect, and (b) external aspect. These are as given below:

- (i) The internal aspect deals with the circulation of coins and currency notes,

Notes

- (ii) The external aspect deals with the external value of currency and the way it is regulated.

The main features of the present currency system in India are as follows:

1. **Coins:** The highest advances in Indian coins, mainly after independence, are as follows:
 - (i) The Indian rupee coin is a symbolic coin which is made by the element nickel. Till 1940, the rupee was made by silver weighing 118 grains and 11/12th fine. During 1940, two improvements took place:
 - (a) one rupee note was issued
 - (b) the silver content was reduced from 11/12 to 1/2 fineness. In 1943, two rupee note was further added to meet the increasing request for rupees. The nickel coin came into existence in 1947.
 - (ii) Earlier 1957, only old-fashioned coins used to be in flow. These coins were one rupee, 8 annas (or half rupee), 4 annas (or quarter rupee), 2 annas, 1 anna, 1/2 anna, 1 paisa, and 1 pie. The association between these coins was as follows 1 rupee = 16 annas = 64 paise = 192 pies.
 - (iii) As of April 1, 1957, decimal coins system was announced in India. In this system, the Indian rupee was classified into 100 naya paise. The terminology of naya paisa has now been improved to simply paise. To start with old coins keep on in circulation beside with new coins, but with effect from January 1, 1964, old coins stopped to be legal tender. All financial records are now saved in terms of rupees and paise.
 - (iv) You must take into consideration that these coins are symbol coins and their face value is greater than their fundamental (metallic) value. One rupee coin, one rupee note and the coins of lesser denomination are delivered by the Ministry of Finance, Government of India. The rupee and the half rupee coin are limitless legal tender, whereas all other coins are restricted legal kind up to ₹ 10. Presently, the coins of the denominations of 1, 2, 3, 5, 10, 20, 50 and 100 paise are in circulation.
2. **Currency Notes:** With the exemption of one-rupee notes, all other notes are delivered by the Reserve Bank of India. The Reserve Bank of India preserves a discrete Issue Department which agreements with delivering of the currency notes. At the present time, notes of rupees 2, 5, 10, 50, 100 and 500, 1000 denominations are in circulation. All these notes are convertible into each other and are limitless legal tender.
3. **System of Notes Issue:** The Reserve Bank had to preserve not less than 40% funds (against note issue) in gold coins, bullion, and foreign securities with the facility that gold coins and bullion were not at any moment to be less than ₹ 40 crore.

The left over 60% of the reserves were to be enclosed by rupee coins, rupee securities of Government of India, accepted bills of exchange and promissory notes payable in India.

With the introduction of economic planning, after independence, it was felt that the relational reserve system was not sufficiently elastic to meet the developing needs of the country.

In the commencement of Second Five Year Plan, India had to face foreign exchange problems. Its foreign exchange reserves fell from ₹ 950 crore in 1950-51 to ₹ 825 crore in 1955-56. Subsequently, the Reserve Bank of India Act was revised in 1956 and the relative system of note subject was swapped by the smallest reserve system.

According to this modification, it became essential for the Issue Department of the Reserve Bank to keep a minimum of ₹ 400 crore of foreign securities and ₹ 115 crore in gold coins and bullion.

Notes

In November 1957, the Reserve Bank of India Act was again revised to decrease the minimum currency reserve in foreign securities. Under the second amendment, the value of all-over least reserve to be conserved by the Reserve Bank is ₹ 200 crore, of which not less than ₹ 115 crore should be retained as gold coins and bullion.

Thus, the present system of circulating notes in India is based on the smallest reserve method. The chief merit of this system is that it is effortlessly elastic; supply can be augmented up to any limit. But, there is also a threat of over-issue and inflation under such a purely managed system.

4. **Expansion of Indian Currency:** There has been a constant expansion of Indian Currency since independence. The foremost cause for this increase is deficit financing to meet the rising needs of money supply throughout the planning period. Total currency in circulation has enlarged from ₹ 4553 crore in 1970-71 to ₹ 48601 crore in 1989-90.
5. **External Value of Rupee:** The important progresses with respect to the external value of rupee are as follows:
 - (i) Prior to the formation of the International Monetary Fund (IMF), India had the genuine exchange standard and the Reserve Bank sustained the external value of rupee in terms of sterling at the rate ₹ 1 = Is. 6d.
 - (ii) From March 1, 1947, India turns out to be the member of the International Monetary Fund. Every member of the International Monetary Fund has to announce the parity charge of its exchange in terms of gold (or U.S. dollar). India fixed the value of ₹ 1 = 0.268601 gram of pure gold (or 30.23 cents in terms of the U. S. dollar) in 1947. But this gold parity was such that the old rate of Is. 6d was sustained.
 - (iii) Although India's membership of the International Monetary Fund, the rupee's connection with the pound sterling continued. This link was well-thought-out to be beneficial for India as about 30% of India's trade was with the authentic block and the exchange rate of rupee in relation of pound was supportive in preserving the competitive position of India's exports.
 - (iv) In September 1949, the rupee was devaluated by 30.5% resulting the devaluing of pound. New gold parity was professed as ₹ 1 = 0.186621 grams (or ₹ 1 = 21.00 U. S. cents).
 - (v) Indian rupee was further undervalued on June 6, 1966 to the extent of 36.5% and the new gold parity rate was fixed at ₹ 1 = 0.118489 (or ₹ 1 = 13.33 U. S. cents). This time, the reduction was demanded by the equilibrium of payments problem faced by India.
 - (vi) By September 1975, Indian rupee was delinked from pound sterling. Subsequently, the external worth of the rupee is communicated in terms of a basket of nominated currencies and varies according to the market forces.
 - (vii) In a current effort to deal with the grave equilibrium of expenses crisis facing the country, the Reserve Bank of India, in two stages, i.e., on July 1 and 3, 1991, devaluated Indian rupee by 8.97 % to 10.15% and 10.58% to 12.31 % correspondingly in contradiction of the four major world currencies, i.e. the U. S. dollar, the pound sterling, the Deutsch mark and the Japanese yen.

Therefore, together the devaluation in two stages worked out to be more than 20%. Subsequently, the dollar rises in value in relations of Indian rupee from ₹ 21.14 to ₹ 25.88; the pound from ₹ 34.36 to ₹ 41.50; the mark from ₹ 11.75 to ₹ 14.10; and the yen from 15.22 paise to 18.62.

Notes

The comprehensive rule aims of devaluing were:

- (a) To boost Indian exports,
 - (b) To reduce Indian imports,
 - (c) To encourage import substitution and
 - (d) To check the flight of capital from the country.
6. **Exchange Control:** It is important for you to note that during World War II, exchange control was introduced in India. However, even after independence, the strategy of strict exchange control persisted. The shortage of foreign exchange and the need for the same demanded the adoption of this measure.
- The purpose drive of exchange control after independence was to preserve country's foreign exchange resources and to permit their suitable use for the country's economic growth.
- All foreign exchange payments are to be made through the Reserve Bank of India in case of the system of exchange control; exporters must submit all foreign exchange earnings to the RBI in exchange for Indian currency; imports are strictly restricted and foreign exchange is made accessible to the particular importers through rationing.
7. **Liberalisation of Exchange Rate:** You may already be aware that ever since 1992, in a phased manner, all exchange limitations have been detached and Indian rupee has been made fully convertible,
- (a) In 1992-93, partial convertibility of rupee was introduced through Liberal Exchange rate Mechanism System (LERMS).
 - (b) In 1993-94, introduction of convertibility of rupee on trade account took place,
 - (c) In 1994-95 current account convertibility was announced.

9.2 Indian Rupee

In this section, you will learn about the Indian Rupee. The Indian Rupee is the official currency of the Reserve Bank of India which is responsible for the issuance of the currency. The symbol that was introduced for rupee nationally in July, 2010 is "₹". This symbol was launched by D. Uday Kumar. The most commonly used an sign for the Rupee before the launch of the official symbol is "₹". The ISO 4217 code for the Indian rupee is INR.

In most parts of India, the Rupee is recognised as the rupee, rupaye, Rubai, or one of other terms resulting from the Sanskrit rupyakam, raupya meaning silver; rupyakam meaning (coin) of silver. On the other hand, in the Bengali and Assamese languages, spoken in Assam, Tripura, and West Bengal, the Rupee is recognised as a Taka, and is printed as such on Indian banknotes.

9.2.1 Overview

The Indian Rupee is divided into 100 paise (singular paisa). As is typical in Indian English, large values of Indian rupees are calculated in terms of thousand, lakh (100 thousand, in digits 1,00,000), and crore (10 million, in digits 1,00,00,000). Use of million or billion, is normal in American or British English, is far less used.

9.2.2 History

India has been one of the first issuers of coins in the world. The first "rupee" is supposed to be introduced by Sher Shah Suri during the period 1486-1545, based on a ratio of 40 copper-coin

Notes

pieces (paisa) per rupee. Amongst the first issues of paper rupees were those by the Bank of Hindostan (1770-1832), the General Bank of Bengal and Bihar (1773-75, established by Warren Hastings), the Bengal Bank (1784-91), amongst others.

Traditionally, the rupee, a Sanskrit term which means silver, was a silver coin. This had severe concerns in the 19th century, when the toughest economies in the world were on the gold standard. The discovery of vast quantities of silver in the U.S. and a number of European colonies resulted in a weakening in the qualified value of silver to gold. Unexpectedly the normal currency of India could not buy as much from the exterior world. This occasion was known as “the fall of the Rupee.”

In course of the British rule, and the first period of independence, it was divided into 16 Annas. Each Anna was sub-divided into either 4 paise, or 12 pies. Till 1815, the Madras Presidency also allotted a currency grounded on the fanam, with 12 fanams equivalent to the rupee.

It is important to know that resulting independence in 1947, the Indian rupee substituted all the moneys of the before independent states. Some of these states had delivered rupees equal to those delivered by the British (such as the Travancore rupee). Other currencies comprised the Hyderabad rupee and the Kutch kori.

In 1957, decimalisation occurred and the rupee was nowadays divided into 100 Naye Paise (Hindi for new paisas). After a few years, the first “Naye” was released. However, many still refer to 25, 50 & 75 paise as 4, 8 and 12 annas correspondingly, not unlike the now mainly defunct practice of “bit” in American English for 1/8 dollar.



Notes The Reserve Bank of India (RBI) is India’s central banking institution, which controls the monetary policy of the Indian rupee.

9.2.3 International Use

Now you must understand that with Partition, the Pakistani Rupee originated into being, originally by means of Indian coins, and Indian currency notes merely over stamped with Pakistan. In previous times, the Indian Rupee was observed as an authorised currency of other countries, comprising Kuwait, Bahrain, Qatar, the Trucial States (now the UAE), and Malaysia. The Gulf Rupee, also recognized as the Persian Gulf Rupee (XPGR), was introduced by the Indian government as a standby for the Indian Rupee for flow entirely outside the country with the Reserve Bank of India [Amendment] Act, May 1, 1959. This creation of a dispersed currency was a challenge to decrease the straining put on India’s foreign reserves by gold smuggling. After India devaluated the rupee on June 6, 1966, those countries still using it - Oman, Qatar and what is now the United Arab Emirates (referred to as the Trucial States until 1971) – substituted the Gulf Rupee with their individual currencies. Kuwait and Bahrain had previously done so in 1961 and 1965 respectively.

The Indian Rupee is also connected with the Bhutanese Ngultrum. The Indian Rupee is also recognised in Nepal and some Indian shops in the United Kingdom. The currency notes in flow are ₹ 5, ₹ 10, ₹ 20, ₹ 50, ₹ 100, ₹ 500 and ₹ 1000. The current series which began in 1996 is referred to as the Mahatma Gandhi series.

All the coins and currency notes are delivered by the Reserve Bank of India, with the exception of the ₹ 1 note which was conventionally give out by the Government of India till it was reserved from circulation. Each banknote has its amount written in seventeen languages (English & Hindi on the front, and 15 others on the back) illustrating the diversity of the country.

Notes

The language panels on Indian rupee banknotes display the denomination of the note in all the national languages of India.

9.3 Tactile and Security features

Now in this section, let us discuss the tactile and security features:

9.3.1 Tactile Features

You must understand that the Indian currency notes and coins have numerous tactile and graphic structures to support meaningfully large number of its uneducated population, and assistance in speedy identification of various denominations.

- **Size:** All notes and coins have different sizes.
- **Colour:** All notes have different colour combinations.
- **Texture:** Most of the advanced denomination records have their denominations and some of the topographies printed. Also, diverse ordered forms (triangle, rectangle, etc.) are embossed on left of watermark window for visually reduced.

9.3.2 Security Features

It is important to note the following security features:

- **Watermark:** White side panel of notes has Mahatma Gandhi watermark.
- **Security Thread:** All notes has silver security band with engravings noticeable when held in contradiction of light.
- **Latent Image:** Higher denominational notes show note's denominational worth in numerals when held parallel to eye level.
- **Microlettering:** Numeral denominational worth is noticeable under magnifying glass among security thread and watermark.
- **Fluorescence:** Number panels glow below ultra-violet light.
- **Optically Variable Ink:** Notes of ₹ 500 and ₹ 1000 have their numbers printed in optically adjustable ink. Number seems green when note is held flat but variations to blue when viewed at angle.
- **Back-to-back Registration:** Floral pattern printed on front and back of note coincides when watched against light.

9.4 Reserve Money

This section focuses on the reserve money and its features:

- Currency in circulation comprises notes in circulation, rupee coins and small coins. Bank's deposits are reserves maintained as cash reserve ratio by banks in the current account with the Reserve Bank of India.
- It forms the basis on which money supply builds and circulates in the system.
- Reserve Bank of India imparts liquidity by growing reserve money.
- Reserve money is also known as high power-driven money, monetary base, base money and is represented as M0.

- Reserve Money is sum of a country's currency in motion and banks deposits with the RBI.
- When Reserve Bank of India produces reserve money either by means of currency or bank reserves, it offers liquidity into the banking system which so supplies money to the economy.

9.4.1 RBI Creates Reserve Money

Let us now discuss the role of RBI in creating reserve money:

- Currency in circulation involves creating reserve money by printing currency and bank deposits makes reserve money by accepting bank reserves which are preserved as part of cash reserve ratio.
- Reserve Bank of India makes reserve money by purchasing domestic assets via OMOs, Liquidity Adjustment Facility operations.
- Reserve Bank of India makes reserve money via bank assets by increasing Cash Reserve Ratios.
- Reserve Bank of India patterns currency by buying foreign currency assets, gold or domestic assets.
- Reserve Money is the obligation of the Reserve Bank of India. Two liability constituents are currency in circulation and bank deposits.
- To increase its liability, Reserve Bank of India requests to consistently increase its assets as well. RBI assets are forex assets (foreign currency asset), gold, rupee securities (domestic assets).
- When there is dollar inflows from foreign investors, Reserve Bank of India buys dollars and sells rupee to the market, thus making reserve money by increasing its foreign currency assets (forex intervention).
- With rise in holding period, risk associated reduces.

9.4.2 Impact of Reserve Money

You must also be aware of the impact of reserve money:

- Reserve money replicates the liquidity operations of the RBI.
- Broad money (M3) which is currency in movement Demand and Time deposits with the banks is a manifold of reserve money.
- Rise in reserve money, upturns broad money (money supply) in that way creating liquidity in the economy.

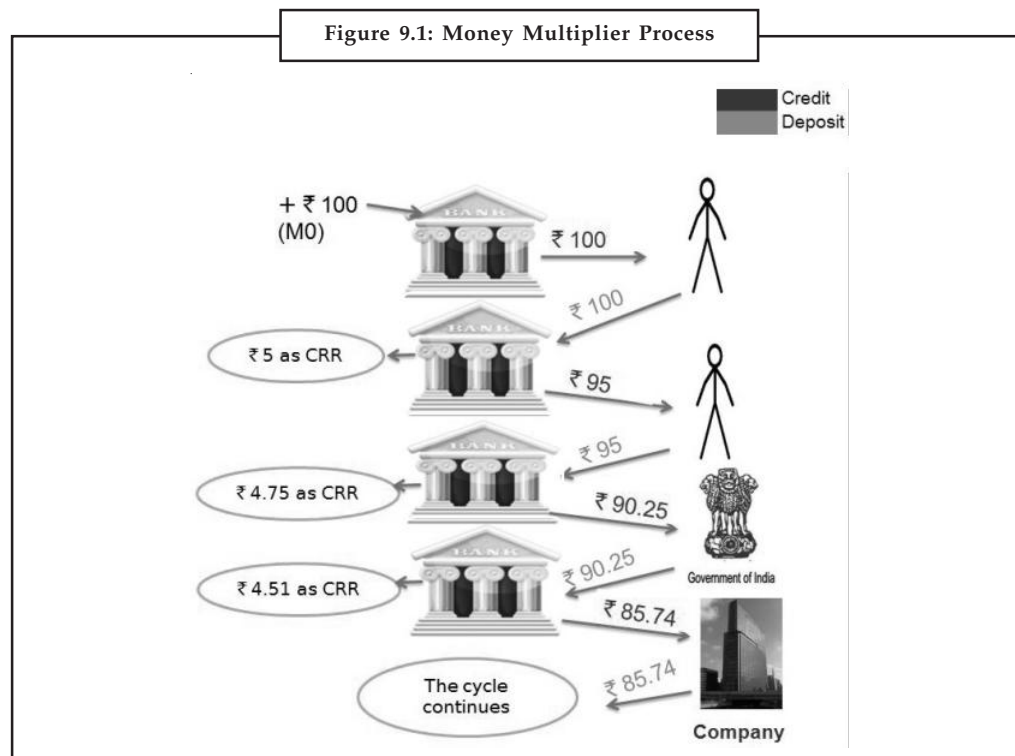
9.5 Money Multiplier

In this section, you will be aware of the highlighting features of money multiplier:

- Chart underneath displays how banks generate more money through additional reserves.
- In other words, its procedure of generating more money by banks from reserve money.
- Money multiplier is the method through which banks make more money through its additional reserves, thus intensifying money supply.

Notes

- RBI produces money in banks by reserve money (M0). As instructed by RBI, banks retain aside some money as part of reserve requirement (CRR1) and lends out the additional reserves (excess money in form of deposits in banks).



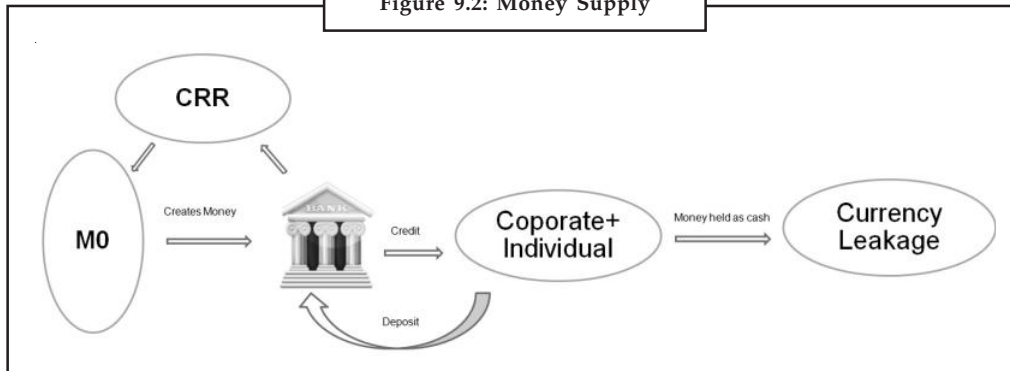
Source: <http://tablet.idfcmf.com/FundDocuments>

9.5.1 Money Multiplier Impacts Money Supply

The following points reveal how money multiplier impacts the money supply:

- Variations in money multiplier will have influence on the money supply.
- Reserve ratio, currency to deposit ratio, credit-deposit ratio are the factors determining money multiplier.
- Low reserve ratio, would need banks to retain aside less investments as cash reserve ratio, thus increasing its extra reserves to give out which upturns money supply. Higher reserve ratio will have reverse effect on money supply.
- Money supply is a function of money multiplier and reserve money.
- Currency to deposit ratio (currency leakage) tells how much public is holding as cash and not re depositing in banks. Further cash held by public means lesser payments thus dropping the amount bank can lend out causing in lower money supply. Reverse holds true when less cash is held by public.
- Credit-deposit ratio designates how much banks are lending out instead of keeping with themselves. High credit-deposit ratio means banks are lending out more money which in turn would increase money supply.
- Chart above gives a snap shot of the money supply.

Figure 9.2: Money Supply



Source: <http://tablet.idfcmf.com/FundDocuments/Money-Multiplier.pdf>



Caselet

Indian Financial System: A Young Entrepreneur's Dilemmas

This caselet primarily used to understand different constituents of a country's financial system– in this case, India's financial system. Written from the generalised experiences, the case study's learning outcomes revolve around Subodh Agarwal, the protagonist of the case study. This helps in debating the changes that occurred in the Indian financial system after the economic reforms in 1991 through the next decade and half. This case also enables discussion on the rules and regulations that a start-up company has to adhere to, both to float the company and also to raise capital.

Indian financial system has undergone a sea change with the ushering in of the economic reforms in 1991. Vibrancy, vitality and the vigour of financial system to a large extent reflect and decide the economic health of a country. Rapid growth of the economy and maturing financial system have perfectly complemented each other, while the regulators – majorly RBI and SEBI – have kept a tight vigilance fostering balanced growth. The Indian financial markets are not byzantine compared to the western financial markets, but are also not as premature as some financial markets in developing nations. Regulators have done a splendid job in achieving a fine balance, which was well demonstrated by the way the Indian financial institutions with stood the global financial meltdown.

Self Assessment

Fill in the blanks:

1. India has progressively opened up its marketplaces through economic changes by government reins on investment and foreign trade.
2. designates how much banks are lending out instead of keeping with themselves.
3. Variations in will have influence on the money supply.
4. Reserve ratio, currency to deposit ratio, credit-deposit ratio are the factors determining
5. Reserve Bank of India makes reserve money via bank assets by increasing

Notes

Example: The average cost of employing labour in Europe, including social and welfare costs, is \$ 20 an hour, \$ 19 in the United States and \$ 18 in Japan — and a rough average of \$ 1.65 in most of Asia.

9.6 Foreign Exchange Reserves

This section lays emphasis on the foreign exchange reserve. Foreign-exchange reserves (also called forex reserves or FX reserves) are assets held by central banks and monetary authorities, generally in dissimilar reserve currencies, typically the United States dollar, and to a smaller degree the euro, the United Kingdom pound sterling, and the Japanese yen, and used to back its obligations, e.g., the local currency delivered, and the various bank reserves deposited with the central bank, by the administration or financial institutions.

You must understand that in a strict intellect, foreign-exchange reserves ought to only comprise foreign exchange deposits and bonds. Though, the term in popular sage usually also adds gold reserves, special drawing rights (SDRs), and International Monetary Fund (IMF) reserve positions. This wider number is more readily available, but it is more precisely referred to as official international reserves or international reserves.

Foreign Exchange reserves are termed as Reserve Assets in the Balance of Payments and are placed in under the financial account. Hence, they are generally a significant part of the International Investment Position of a country. The reserves are labelled as reserve properties below assets by functional category. In terms of financial assets classifications, the reserve assets can be secret as Unallocated gold accounts, Gold bullion, currency, Special drawing rights, Reserve position in the International Monetary Fund, interbank position, other moveable deposits, other deposits, loans, debt securities, listed and unlisted equity, investment fund shares and financial derivatives, for instance forward contracts and options.

You must remember that there is no counterpart for reserve assets in liabilities of the International Investment Position. Generally, when the monetary authority of a country has certain kind of liability, this will be comprised in other classes, such as Other Investments. In the Central Bank's Balance Sheet, foreign exchange reserves are assets, along with domestic credit.

9.7 Capital Account Convertibility and Current Account Convertibility

In this section, you will learn about the capital account convertibility and the current account convertibility.

Capital Account Convertibility

You must understand that it means the choice to change the local monetary assets into foreign assets and vice versa at rates of exchange determined by the markets. It talks about to the removal of the restraints on international flows on a country's capital account, allowing full currency convertibility and opening of the monetary system. Capital account convertibility is measured to be one of the main types of a developed economy. It supports attract foreign investment. At the same time, capital account convertibility makes it easier for national companies to tap international markets. It is sometimes referred to as Capital Asset Liberation.

Current Account Convertibility

It is essential to keep in mind that current account convertibility lets free flow for all-purpose other than for capital purpose such as investment and loans. In other words, it permit inhabitants

to mark and obtain trade-related expenditures receive dollars (or any other foreign currency) for export of goods and services and pay dollars for import of goods and services, make various remittance, access foreign currency for travel, studies abroad, medical treatment and gifts, etc.

Notes



Did u know? Apart from the CRR, banks are required to maintain liquid assets in the form of gold, cash and approved securities.

Self Assessment

Fill in the blanks:

6. are termed as Reserve Assets in the Balance of Payments and are placed in under the financial account.
7. It is essential to keep in mind that lets free flow for all-purpose other than for capital purpose such as investment and loans.
8. Capital account convertibility is measured to be one of the main types of a
9. Foreign Exchange reserves are termed as in the Balance of Payments and are placed in under the financial account.
10. The is the only lawful tender recognised in the India and is also recognised as legal tender in neighbouring Nepal and Bhutan, the latter's exchange value being attached to the rupee.



Caution Supportive and liberal Government policies together with careful strategies to promote infrastructure offers great opportunities to engineering and construction (E&C) firms in India.



Task Add few more updates on Indian economic development by doing a research study.



Case Study

The British IMF loan in 1976

[Post War Period to the 1967 Devaluation]

Soon after the Bretton Woods system was introduced there were major failures in agricultural harvests in Europe (and hence exports) as a result of adverse weather. Many European nations were particularly vulnerable to these fluctuations, not the least because their external reserve position (holdings of gold and currency reserves) was fragile in the face of Balance of Payments deficits. The Marshall aid plan began in 1948 partially helped European nations to fund their balance of payments deficits while still engaging in the reconstruction effort. But the reserve losses were still substantial during this period. The Bank of England, for example, started 1946 with 2,696 million dollars' worth of gold and dollar reserves and by 1949 this had dropped to 1,668 million dollars.

Contd...

Notes

The United Kingdom endured large reserve losses in 1947 but drew on the “Anglo-American loan”. As recognition for the losses Britain endured prosecuting the war effort and the late entry of the North American nations into that conflict, Keynes had negotiated the Anglo-American loan whereby the US and Canadian governments provided a low cost loan to Britain (from 1946), which allowed the British government to maintain its financial commitments to the sterling-area nations (principally the Commonwealth countries) without having to cut back infrastructure renewal in Britain.

The loan arrangement also required the British government to provide sterling convertibility into dollars and many nations that held sterling as reserves sought to exchange them for US dollars thereby worsening the loss of reserves arising from the external deficits. Britain also received aid under the Marshall Plan which helped offset the assistance that Britain was providing to the Commonwealth nations and had the effect of allowing these nations to increase government spending on infrastructure development “beyond what would otherwise have been possible” (BIS, 1950, page 29). Convertibility under the Anglo-American loan was abandoned in 1947 as the reserve crisis increased. Britain responded by introducing contractionary domestic policy.

The crisis came to a head in early 1949 as a result of a US recession, which significantly reduced the demand for US imports from Europe (particularly food and raw materials). As a result of the deteriorating trade balance (less exports), British gold and dollar reserves fell to \$570 million between April and June 1949. To avoid a complete loss of reserves, the pound was devalued on September 18, 1949 by 30.5 per cent, which led to similar devaluations in the non-dollar currencies in Europe and the sterling-area. The 1949 devaluation was in response to the shortage of reserves and to some extent reflected the teething problems – that is, getting the parties right – in the newly created Bretton Woods system. Soon after the US recession ended and British reserves recovered somewhat due to the dual impacts of increased competitiveness arising from the devaluation and the short-lived nature of the US economic downturn. Throughout this period, Britain was running large sterling surpluses within the sterling-area but large dollar deficits overall. It funded the deficits in several ways: drawing on its gold and dollar reserves; drawing on the Anglo-American loan; drawing on the Canadian loan, and in 1947, 1948 and 1949 the sterling-area countries borrowed from the IMF. A once-off gold loan from South Africa and the ERP aid also helped. The drawings mentioned actually allowed Britain to increase its gold and dollar holdings in 1947, 1948 and 1949. At this stage, the IMF had not yet introduced conditionality into the drawing arrangements. By the mid-1950s, conditionality was increasingly used to steer nations who were relying on IMF funding support to pursue domestic economic policy that the IMF felt would reduce the nation’s reliance on future support from the Fund. The principal emphasis was on so-called Domestic Credit Expansion (DCE) targets. The imposition of conditionality was extended in the 1960s to most advanced nations who sought stand-by arrangements with the IMF.

The British economy grew relatively strongly in the early 1950s and produced external surpluses on the back of robust export growth. The growth in tax revenue also pushed the budget into surplus. However, import growth was trending upwards and the Bank of England tightened monetary policy in 1955 in order to moderate domestic demand. The Suez Crisis in 1956, whereby British and French troops intervened militarily in a tripartite agreement with Israel, after Egypt sought to nationalise the Suez Canal, provided some challenges for Britain, beyond the military considerations. While it did not interrupt trade as much as might have been expected given the strategic importance of the canal – Britain’s current account surplus continued in 1956 and 1957, the crisis created a lack of confidence in the value of sterling and a speculative outflow of sterling. The growing lack of confidence in the sterling (with rising domestic inflation) depleted Britain’s US dollar reserves and

Contd...

Notes

forced Britain to draw \$US561 million from the IMF in 1956 with an additional stand-by negotiated worth up to \$US739 million. This represented 100 per cent of Britain's IMF quota and was four times larger than any previous IMF drawing by any nation. These stand-by arrangements have an historic importance because they represented a change in direction for the IMF, whose main role up until that point had been to provide financial assistance from temporary balance of payments imbalances arising from international trade in goods and services.

Boughton (2000: 4) argued that prior to the Suez conflict, drawings under stand-by arrangements was small and largely limited to either "gold-tranche drawing" or drawings on the "first credit tranche (i.e., countries were borrowing no more than 25 per cent of their quota)". He also noted that at the time, the IMF was not constituted to lend to fund shortages arising from speculative outflows of capital. [Reference: Boughton, J.M. (2000) 'Northwest of Suez: The 1956 Crisis and the IMF', *IMF Working Paper No. 00/192*, Washington, International Monetary Fund. But the 1956 financial assistance to Britain was the first time that the IMF had extended standby arrangements to help a nation quell a speculative attack on its currency.

The British government was adamant that it didn't want to devalue because it wanted to avoid adding to the domestic inflationary pressures and it wanted to preserve the position of the sterling as the second reserve currency and the dominant currency in the sterling area. While it was running a surplus on the current account, this was offset by its external investments and debt repayments on the capital account. As a result, the speculative withdrawals of sterling meant Britain quickly lost reserves. Boughton noted (2000: 13) that with only a "small cushion of liquid dollar-denominated claims" held by the Bank of England, the markets started to dump sterling holdings, which put the \$US2.80 sterling parity at risk. It was in this context, which the Bank of England and the British Treasury determined to fund the defence of the parity via an IMF stand-by arrangement. Of importance, and this has bearing on what happened in 1976, Boughton (2000: 18) concluded that the request for assistance was "political rather than economic" given that the current account was in surplus, domestic economic policies were appropriate, and the currency was basically stable. Britain could have devalued to head off the financial crisis but did not want the political stigma they perceived would come with that option.

However, Britain did increasingly tighten domestic policy as a way of increasing the external surplus and reducing domestic inflation. Under US pressure to resolve the Suez crisis, the only condition the IMF imposed with respect to the stand-by arrangement was a British withdrawal from the Suez conflict. The IMF overcame its apparent problem of not being able to lend to help defend a currency against speculative attacks by arguing that the assistance was to support Britain's move to full convertibility (see later) as part of the policy of making international trade and payments freer. The desire by the IMF for full convertibility was strong in the context of the development of the international trade and payments system after World War 2. Article VIII, Section 2(a) of the IMF Articles of Agreement states that "no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions". In other words, any resident should be able to purchase other currencies at the official parity in order to purchase foreign goods and services, which are recorded in the Current Account of the Balance of Payments. This freedom is referred to as current account convertibility. After World War II, the participating Bretton Woods nations, progressively relaxed restrictions on imports and currency transactions. However, the War had destroyed a large proportion of Europe's productivity activity and most nations had few foreign currency reserves. In that context, trade and the related payments arrangements were predominantly bi-lateral.

Contd...

Notes

That is, nations would try to run trade balances against each of their trading partners so as not to run down their foreign currency and gold reserves. In 1950, the European Payments Union (EPU) was formed to allow nations within Europe to trade more freely with each by coordinating the settlement in gold and US dollars for each of member nations. This provided a wider convertibility of currencies within Europe and made it easier for nations to engage in multilateral trade arrangements. However, the foreign exchange transactions were still conducted in segmented markets. First, each European currency traded against the US and Canadian dollars in one market. Second, the European currencies traded against themselves in another market. There were arbitrage arrangements provided for by the EPU. At the end of 1958, full convertibility was achieved, which meant that all currencies were to be freely traded against each other and against the North American currencies in a unified market. All nations agreed to buying and selling rates for the US dollar with limited variation permitted. By the late 1950s, British growth had fluctuated but was still relatively robust (averaging 2.4 per cent). The problem was that growth became a stop-go affair as the balance of payments imposed a persistent constraint on the capacity of the economy to expand and maintain its exchange rate parity.

Britain saw its only solution was to expand exports and this led to its desire to join the Common Market, established by the Treaty of Rome in 1957. However, this introduced another challenge which would also be significant in 1976. Entering the Common Market would be beneficial from an exports perspective if the economy's competitiveness improved and this required constraining the persistent wage-price spiral. The other major development in trade was the signing of the 1960 General Agreement of Trade and Tariffs which required the signatories, including the United Kingdom, to reduce tariffs by around 20 per cent across a broad array of products. Entrenched inflation was undermining Britain's competitiveness and the weakening external position was continuing to deplete Britain's external reserves. As a result, by the early 1960s, domestic economic policy was contractionary but only partially successful in reducing the current account deficit.

As a result, there was increasing speculative pressure on the sterling and the Bank of England tightened credit to further slow the economy down. In fact, the two reserve currency nations – the US and Britain – were encountering persistent external deficits which was leading to unsustainable net capital outflow in their respective currencies. There was also recognition that most of Europe needed to reduce their trade surpluses and increase net capital outflow to resolve the imbalance in the international trade and payments system.

The role of the IMF expanded during this period and they negotiated an agreement among the ten large industrial nations to provide a massive boost to the supplementary resources held by the IMF, which was to provide the Fund with more capacity to assist national currencies who were under speculative attack. By mid-1961, Britain had to take urgent account to stop the drain on its foreign reserves, including increases in excise taxes, a credit squeeze (higher interest rates), fiscal austerity, a concerted policy of wage restraint, and a massive stand-by arrangement drawing from the IMF amounting to US 1,046 million. The restraint led to falling real GDP growth and rising unemployment and by the end of 1961 the fall in imports and rise in exports reduced the deficit significantly and Britain's gold and dollar reserves rose substantially.

The wage restraint manifested in the form of an incomes policy (wage pause), which both unions and employers accepted. However, there was no fundamental change in the bargaining relationships and so the incomes policy was only a temporary solution. The wages debate was another important issue which resonated into the 1970s. Through the 1950s, wage bargaining in the UK had increasingly been dominated by unions and peak industry bodies exerting their respective market power to defend (and expand) their

Contd...

Notes

respective shares in real national income. The unions pushed for real wages growth that at times exceeded the growth in productivity and capital pushed for increases in real profit margins at the expense of the workers real wages. Each group used their individual price setting strength (unions to push for higher money wages and firms to raise prices) to react to a claim by the other for a higher real share.

The result was a creeping inflation problem and rising costs which undermined Britain's trade position. By the end of the 1950s, Britain was finding its dominant trade strength had waned significantly. While much of the focus was on the so-called abuses of trade union power there was also a noted lethargy on behalf of British industry to invest in latest technology and drive labour productivity higher. The United Kingdom's balance of payments situation was becoming more influenced by monetary movements than by its current account (trade position) which exacerbated the sensitive of the currency parity to economic growth and meant the stop-go nature of economic development was accentuated.

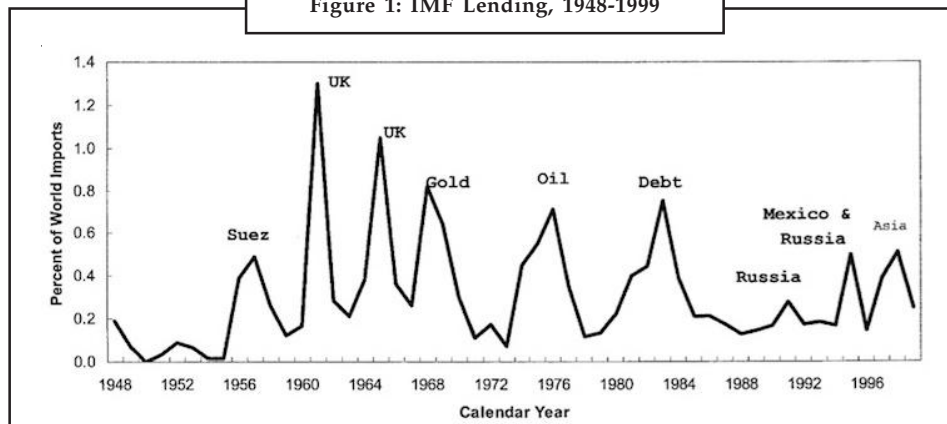
In 1964, the continuing themes of persistent domestic inflation, a current account deficit and loss of confidence in the currency were dominant policy issues and the Government responded in 1965 with some limited austerity measures but overall unemployment fell and the budget deficit widened.

Wages growth kept domestic demand strong and to formalise the government's desire for wage restraint, they introduced the National Board for Prices and Incomes in 1966 to produce and enforce wage guidelines. Throughout this period, the British economy was struggling with the seemingly incompatible goals of maintaining strong domestic growth with rising living standards and managing its external payments situation. Of course, the reason for that incompatibility was the rigid view that the British authorities had with respect to maintaining the sterling parity.

But the current account was in deficit through 1964 and 1965 with a drain on reserves leading to another drawing from the IMF in May 1965 of \$US 1,400 million, the second largest to that date and the Fund's sterling holdings were equal to 198 per cent of Britain's quota. The restoration of reserves combined with the tightening of domestic policy saw the trade position move into a small surplus by the end of 1965.

Both Britain and the US, introduced various constraints on international monetary movements in 1965 to reduce the net outflows of their currency, an increasing source of weakness. The following graph is taken from Boughton (2000: Figure 1, Page 23) and shows the IMF financial assistance to member-states between 1948 and 1999. The two major UK drawings in 1961 and 1965 feature prominently.

Figure 1: IMF Lending, 1948-1999



Contd...

Notes

The November 1967 Devaluation

1967 was a year of world economic crisis – the largest since 1949. Cost pressures were rising and translating into persistent inflation in many nations. In 1966 and into 1967, Britain ran very large balance of payments deficits and there was a substantial associated loss of reserves and reduced confidence in the sterling.

Policy contraction including a wage and prices freeze in mid-1966 led to a decline in imports and an improving current account position. There was a slight slowdown overall and unemployment edged up. The trade surplus renewed confidence in the sterling. Further, sterling was strengthened because interest rates were eased in the US and Europe, encouraging net capital inflows into Britain in search of higher yields. Britain used the windfall of funds to repay various international debts, including reducing its outstanding IMF liabilities under previous stand-by arrangements.

The calm was short-lived. The first disruption came on June 5, 1967, when the – Six-Day War – between the Arab States (United Arab Republic, Jordan and Syria) and Israel broke out after Israeli military aggression (air strikes into Egypt).

The War impeded British exports, increased the cost of oil and saw a sell-off of sterling. Secondly, the US increased interest rates to quell a credit boom and this boosted the value of the dollar. Third, Europe entered recession which further damaged UK exports and the current account went into deficit. The loss of export revenue also led to rising British unemployment and plunged Britain into a policy quandary.

The sterling was under pressure from the increasing external deficit and net capital outflow, which would normally have led to some domestic policy contraction. But with a recession looming the Government needed to bolster domestic demand. This is a situation that would repeat itself in 1975 and 1976. The British government opted to avoid the politically costly rise in unemployment and there was a monetary easing combined with some fiscal policy expansion, which pushed the deficit up. There was considerable debate as to whether the British government was committed to maintaining sterling stability given these expansionary domestic policy interventions.

Additionally, despite initial wage restraint in 1967 following the completion of the 1965-66 wage freezes, wages growth was rapid in the latter part of 1967 and outstripped productivity growth thereby undermining Britain's international competitiveness. Further industrial unrest on the wharves in the latter part of 1967 constrained Britain's exports and the current account deficit rose.

The British government had to face the reality that to defend the mounting pressure on the sterling it would have to invoke a harsh recession and drive unemployment up significantly. The stop-go growth pattern had come firmly up against the political constraints. It also knew that earlier efforts in the 1960s to deal with a weak balance of payments situation had resulted in lost national income but didn't really solve the underlying problem.

The problem became rather obvious – the exchange rates was overvalued and try as they might to preserve that value for reasons of national prestige the reality was that it had to be devalued.

On November 18, 1967 the British government devalued the sterling by 14.3 per cent against the US dollar.

Questions

1. Give your view point on the case study.
2. How the condition of the British Government can be improved?

Source: <http://bilbo.economicoutlook.net/blog/?p=24469>

9.8 Summary

- India is a developing country and so as the economy of India.
- The Indian currency system should be kept in mind so that India get benefit at every point of time.
- Convertibility of Rupee – current and capital account has put a light on the Value of money presently.
- Money multiplier and its importance had been discussed and understood very well.

9.9 Keywords

Capital: Financial assets or the financial value of assets, such as cash.

Definition of 'Debt Security': Any debt instrument that can be bought or sold between two parties and has basic terms defined, such as notional amount (amount borrowed), interest rate and maturity/renewal date. Debt securities include government bonds, corporate bonds, CDs, municipal bonds, preferred stock, collateralised securities (such as CDOs, CMOs, GNMA's) and zero-coupon securities.

Demonetisation: Demonetisation is the act of stripping a currency unit of its status as legal tender.

Domestic Credit Expansion: The part of any increase in the money supply which is not due to a balance-of-payments surplus. The money supply can increase through a balance-of-payments surplus, on either current or capital account. This leads to a rise in foreign exchange reserves and a corresponding increase in base money if this is not sterilised by the monetary authorities. Alternatively, the money supply can rise through lending by the banking system to either the state or the private sector. This extra internal bank lending is domestic credit expansion.

Foreign-exchange Reserves: These are the foreign currency deposits held by central banks and monetary authorities.

IMF: The International Monetary Fund (IMF) describes itself as "an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world."

Open Market Operations – OMO: The buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system. Purchases inject money into the banking system and stimulate growth while sales of securities do the opposite.

9.10 Review Questions

1. Define money multiplier.
2. Explain Reserve Money.
3. Write a short note on the Indian currency system.
4. What is the role of the RBI in the regulation of the money in India?
5. What do you mean by the capital account convertibility and current account convertibility?
6. Describe the Foreign Exchange Reserve.

Notes

Answers: Self Assessment

- | | |
|-----------------------------------|------------------------------|
| 1. Reducing | 2. Credit-deposit ratio |
| 3. Money multiplier | 4. Money multiplier |
| 5. Cash Reserve Ratios | 6. Foreign Exchange reserves |
| 7. Current account convertibility | 8. Developed economy |
| 9. Reserve Assets | 10. Rupee |

9.11 Further Readings



Books

Datt Ruddar & Sundharam KPM (2008). *Indian Economy*. S Chand and Company, New Delhi.

Misra S.K and Puri (2009), *Indian Economy*, Himalaya Publication, New Delhi

Kapila Uma. (2008), *India Economy*, Academic Foundation Publication, New Delhi

Gupta KC and Kaur Harinder, (2004) *New Indian Economy and Reforms*, Deep and Deep Publication, New Delhi.



Online links

<http://www.ilo.org/public/english/dialogue/actemp/downloads/publications/tanhrd1.pdf>

<http://ideas.repec.org/a/asi/ijoass/2011p108-116.html>

<http://unesdoc.unesco.org/images/0018/001852/185231eb.pdf>

<http://www.slideshare.net/Pranis/human-resource-development-hrd-11728066>

http://www.scmr.com/article/sound_reasoning_on_supply_chain_infrastructure/

Unit 10: GATT, WTO and Indian Economy

Notes

CONTENTS

Objectives

Introduction

10.1 General Agreement on Tariff and Trade (GATT)

10.1.1 Main Objectives of GATT

10.1.2 GATT – Original 23 Signatories

10.1.3 Tokyo Round

10.1.4 Uruguay Round

10.2 World Trade Organisation (WTO)

10.2.1 Objectives of WTO

10.2.2 Basic Principles of WTO

10.2.3 Five Specific Functions of WTO

10.3 WTO and Indian Economy

10.3.1 World Trade Organisation and Indian Economy

10.3.2 Dispute Settlement Mechanism of WTO

10.3.3 WTO – The Third Pillar in International Economic Relations and Its Benefits

10.4 History of WTO

10.4.1 First Ministerial Conference

10.4.2 Second Ministerial Conference

10.4.3 Fourth Ministerial Conference

10.4.4 Fifth Ministerial Conference

10.4.5 Sixth Ministerial Conference

10.5 Implementation of Related Issue in World Trade Organisation (WTO)

10.5.1 Issue Related to Agriculture

10.5.2 Trade in Services

10.6 Summary

10.7 Keywords

10.8 Review Questions

10.9 Further Readings

Objectives

After studying this unit, you will be able to:

- Understand the formation of GATT

Notes

- Know the importance of WTO
- Understand the condition of India by the introduction of these policies

Introduction

In this unit, you will understand the World Trade Organization (WTO) oversees a multidimensional system that contracts with the rules of trade amongst nations on a global level. The working of the WTO is mainly based on the Uruguay Round of discussions that took place from 1986 to 1994.

The WTO, which started to work on January 1, 1995, has its backgrounds in the General Agreement on Tariffs and Trade (GATT) of 1947, and following rounds of negotiations. However GATT had generally distributed with trade in goods, the WTO promises to cover trade in facilities and in intelligent property in addition difference of opinion settlement processes.

The WTO arrangements comprise agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food regulations, and more.

Although there have been numerous Ministerial Conferences after the Uruguay Round, the purposes of a new round of negotiations were framed only under the “Doha Development Agenda” launched in 2001 at the fifth Ministerial Conference at Doha, Qatar.

Though the GATT, over a period of 47 years – from 1948 to 1994, providing the rules for much of world trade, it persisted a provisional agreement.

10.1 General Agreement on Tariff and Trade (GATT)

Let us begin the unit with the understanding of General Agreement on Tariff and Trade (GATT). A treaty formed subsequent the conclusion of World War II. The General Agreement on Tariffs and Trade (GATT) was executed to control world trade to aide in the economic retrieval following the war. GATT’s chief purpose was to decrease the obstacles of global trade over the decrease of tariffs, quotas and subsidies.

10.1.1 Main Objectives of GATT

You must understand that by decreasing tariff blockades and removing discrimination in global trade, the GATT aims at:

1. Spreading out of international trade;
2. Intensification of world production by certifying full employment in the contributing nations;
3. Development and full exploitation of world resources; and
4. Rising normal of living of the world communal as a whole.

On the other hand, the articles of the GATT do not offer directions for accomplishing these purposes. These are to be indirectly realized by the GATT through the advancement of free (unhampered) and multidimensional global trade.

As such, the rules accepted by GATT are created on the subsequent fundamental principles:

1. Trade should be directed in a non-discriminatory way;
2. The use of quantitative limitations should be predestined;
3. Disagreements should be determined through discussions.

In short, it is important to note that members of GATT agree to decrease trade blocks and to eradicate discrimination in global trade so that, multidimensional and free trade may be encouraged, leading to wider extents of world trade and prosperity.



Did u know? Agricultural subsidies in developed countries are of the order of one billion dollars a day or about \$350 billion dollars per annum. This figure, at the time of the Uruguay Round, was stated to be around \$ 250 billion. Thus, whatever be the exact figure, there has been a significant increase in agricultural subsidies in developed countries.

10.1.2 GATT – Original 23 Signatories

You must remember that Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, the United Kingdom, and the United States.

This first round of negotiations caused in 45,000 tariff reductions concerning \$10 billion of trade, about one-fifth of the then world's total trade. The collective package of trade rules and tariff concessions became recognized as the GATT which came into force in January 1948, whereas the ITO Charter was still being discussed. But even beforehand the talks decided, 23 of the 50 applicants decided in 1946 to transfer to decrease and fix customs charges. These 23 countries became the establishment GATT members (formally recognized as "contracting parties").

Even though the ITO Charter was lastly decided at a UN conference on trade and employment in Havana, in March 1948, approval in some countrywide legislatures showed impossible. The most severe obstruction came from the US Congress, although the American government had been one of the motivating forces behind ITO. It was at the Torquay Round that the United States specified its incapability to support the awareness of ITO which in effect, showed to be its death knell. Consequently, the GATT developed the only multidimensional instrument leading international trade until the WTO was established on January 1, 1995.

You should keep in mind that for nearly half a century, the GATT's simple legal principles continued much as they were in 1948. There were accompaniments in the form of a segment on development-added in the 1960s-and "plurilateral" agreements (i.e., with voluntary membership) in the 1970s, whereas the efforts to decrease tariffs further sustained. Much of this was attained finished a series of multidimensional negotiations known as "trade rounds".

While the initial GATT trade rounds focused on decrease of tariffs, the focus extended when the Kennedy Round, apprehended in the mid-sixties, brought about an anti-dumping arrangement and a section on expansion.

10.1.3 Tokyo Round

It will be interesting for you to know that this Round – lasting from 1973 to 1979 with 102 countries contributing – perceived the first of main effort to tackle non-tariff fences of trade. The outcomes comprised an average one-third cut in customs responsibilities in the world's nine main industrial markets, transporting the regular tariff on industrial products down to 4.7%. The tariff decreases, projected to be executed in a phased manner over a period of eight years, complicated an element of "harmonisation" – higher the tariff, greater the percentage of tariff cut applicable.

It was in the Tokyo Round that a series of contracts on non-tariff obstructions developed from the discussions. Because they were not acknowledged by the full GATT participation, they came

Notes

to be casually called “Tokyo Codes”. Numerous of these codes were sooner or later discussed in the Uruguay Round and became multidimensional promises acknowledged by all WTO members. Only four continued “plurilateral” agreements and these related to government procurement, bovine meat, civil aircraft and dairy products. In 1997, the members decided to dismiss the bovine meat and dairy agreements, leaving only the other two.

10.1.4 Uruguay Round

You must understand that the seeds of the Uruguay Round were sown in November 1982 at a parliamentary meeting of GATT members in Geneva. The work programme that the ministers decided designed the base for what was to become the Uruguay Round Negotiating Agenda. On the other hand, it took four more years previously ministers decided to launch the new round in September 1986, at Punta del Este, Uruguay.

The round was hypothetical to finish when ministers encountered once more in Brussels in December 1990. But difference on improving agricultural trade nearly led to the failure of the talks. That indefinite time saw the first current of a final legal arrangement. This current “Final Act”, also recognised as the “Dunkel Draft” subsequently GATT Director-General, Arthur Dunkel, became the basis for the Uruguay Round negotiations.

Over the subsequent two years, facilities, market access, anti-dumping rules and the creation of a new organization were the other areas of difference along with agriculture. The area of distress during the time was the major differences concerning the United States and European Union (EU) on the above issues.

In November 1992, the US and the EU settled most of their differences on agriculture in a deal recognized casually as the “Blair House Accord”. By July 1993, the “Quad” (US, EU, Japan and Canada) declared substantial development in discussions on tariffs and related subjects (“market access”).

You may already be aware that it took until December 15, 1993, for every subject to be lastly determined and for discussions on market access for goods and services to be determined. The WTO agreement was finally employed on April 15, 1994, by ministers from most of the 123 contributing governments at a meeting in Marrakech, Morocco.



Notes On the other hand, the GATT 1947 remains to be the basis concerning features dealing with trade in goods below the Uruguay Agreement.



Caselet

Condition of Labourers in Malwa

The GATT 1947 mentions that no prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

The main reason for this prohibition is that quantitative restrictions (QR) can be more trade restrictive than tariff measures. Tariffs *per se* do not prevent entry of products, and

Contd...

Notes

those goods that are competitively priced always have a chance to jump over high tariff walls.

On the other hand, QRs in the form of quotas and licensing requirements that allow only a few players or entities to import (“canalising”), effectively put a limit or ceiling on imports, even if there is a domestic market for these products for reasons apart from price such as technology, features, convenience, etc.

At one point of time, India had the “distinction” of being grouped with Tunisia, Nigeria, Pakistan, Bangladesh and Sri Lanka as the only countries that continued to persist with the import quota system.

However, the GATT provides exceptions to this fundamental principle. Members are allowed to impose QR in a non-discriminatory manner for any of the following reasons:

1. Imports

- ❖ To safeguard the balance of payments position
- ❖ As a safeguard measure when there is serious injury to domestic producers
- ❖ Restrictions on any agricultural or fisheries product, when there is a temporary domestic surplus of the product or when there is over-dependence on an imported product
- ❖ Protection of public morals
- ❖ To protect domestic industry at a developing stage (“infant industry protection”)
- ❖ Security, arms and ammunition, nuclear material
- ❖ Health of human, animal and plant life
- ❖ Gold and silver trade
- ❖ Monopolies enforcement
- ❖ Protection of patents, trademarks and copyrights
- ❖ For the application of standards or regulations for the classification, grading or marketing of commodities in international trade
- ❖ Products made by prison labour
- ❖ Protection of national treasures
- ❖ Conservation of exhaustible natural resources
- ❖ Approved inter-governmental commodity agreements

2. Exports

- ❖ To prevent or relieve critical domestic shortages of foodstuffs
- ❖ For the application of standards or regulations for the classification, grading or marketing of commodities in international trade.

Quantitative restrictions can also be imposed subject to the authorisation of the other members as a retaliatory measure when the recommendations and rulings of a dispute settlement panel are not implemented within the given reasonable period of time.

The GATT requires that application of the QR be made public with information about the total quantity or value of the product permitted to be imported during a specified future

Contd...

Notes

period and of any change in such quantity or value. Moreover, any such restriction should not result in a change in the relative value of imports to the total of domestic production. That is, the QR should continue to maintain the ratio of imports to domestic production of the product concerned, as it existed during a previous representative period. The representative period being a normal period that did not warrant imposition of an import quota.

India began the process of removing import controls ever since the 1980's when a fresh list of items was allowed to be imported under the Open General Licence (OGL) every year. This process that gathered momentum during the period 1991-96 witnessed QR being lifted on as many as 6161 tariff lines by March 31, 1996. Since then, 1999-2000 saw 1905 tariff lines being removed from the QR regime while another phase of dismantling of QRs on 714 tariff lines was announced on March 31, 2000. The central government's notification of March 31, 2003, further removed QRs on import of an additional 69 items.

Self Assessment

Fill in the blanks:

1. GATT's chief purpose was to decrease the obstacles of global trade over the, quotas and subsidies.
2. The GATT aims at of international trade.
3. The rules accepted by GATT are created on the subsequent trade should be directed in a non-discriminatory way.



Notes India is a country of Mixed Economy.

10.2 World Trade Organisation (WTO)

In this section, you will learn about the World Trade Organisation. WTO is an organisation that manages and liberalise international trade. The organization formally began on 1 January 1995 below the Marrakech Agreement, substituting the General Agreement on Tariffs and Trade (GATT), which originated in 1948. The society deals with regulation of trade between contributing countries; it delivers a basis for selling and validating trade agreements, and a dispute resolution process aimed at enforcing participant's devotion to WTO agreements, which are signed and approved by the governments. Most of the subjects that the WTO emphasizes on arises from preceding trade negotiations, specifically from the Uruguay Round (1986-1994).

The organisation is making an effort to thorough negotiations on the Doha Development Round, which was launched in 2001 with a clear emphasis on speaking the desires of developing countries. As of June 2012, the future of the Doha Round remained indeterminate: the work programme lists 21 subjects in which the unique limit of 1 January 2005 was misused, and the round is still incomplete. The conflict between unrestricted trade on industrial goods and services but maintenance of protectionism on farm subsidies to domestic agricultural sector i.e. requested by developed countries and the substantiation of the global liberalisation of fair trade on agricultural products i.e. wished by developing countries continue to be the major problems. These points of argument have delayed any development to launch new WTO discussions beyond the Doha Development Round. As a result of this impasse, there have been a growing number of bilateral free trade agreements signed. As of July 2012, there were several compromise groups in the WTO system for the current agricultural trade negotiation which is in the condition

of stalemate. WTO's current Director-General is Roberto Azevêdo who leads a staff of over 600 people in Geneva, Switzerland. A trade assistance agreement known as the Bali Package was touched by all members on December 7, 2013, the first complete agreement in the organisation's history.

10.2.1 Objectives of WTO

It is important for you to keep in mind the following objectives of WTO:

- To increase the standard of living of individuals in the member countries.
- To safeguard full employment and broad rise in effective demand.
- To increase production and trade of goods.
- To increase production and trade of services.
- To safeguard optimal utilization of world resources.
- To receive the idea of maintainable growth.
- To safeguard environment.

10.2.2 Basic Principles of WTO

It is important for you to note the basic principles of WTO. These are as follows:

1. **Most-Favoured-Nation (MFN) or Non-discrimination between Members:** Every participant has to be treated correspondingly without any discernment. If a member gives another member a special favour, such as a lower customs duty rate for a product, the similar lower duty has to be appropriate for all other WTO members. Therefore, non-discrimination among supporters is the heart of the MFN attitude.

The prominence that is assumed to the MFN principle is obvious from the detail that it is the first article of the GATT that oversees trade in goods and it also seems under Article 2 of the General Agreement on Trade in Services (GATS) and under Article 4 of the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS).

The WTO permits some exemptions to the MFN principle. For instance, countries can set up a Free Trade Agreement (FTA) that put on only to goods traded within the collection and therefore differentiate against goods from countries that are not members of the FTA. On the other hand, it should be celebrated that the development of an FTA should not effect in higher tariffs for non-members.

Members can also contribute emerging and least industrialized countries singular access to their marketplaces (Generalized System of Preferences) or raise barriers against products that are measured to be traded unethically (Dumping and Subsidies) from definite countries. But, overall, members have to follow firm circumstances if they suggest deviating from the MFN principle.

2. **National Treatment or Non-discrimination between Goods:** Under this attitude, introduced goods that has arrived the domestic market should be provided the same treatment as that given to nearby manufactured goods. This principle of nationwide (or same) handling is appropriate to external and domestic services, and to foreign and local symbols, patents and government grant.

It is important to note that the significance given to this principle of "national treatment" can be evaluated from the fact that it is also originate in all the three main WTO agreements, seeming as it does under Article 3 of GATT, Article 17 of GATS and Article 3 of TRIPS.

Notes

National action only spread over once a product, facility or item of intelligent belongings has entered the market. Consequently, blaming customs duty on imports is not a violation of national action even if locally fashioned products are not charged a corresponding tax.

3. **Free Trade: Gradually, Through Negotiation:** The third code is afraid with the lowering of trade barriers. The barriers worries consist of customs duties (or tariffs) and processes such as import bans or quotas that selectively limit import amounts. Other problems such as red tape and exchange rate strategies have also been debated under this principle.
4. **Predictability: Through Binding and Transparency:** You may already be aware that this norm is about associates making an aptitude not to increase trade barricades. In the WTO, when countries decide to open their marketplaces for goods or facilities, they “bind” their promises. For goods, these bindings amount to ceilings on tariff rates.

A country can alter its binding only after discussing with its trading partners. One of the accomplishments of the Uruguay Round of multidimensional trade talks was to raise the quantity of trade underneath binding promises. In agriculture, 100% of products now have bound tariffs.

You must also understand that under expectedness and constancy, the use of allowances and other actions used to set measurable restrictions on imports are dejected. The members are also obligatory to make their trade rules as “translucent” as likely and also reveal their rules and practices openly within the country or by informing the WTO. The unvarying investigation of national trade rules through the Trade Policy Review Mechanism (TPRM) delivers alternative means of inspiring transparency both at the domestic and at the multilateral level.

5. **Promoting Fair Competition:** The guidelines on non-discrimination – MFN and nationwide handling – create circumstances of fair job for all members. Many of the WTO contracts such as the one on leaving (exporting at below cost to gain market share), appropriations in agriculture, intellectual property, services, have clauses that encourage fair opposition.

The WTO arrangements cover goods, services and rational property and comprise individual countries’ promises to lower duties and tariffs and other trade barriers, and to open and keep open services markets, set events for relaxing disputes and recommend special handling for developing countries.

Consequently, principally, members are obligatory to keep an eye on a scheme based on instructions that are unknown but really agreements that member governments have themselves negotiated and signed.

10.2.3 Five Specific Functions of WTO

You will find it important to know the five specific functions of WTO:

- To enable the application, administration and operation, and further the goals of this agreement.
- To offer the forum for discussions among its members.
- To manage the sympathetic on rules and procedures governing the payment of disputes.
- To manage the Trade Policy Review Mechanism.
- To attain greater coherence in global policy-making in cooperation with the International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank).

10.3 WTO and Indian Economy

Notes

In this section, you will be acquainted with the WTO and the Indian Economy. The birth of World Trade Organization (WTO) Came into being on January 1, 1995 clamps a countless capacity for the whole world economy in reverence of global trade. This Organization will manage the new global trade rules for in international trade, which amounted to closely five trillion dollar in 1994 for goods and services.

You may already be aware that Peter Sutherland, the first Director General of WTO said, “The WTO drags nations in a global co-operative attempt to increase income and make good jobs finished fair and open trade.” The modern question of GATT/WTO New (January,1995) detected that the new global occupation rules were accomplished after seven years of negotiations among were more than 120 countries and through the WTO arrangements and market access promises; world income is projected to increase by over 800 billion dollar annual by the year 2008 and annual global trade.

10.3.1 World Trade Organisation and Indian Economy

You must understand that the World Trade Organisation is having a significant role for managing the new global trade rules in the resulting ways:

1. **Trade Agreement:** The WTO manages, through numerous councils and committees, the 28 agreements confined in the final act of the Uruguay Round plus a number of plurilateral agreements.
2. **Tariffs Rules:** The WTO also supervises the implementation of important tariff cuts (averaging 40 per cent) and decrease of non-tariff measures agreed to in the trade negotiations.
3. **Trade Watch Dog:** The WTO is a supervisory body of international trade, frequently inspecting the trade managements of specific members. In its numerous bodies, members flag proposed or draft measures by others that can trade conflicts. Members are also obligatory to notify in feature several trade events and figures which are preserved by the WTO in a large data base.
4. **Various Conciliation Norms:** The WTO offers numerous reconciliation mechanisms for finding an amicable answer to trade struggles that can rise among members.
5. **Trade Disputability Settlement:** Trade difference of opinion that cannot be resolved through bilateral discussions are judged under the WTO Dispute Settlement Court Panels of Independent expert are recognized to inspect uncertain in the light of WHO rules and deliver rulings. This tougher efficient process make sure equal action for all trading partners and inspires members to live up to their obligations.
6. **WTO is Consultant Body:** The WTO is a management adviser for world trade. Its economists retain a close timepiece on the pulse of the global budget and offer studies on the foremost trade problems of employment or Uruguay Round results over a newly recognized Development division and supported technical co-operation and training division.
7. **Checks of Trade Barriers:** The WTO will be medium where countries endlessly transfer exchange of barricades all over the world. And the WTO now has an extensive agenda for additional discussions in many areas.

The World Trade Organization (WTO) is an organization that manages and relaxes international trade. The organization formally originated on January 1,1995 under the Marrakech Agreement,

Notes

substituting the General Agreement on Tariffs and Trade (GATT), which started in 1948. The organization deals with guideline of trade among contributing countries; it delivers a background for selling and reinforcing trade agreements, and a difference of opinion resolve procedure aimed at enforcing participants' devotion to WTO contracts which are signed by illustrative of member governments and approved by their parliaments. Most of the issues that the WTO focuses on derive from former trade negotiations, especially from the Uruguay Round (1986-1994).

It is important for you to note that the organisation is presently attempting to persevere with a trade negotiation called the Doha Development Agenda (or Doha Round), which was started in 2001 to improve unbiased contribution of poorer countries which signify a mainstream of the world's population. Still, the cooperation has been determined by "difference between exporters of agricultural bulk merchandises and countries with large numbers of survival farmers on the exact terms of a 'special safeguard measure' to safeguard farmers from rushes in imports. At this time, the future of the Doha Round is uncertain."

You must note that it can be predictable that the WTO is dissimilar from and a development upon GATT, on the ground that firstly, the WTO will be additionally global in its association than the GATT. Its viewpoint membership is previously around 150 countries and regions with many others making an allowance for accession.

Secondly, the WTO has a far wider possibility than its ancestor, transporting into the multi-lateral trading system for the first time profitable activities like trade in facilities, the exchange of ideas in the setting of intelligent property safety and investment.

This in fact organisation – WTO has been passing through legal proceedings problems and challenges.

But the organisation has taken the pressures and straining it had to tolerate in its beginning rather well. It has previously initiated to how talented signs of rising into a lively body which is intended to play an energetic role in future growth of world trade and economy.

10.3.2 Dispute Settlement Mechanism of WTO

You need to be aware that the WTO currently deals a far more influential device in order to decide arguments over trade, arising out of increasing opposition for markets amongst the members. Under the current condition facing recurrent arguments among the trading associates a trade-dispute settlement mechanism is compulsory.

A recent report of WTO perceived that emerging countries are developing more as lively user of the multilateral dispute settlement mechanism than the industrialized nations. Such a move has been notice of additional so in the World Trade Organization than the General Agreement on tariffs and Trade. On March 5, 1996, the Dispute Settlement Body (DSB) recognized two panels at the request of Philippines and Costa Rica. The DSB decision raised the number of active panels in WTO to four, with three of them linking emerging country complainants.

You should be aware about the fact that the first WTO argument, which had been established by agreement, convoluted two emerging countries Singapore and Malaysia. A deep analysis highlights that difference, the vast mainstream of dispute settlement cases in GATT were between developed countries.

Developments in the WTO's dispute settlement technique over that of GATT have simplified the lodging of official complaints for all members.

These improvements contain:

- (a) Near automatically of establishment of panels and adoption of their reports, and

- (b) Precise targets for each step of the board progression.

Presently, it is important to know that the WTO is building an all-out struggle to change an agreement on controversial and key matter like inclusion of social section on trade agenda. The Director General of Geneva-based WTO, Mr Renato Ruggiero says that immediate contest is to shape a consensus on the topic of trade and work standards in order to circumvent this becoming a divisive issue.

The new WTO contract spreads the amount of Government obtaining opened worldwide by 10 times associated to the previous agreement. However, it rests only a plurilateral arrangement with incomplete membership.

10.3.3 WTO – The Third Pillar in International Economic Relations and Its Benefits

Moreover the World Bank and the IMF, the World Trade Organization (WTO) is nowadays being taken as the third support in the post-war worldwide economic relations. The WTO will have three chief legal instruments. The General Agreement on Tariffs and Trade (GATT) along with related agreements and Jurisprudence the General Agreement on Trade in Service (GATS) and the agreement on Trade-related intellectual Property Rights (TRIPS).

You should be clear of a predominantly notable feature of WTO which is that its uppermost decision creating body would be the Ministerial Conference which unaccompanied will have the expert to take choices on all matters below any of the contracts covered by the WTO. Throughout the intermissions between the meetings of the Ministerial Conference, the General Council would carry out its meanings, comprising its role as the Dispute Settlement Body.

Reacting to establishment of the WTO and approval of the Final Act by dissimilar countries, trade experts struggle that the important discounts in tariff and non-tariff barriers negotiated in the round would give the international trading environment a new dynamism and vitality.

Computing the welfares of the WTO, it can be perceived that growing market access occasions in the context of their relaxed economic policies.

Therefore, the World Trade Organization (WTO) will reinforce the official outline for trade relations among member countries. Consequently, with the formation of WTO, a new trade order was probable to arise.

10.4 History of WTO

This section highlights the history of WTO. Harry White and John Maynard Keynes at the Bretton Woods Conference – both economists had been robust promoters of a liberal international trade environment, and suggested the creation of three institutions:

1. IMF (fiscal and monetary issues)
2. World Bank (financial and structural issues)
3. ITO (international economic cooperation).

The WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), was formed after World War II in the wake up of other new multidimensional institutions devoted to international economy cooperation particularly the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A similar international organisation for trade, named the International Trade Organisation was effectively discussed. The ITO was to be a United Nations dedicated agency and would report not only trade barriers but other subjects indirectly connected to trade, containing employment, investment, preventive business practices, and commodity

Notes

arrangements. But the ITO treaty was not accepted by the U.S. and few other signatories and never went into effect.

In the absence of an international organisation for trade, the GATT would over the years “transform itself” into a *de facto* international organisational.

10.4.1 First Ministerial Conference

You may already be aware that the introductory governmental session was held in Singapore in 1996. Its main purpose was to start a global determination among global trading nations to renovation the structure and mechanisms of the General Agreement and achievements by that system subsequently its inception in 1948.

Disagreements, mainly among developed and developing economies, appeared over four issues initiated by this conference; afterward, these were collectively referred to as the “Singapore issues”.

10.4.2 Second Ministerial Conference

You must understand that the WTO Ministerial Conference of 1999 The Third conference in Seattle, Washington ended in disappointment, with huge protests and police and National Guard crowd regulator efforts sketch worldwide attention.

10.4.3 Fourth Ministerial Conference

You may already be aware that it was held in Doha in Persian Gulf nation of Qatar. The Doha Development Round was started at the conference. The conference also accepted the joining of China, which became the 143rd member to join.

10.4.4 Fifth Ministerial Conference

WTO Ministerial Conference of 2003 the ministerial discussion was held in Cancun, Mexico, pointing at forging agreement on the Doha round. An association of 22 southern states, the G20 (led by India, China and Brazil), struggled stresses from the North for agreements on the so-called “Singapore issue” and called for an end to agricultural subsidies within the EU and the US. The talks broke down without progress.

10.4.5 Sixth Ministerial Conference

The sixth WTO session Ministerial was held in Hong Kong from 13 December-18 December 2005. It was considered important if the four year old Doha Development Agenda discussions were to move forward satisfactorily to accomplish the round in 2006. In this conference, countries decided to phase out all their agriculture export subsidies by the end of 2013, and dismiss any cotton export supports by the end of 2006. Further discounts to developing countries comprised an agreement to introduce duty free, tariff free access.

For goods from the Least Development Countries, subsequent the Everything But Arms initiative of the European Union-but with up to 3% of tariff lines relieved other major issue were left for additionally negotiation to be completed by the end of 2006.



Did u know? India joined GATT on 8th July, 1948.

10.5 Implementation of Related Issue in World Trade Organisation (WTO)

In this section, you will understand about the implementation of related issue in WTO.

Resolution of implementation problems connecting to various pressures underneath World Trade Organisation (WTO) agreements is a complex issue. India along with other like-minded emerging countries has sustained to maintain constant pressure for resolution of application problem relating to numerous apparent asymmetric and imbalance in existing WTO agreements and effective operationalization of numerous special and differential treatment provision for developing countries.

10.5.1 Issue Related to Agriculture

You must understand that liberalising trade in agriculture on a non-subsidized origin is a significant as well as problematic issue for discussions in WTO. As directed under Article 20 of the WTO Agreement on Agriculture, the development of discussions has initiated in the year 2000.

10.5.2 Trade in Services

Now you must understand that under the provision of WTO, emerging countries like India having sufficient manpower resources can put much belief on service sectors counting construction and can indulge into trade in services with developed countries at better terms.



Case Study

The Banana Wars – A Case Study

The “Banana War” was back in the news when the Doha Ministerial Conference of 2001 passed a separate decision on a dispute that had been going on for more than eight years then. The last time the banana dispute was in the limelight was when the Original Panel found the dispute-related sanctions imposed by the United States against the European Communities (EC) to be WTO-incompatible.

Introduction

The sanctions required US importers to pay 100 per cent duties on products imported from the EC. The US sanctions were in retaliation against the EC’s favourable import regime for bananas from the Caribbean when compared to those from some South American countries. The US imposed the sanctions even as the Original Panel was coming to a conclusion on the final suspension of concessions to be applied to EC products.

The dispute involved the EU’s 1993 regulatory regime for imported bananas. The EU-wise banana trade regime had a system of a tariff rate quota (TRQ) based on the country of origin. Bananas from the African Caribbean Pacific (ACP) countries had duty-free entry into the EU up to a ceiling of 8,577,000 metric tonnes.

This quota was allocated to each of the banana-producing countries on the basis of their historic exports to the EU. While ACP imports in excess of quota were levied 750 ECUs per metric tonne, non-ACP bananas were subject to a duty of ECU 100 per metric tonne on imports of up to two million metric tonnes and ECU 850 on imports above that amount.

Contd...

Notes

The “banana war” had all the ingredients of a hallmark case:

- The dispute was between two powerful members of the Quad who were confronting each other from the area of currency trade (Euro vs. US Dollar) to military understandings. Some members of the EC appear to be inclined towards the belief that countries can flourish more in a bipolar world than a unipolar one.
- The dispute involved Article I of GATT 1994, the Most Favoured Nation (MFN) treatment, i.e., the non-discriminatory approach that all contracting parties must extend to each other on trade-related matters.
- The DSB’s Appellate Body, hearing the dispute in 1997, indicated that the MFN philosophy transcended any preferential trade agreement or understanding that contracting parties might have outside of the WTO Agreement. The Appellate Body did not agree with the EC’s stand that preferential trade with African, Caribbean and Pacific countries, covered under the Lome Convention, was outside the purview of WTO. (*Note:* Under the 1979 Lome convention, the EC seeks to extend technical and financial assistance to about 70 ACP countries. The Convention also provides for a duty-free regime for ACP products entering the EC).
- Aligned with the main complainant, the United States, were, as in the days of yore, ‘small’ countries like Ecuador, Guatemala and Honduras. The only other ‘big’ member in this camp was the NAFTA member, Mexico.
- The duration of the dispute was perhaps the longest – the whole dispute stretching well beyond the 30 month period normally envisaged in settlement of disputes.

Time for conclusion of Panel’s hearings	15 months
---	-----------

Reasonable period of time given to member, to implement findings	15 months
--	-----------

Normal time envisaged for the successful settlement of dispute	30 months
--	-----------

The level of suspensions of concessions that the DSB authorised in the case of the United States was \$ 191.4 million. Ecuador, one of the original complainants, expressed dissatisfaction with the measures taken by the EC in pursuance of the panel’s findings and requested a hearing before the original panel.

The third parties to the Ecuador complaint were again mostly “small” countries belonging to the Americas, a region over which the US has a proprietary interest. This is the region whose countries the US wants to coalesce into a major trade bloc called the Free Trade Agreement of the Americas (FTAA).

The suspension of concessions awarded in favour of Ecuador was \$ 201.6 million. The amount can be seen in proper perspective if we are to consider the fact that the net foreign capital inflow to Ecuador was \$829 million in 1997. (*Note:* Suspension of concessions is essentially an indirect compensation to the winning party. In this case, Ecuador, in effect, can raise tariffs on imports from EC countries to fetch increased revenue of 200 million dollars).

In the case of Ecuador, the arbitrators gave the opportunity to the country to suspend concessions or other obligations in diverse areas such as copyright, geographical indications, and industrial designs, and also under the General Agreement on Trade in Services (GATS) with respect to “wholesale trade services”.

The aftermath of the dispute will be felt as long into the future as January 1st, 2006, when banana trade in the EC will come under the tariff-only system. It will be a decade (96-06)

Contd...

before the banana trade in that part of the world attains the normality that is envisaged under the WTO regime. Until such time, a tariff quota system will not only continue but will be weighted in favour of bananas from the ACP countries.

Pre-Doha Position

The case raised the following issues and questions till the period before the Doha Ministerial:

Though the arbitrators found that the level of nullification and impairment suffered by Ecuador amounted to US\$201 million per annum, the 'victory' for Ecuador may be bittersweet in view of the lengthy period of the case. The victory can also be termed bittersweet because the gains can be calculated only from the date of adoption of reports in the DSB. Incidentally if the net private capital inflows for Ecuador in 1997 were \$829 million, it was minus \$91 million for Cote d'Ivoire in the same year.

Moreover, in the case of Ecuador, the DSB asked the country to seek recourse to others sectors of the same Agreement or other WTO Agreements for putting into effect the suspension of concessions. The policy makers should perhaps begin to think of putting in place rules that would enable direct transfer of funds equivalent to the nullification and impairment in the case of developing countries.

Article 22 of the DSP on 'Compensation and Suspension of Concessions' makes mention of compensation but that it "is voluntary and, if granted, shall be consistent with covered agreements". The compensation clause can become mandatory in the case of developing and particularly 'small' countries. The awarding of costs to developing countries can also be considered, with the costs taking the form of training to law-makers. The legal expenses in hiring outside experts and firms can become substantial over long periods of dispute hearings.

The dispute took more than eight years in the making due, in part, to Ecuador's request that the same Original Panel hear the subsequent dissatisfaction with the EC measures.

There is always the potential for further prolonging of the case if a third party decides to use Article 10.4 on 'Separate Dispute by Third Parties' which states that "if a third party considers that a measure already the subject of panel proceedings, nullifies and impairs benefits accruing to it under any covered agreement, that member may have recourse to normal dispute settlement procedures under this undertaking. Such a dispute shall be referred to the original panel wherever possible and thus leading to the possibility for interminable prolonging of a dispute".

Lastly, though it is acknowledged that substantial monetary impact, especially on small and developing countries, is evident in such cases; perhaps the time has come to include an article on frivolous disputes and appeals in the Dispute Settlement Procedures.

Post-Doha Situation

The Doha Decisions of November 14 are on two accounts:

- (a) *European Communities* – the ACP-EC Partnership Agreement.
- (b) *European Communities* – Transitional Regime for the EC Autonomous Tariff Rate Quotas on Imports of Bananas.

The decisions can be broadly summed up as follows:

- (a) Article I of the WTO Agreement, the MFN treatment, has been waived for the imports of bananas into the EC from countries covered under the Cotonou Agreement.

Contd...

Notes

- (b) There are three broad quota categories: the first two are "A" and "B" quotas on imports of bananas from non-ACP countries, the total being 2,653,000 tonnes.
- (c) The "C" quota will be 750,000 tonnes and will be reserved for bananas of ACP origin.
- (d) Duties on bananas imported under "A" and "B" quotas will not exceed 75 €/tonne until the entry into force of the EC's tariff-only regime.
- (e) The third category, "C" quota, is on banana imports from ACP countries. No duties will be charged on bananas imported from "C" quota countries.
- (f) The waiver will also apply till EC's tariff-only quota is introduced from January 1, 2007.
- (g) The Doha Decision also waives Article XIII of the GATT 1994 – Non-discretionary Administration of Quantitative Restrictions – in respect of EC's banana imports. This means that the EC can have quantitative restrictions (QR) favouring imports of bananas from ACP countries over non-ACP countries. However, the EC will have to negotiate with the different banana exporting countries (those "with principal supplying interests") before it decides the final quantum of imports.

The Future

The dispute was essentially between the "large" American-backed Latin American producers and the "smaller" banana producers in the Caribbean and other countries that have a colonial or historical connection with the European countries. For example, France reserved its market essentially for bananas from the Caribbean islands of Martinique and Guadeloupe and West Africa. The UK also gave priority access to Commonwealth Caribbean bananas, and restricted imports of dollar bananas. These arrangements, in general, ensured a remunerative return for Caribbean growers exporting bananas to the European markets.

The tariff-rate quota now envisaged allows for imports of 2,553,000 tonnes bananas under "A" and "B" quotas (non-ACP countries). These imports will be levied a duty of 75 Euro/tonne. The "C" quota of non-dutiable imports from ACP countries will be set at 850,000 tonnes. This tariff-rate quota regime will be effective from January 1, 2002.

The United States agreed to provisionally remove its 100% import duties on specified products from the EU. However, the US in its communication to the WTO, has kept the option of re-imposing high duties on imports from EU if the revised tariff-rate quota regime was not implemented from January 1, 2002. There have also been political voices in Europe that the tariff-only regime to be implemented from January 1, 2006, would be harmful to small banana producers in the ACP countries. Moreover, the Cotonou Agreement signed in June 2000 on the basis of a "strong political foundation" is valid for twenty years.

Questions

1. Find out the banana trade, in terms of quantity and US dollar value, for the years 1995 to 2000, between:
 - (a) Guatemala, Honduras and Ecuador and the EC.
 - (b) The Caribbean countries and the EC.
 - (c) Chiquita and Dole companies and (i) the EC market, and (ii) Rest of the world.

Contd...

Notes

2. What was the effect of the EC's measures on Guatemala, Honduras and Ecuador banana exports? What was the overall impact on the economies of Guatemala, Honduras and Ecuador?
3. Find out if there was a 'diversion of trade' in favour of Caribbean countries. If so, what was it in terms of US dollar value?
4. (a) Find out the trend in banana exports from Guatemala, Honduras and Ecuador to the EC in the years subsequent to the dispute resolution.
(b) Did the banana exporters of these three countries implement any fresh marketing strategies with specific reference to the EC market?

Self Assessment

Fill in the blanks:

4. The World Trade Organisation (WTO) is an organisation that means international trade.
5. on a non-subsidized origin is an significant as well as problematic issue for discussions in WTO.
6., through numerous councils and committees, the 28 agreements confined in the final Act of the Uruguay Round, plus a number of plurilateral agreements.
7. Under the provision of WTO, ... like India having sufficient manpower resources can put much belief on service sectors counting construction and can indulge into trade in services with developed countries at better terms.
8. Moreover, the World Trade Organisation (WTO) is nowadays being taken as the third support in the past-war worldwide economic relations.
9. The GATT developed the only leading international trade until the WTO was established on January 1, 1995.
10. Resolution of implementation problems connecting to various pressures underneath World Trade Organisation (WTO) agreements is a complex

10.6 Summary

- India's economic freedom score is 55.2, making its economy the 119th freest in the 2013 Index. Its score is 0.6 point higher than last year, with improvements in the management of public finance and monetary freedom offsetting a continuing decline in freedom from corruption.
- India is ranked 23rd out of 41 countries in the Asia-Pacific region, and its overall score is below the world average.
- India's institutional shortcomings continue to undermine the foundations for long-term economic development.
- In the absence of a well-functioning legal and regulatory framework, corruption throughout the economy is becoming a more serious drag on the emergence of a more dynamic private sector.
- The state's presence in the economy remains extensive through state-owned enterprises and wasteful subsidy programs that result in chronically high budget deficits.

Notes

- Progress in structural reform has been uneven and often stalled. Plans to open up key service sectors have been reversed, and no significant reforms have been implemented effectively in recent years.
- Efforts continue, however. Reform measures aiming at reducing government subsidies and encouraging foreign direct investment were announced in 2012.

10.7 Keywords

Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS): It is an international agreement administered by the World Trade Organisation (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation as applied to nationals of other WTO Members. It was negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.

Free-trade Area: It is a trade bloc whose member countries have signed a free-trade agreement (FTA), which eliminates tariffs, import quotas, and preferences on most (if not all) goods and services traded between them. If people are also free to move between the countries, in addition to FTA, it would also be considered an open border. It can be considered the second stage of economic integration. Countries choose this kind of economic integration if their economic structures are complementary.

General Agreement on Tariffs and Trade (GATT): It was a multilateral agreement regulating international trade. According to its preamble, its purpose was the “substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis.” It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organisation (ITO).

Most-favoured-nation (MFN): Treating other people equally. Under the WTO agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members.

10.8 Review Questions

1. Explain nature of economy of India and WTO.
2. Write a short note on GATT.
3. What are the issues that are faced by India as a developing country?
4. Explain how it is affected by the GATT.
5. Give a historical emergence of the WTO.

Answers: Self Assessment

- | | |
|--------------------------------------|-------------------------------|
| 1. Decrease of tariffs | 2. Spreading out |
| 3. Fundamental principles | 4. To manage and liberalise |
| 5. Liberalising Trade in agriculture | 6. WTO manages |
| 7. Emerging countries | 8. The world bank and the IMF |
| 9. Multidimensional instrument | 10. Issue |

10.9 Further Readings

Notes



Books

Datt and Sundharam. (2008), *Indian Economy*, S Chand and Company, New Delhi

Misra S.K and Puri (2009), *Indian Economy*, Himalaya Publication, New Delhi

Kapila Uma (2008), *India Economy*, Academic Foundation Publication, New Delhi

Gupta K.C. and Kaur Harinder, (2004) *New Indian Economy and Reform*, Deep and Deep Publication, New Delhi



Online link

<http://www.economicshelp.org/india/problems-indian-economy/>

Unit 11: Globalisation and Its Impact on India

CONTENTS

Objectives

Introduction

11.1 Concept of Globalisation

11.1.1 Characteristics of Globalisation

11.2 Emerging Technology

11.3 Impact of Globalisation on the Functions of Corporations

11.4 Summary

11.5 Keywords

11.6 Review Questions

11.7 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the concept of globalisation
- Elaborate the emerging technologies
- Discuss the impact of globalisation on the functions of corporations

Introduction

In this unit, you will learn about the concept of globalisation, the emerging technologies and the impact of globalisation on the functions of corporations.

In the recent past, several meanings of the word 'globalisation' have gathered. The word 'globalise' was initially attested by the Merriam Webster Dictionary in 1944. To regard the history of globalisation, few authors focus on events since 1492, but majority scholars and theorists focus on a much more current past.

Long before 1492, people started to connect together disparate locations on the globe into wide systems of migration, communication, and interconnections. This creation of systems of interaction between the global as well as the local has been a central driving force in world history.

In 325 BC Chandragupta Maurya becomes a Buddhist and links the expansive powers of a world religion, economy, trade, and imperial armies for the earliest time. Greeks (Selukas) sue for peace with Chandragupta in 325 BC at Gerosia, marking the eastward connection among overland routes between the Mediterranean, India, Persia, and Central Asia.

By 1350, networks of trade which included frequent movement of people, animals, goods, money, and micro-organisms ran from England to China, via France and Italy, across the Mediterranean to the Levant and Egypt, and thereafter across Central Asia (the Silk Road) and along sea lanes down the Red Sea, across the Indian Ocean, and via the Straits of Malacca to the China coast.

Between 1492 and 1498: Columbus and Vasco da Gama travel west and east to the Indies, initiating an age of European sea-borne empires.

In South Asia, it should be observed, the Delhi Sultanate and Deccan states offered a system of power that linked the inland trading routes of Central Asia with the coastal towns of Bengal and the peninsula and hence to Indian Ocean trade for the earliest time.

The commodities trade persisted well into the seventeenth century, focusing on local products from every area of the Eurasian system— Sumatra spices, Chinese silk and porcelain, Malabar cinnamon and pepper, etc.—but by the 1600s, long - distance trade was more intensely ingrained in the production process. A growth of commercial production and commodities trade was supported by the arrival into Asia of valuable metals from the New World, which appeared both from the East and West (the Atlantic and Pacific routes—through Palestine and Iran, and also the Philippines and China).

Liberalisation of the 19th century is frequently termed as “The First Era of Globalisation”. The “First Era of Globalisation” is said to have broken down in stages, starting with the First World War, and thereafter collapsing with the crisis of gold standard in the late 1920s and early 1930s. Countries that involved in that period of globalisation, including the European core, few of the European periphery and several European offshoots in the Americas and Oceania, flourished. Inequality between those states declined, as goods, capital and labour flowed remarkably liberally between nations.

The 20th century was also ruled by economic nationalism. Majority of the European nations pursued this policy. After the Second World War economic nationalism turned into the key for most nations in Asia and Europe. Even nations such as the US and France were not untouched with the phenomenon of economic nationalism.

When the US began losing jobs due to globalisation it reacted sharply. Not only this, in the 20th century itself it took several steps to protect its domestic industry such as automobiles and motorcycles. It levied quantitative restrictions on the imports of automobiles from Japan. Likewise, when in 2006 a Britain-based NRI made a bid for Europe’s largest steel maker France responded sharply.

Economic nationalism is a term utilised to describe policies which are directed by the notion of protecting domestic consumption, labour and capital formation, even if this needs the imposition of tariffs and other limitations on the movement of labour, goods and capital. It resists globalisation in many cases, or at least it questions the perceived advantages of unrestricted free trade. Economic nationalism may involve such doctrines as protectionism and import substitution.

11.1 Concept of Globalisation

In this section, you will learn about the concept of globalisation. People across the globe are more linked with each other than ever before. Information and money flow more quickly than ever. Goods and services generated in one part of the world are progressively available in all portions of the world. International travel is more recurrent. International communication is ordinary. This phenomenon has been termed as “globalisation.”

It depicts the increasing integration of economies around the world, especially through trade and financial flows. The term at times also depicts the movement of people (labour) and knowledge (technology) across international borders.

It is essential to understand that globalisation is a contemporary term utilised to describe the changes in societies and the world economy that arise from dramatically enhanced international trade and cultural exchange. It explains the increase of trade and investment because of the

Notes

opening of barriers across borders and the interdependence of countries. In economic contexts, it is frequently understood to refer nearly exclusively to the effects of trade, especially trade liberalisation or “free trade”.



Notes In his budget speech of 2007-08, the Finance Minister Chidambaram put forth a proposal to promote Mumbai as a world class financial centre and to make financial services the next growth engine of India.

The International Monetary Fund describes globalisation as, the growing economic interdependence of countries globally through rising volume and variety of cross-border transactions in goods and services, freer international capital flows, and more quick and extensive diffusion of technology. The World Bank describes globalisation as the “Freedom and ability of individuals and firms to initiate voluntary economic transactions with residents of other countries”.

You must keep in mind that globalisation can also depict the following things:

- It shares numerous characteristics with internationalisation and is often utilised interchangeably. Few prefer the word globalisation to focus on the erosion of the nation-state or national boundaries.
- The creation of a global village—closer contact between different parts of the world with enhancing possibilities of personal exchange, mutual understanding as well as friendship between “world citizens”, and development of a global civilisation.
- Economic globalisation—there are four features to economic globalisation, referring to four varied flows across boundaries, viz., flows of goods/services, that is, free trade (or at least freer trade), flow of people (migration), of capital and of technology. A result of economic globalisation is enhancing relations among members of an industry in various portions of the world (easily termed as globalisation of an industry), with a matching erosion of national sovereignty in the economic sphere.
- In the area of management, globalisation is a marketing or Strategic term that depicts the emergence of international markets for consumer goods typified by identical customer needs and tastes enabling, for instance, selling the same cars or soaps or foods with identical ad campaigns to people in various cultures. This usage is compared with internationalisation, which explains the activities of multinational companies tackling across borders in either financial instruments, commodities, or products that are widely tailored to local markets.

Globalisation provides extensive opportunities for truly global development but it is not progressing evenly. Few countries are becoming integrated into the global economy more rapidly than others.

It is important for you to keep in mind that countries that have been able to integrate are observing faster growth and decreased poverty. For example, outward-oriented policies brought dynamism and higher prosperity to much of East Asia, transforming it from one of the poorest regions of the world forty years ago, to one of the most developed. And as living standards rose, it turned possible to make progress on democracy and on economic problems like the environment and working standards.

The elimination of barriers to the movement of goods and services, in some instances even to the movement of personnel resulted in increasing specialisation of nations. They started involving more and more in export of those goods where they have comparative benefit over other.

The remaining can be imported at much economical prices internationally, rather than manufacturing it locally

Notes



Did u know? The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide. Replying to the Short Duration Discussion on Import of Wheat and Agrarian Distress on May 18, 2006, Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1,00,000 farmers committed suicide during the period 1993-2003 mainly due to indebtedness.

11.1.1 Characteristics of Globalisation

You must take into consideration the following characteristics of globalisation:

1. Over the past two decades, there is a quick globalisation of markets and production.
2. The globalisation of markets infers that national markets are combining into one huge marketplace.
3. Erosion of national sovereignty and national borders via international agreements resulting in organisations such as the World Trade Organisation (WTO) and European Union (EU).
4. Development of Global Financial System.
5. Decreased transportation costs, particularly from development of containerisation for ocean shipping.
6. The globalisation of production implies that firms are resorting to focused world locations for specific activities than including their own resources. As a result, it looks progressively irrelevant to talk about American products, Japanese products, or German products, as these are being replaced by “global” products.
7. Two factors appear to underlie the trend toward globalisation: decreasing trade barriers and changes in communication, information, as well as transportation technologies.
8. Since the end of World War II, there has been an important lowering of barriers to the free flow of goods, services, and capital.
9. Rise in international flow of capital.
10. Rise in the share of the world economy regulated by multinational corporations.
11. Enhanced role of international organisations like WTO, WIPO and IMF that deal with international transactions.
12. Rise of economic practices such as outsourcing by multinational corporations.
13. Intellectual Property Restrictions.
14. Harmonisation of intellectual property laws across nations (usually speaking, with more restrictions).
15. Supranational recognition of intellectual property restrictions (for example, patents granted by China would be identified in the US).
16. Pursuing globalisation of production and markets, world trade has grown quicker than world output in the past decade. Foreign direct investment has swelled, imports have penetrated more intensely into the world’s industrial nations, and competitive pressures have enhanced.

Notes

17. The development of the microprocessor and associated developments in communication and information processing technology have assisted firms to link their global operations into sophisticated information networks.
18. Development of a global telecommunications infrastructure and higher trans-border data flow utilising technologies like Internet communication satellites and telephones.
19. Increases in the number of standards applied worldwide, for example, copyright laws and patents.
20. The most theatrical environmental trend has been the downfall of communist power in Eastern Europe, which has developed enormous long-run opportunities for international businesses.
21. Additionally, the move towards free market economies in China, Latin America and India is developing opportunities (and threats) for Western international businesses.
22. The advantages and costs of the evolving global economy are being hotly debated among business people, economists, and politicians. The debate emphasises on the impact of globalisation on jobs, working conditions, wages, the environment, and national sovereignty.
23. Few argue that even terrorism has accepted globalisation with attacks in foreign countries that have no direct association with another.
24. Culturally
 - (a) Higher international cultural exchange.
 - (b) Expanding of multiculturalism and better individual access to cultural diversity.
 - (c) The imported culture can simply supplant the local culture, leading to reduction in diversity via hybridisation or even assimilation.
 - (d) The most noticeable form of this is Westernisation.
 - (e) Higher international travel and tourism.
 - (f) Higher immigration involving illegal immigration.
25. Managing an international business is separate from managing a domestic business for minimum four reasons:
 - (a) Countries are diverse.
 - (b) The range of problems faced by a manager in an international business is broader and the issues themselves more complicated than those confronted by a manager in a domestic business.
 - (c) Managers in an international business must discover ways to work within the limits levied by governments' intervention in the international trade as well as investment system.
 - (d) International transactions include transforming money into different currencies.



Notes According to a survey, the proportion of people depending in India on agriculture is about 60 % whereas the same for the UK is 2 %, USA 2 % and Japan 3 % (2005 data). The developed countries, having a low proportion of population in agriculture, have readily adopted globalisation which favours more the growth of the manufacturing and service sectors.

In a nutshell, Globalisation can be featured by four key factors:

Notes

1. Evolution of international organisations, particularly the WTO,
2. Emergence of Regional Trade Agreements/FTA as ASEAN, NAFTA,
3. Rising role of Multinational Corporations, and
4. End of the Cold War/Paradigm shift in former socialist economies.

Self Assessment

Fill in the blanks:

1. Long before, people began to link together disparate locations on the globe into extensive systems of communication, migration, and interconnections.
2. This formation of systems of interaction between the and the local has been a central driving force in world history.
3. The of the emerging global economy are being hotly debated among business people, economists, and politicians.
4. The debate focuses on the impact of on jobs, wages, the environment, working conditions, and national sovereignty.
5. Globalisation offers extensive opportunities for truly development but it is not progressing evenly.
6. Some countries are becoming into the global economy more quickly than others.



Caselet

Product Strategy

It was a Coke's CEO, the late Roberto Goizueta, who declared in 1996: "The labels 'international' and 'domestic'...no longer apply." His globalisation program, often summarised under the tagline "think global, act global," had included an unprecedented amount of standardisation. By the time he passed away in 1997, Coca-Cola derived 67% of its revenue and 77% of its profits from outside North America. To cross borders, organisations have to face a very critical question that is Product Standardisation vs. Product Adaptation.

Standardisation provides advantages in the production and distribution of products and services. Cost is the decisive factor for most commodities. Through economies of scale and through standardisation, an organisation can fulfil the demand of many nations through one plant.

Even in consumer good economies, standardisation works at least at regional levels. Like in India, Chinese toys took the advantage of reduction of tariff barriers and successfully captured the Indian market. Similarly, in industrial goods like Processors, RAM, Chemicals, etc., standardisation can save millions of Dollars. Globalisation also helps in establishing world-class plants, which is a win-win situation as organisations reduce the cost and the customer gets the product at an economical price. Standardisation is not possible in all the goods, specifically in most of the consumer goods.

Contd...

Notes

In many goods, product adaptation is essential to meet the local conditions or preferences. Sometimes adaptation is mandatory because of the government's regulations, Local Standards (as Electrical), Measurement Standards and Product Standards and Systems. Sometimes product modification is done only to make it fit for specific distribution channel. Like in India, Coca Cola is distributed in glass bottles that are reused. On the other hand, they use Tin cans in USA, which are not recollected from the outlet.

Product adaptation increases the cost. Sometimes, when the product is new to the market, the issue of adaptation and standardisation become crucial. Sales volumes do not justify the adaptation and the standard product doesn't suit the local requirement. This happened a few years back when the electric shaver came to the Indian market.

But organisations have to choose a trade-off between standardisation and product adaptation. Besides, globalisation has influenced all aspects of organisations: Sales Promotion, Research, Market Research, Distribution Strategies, Product Development Strategies, etc.

After the implementation of GATT (General Agreement on Trade and Tariffs) and the clause of free movement of labour in most of the regional trade agreements, HR policies have seen a significant change. More and more organisations are adopting international HR standards because:

1. Job-hopping may increase after new opportunities will be available.
2. When an MNC follows international standards in a new territory, the local industry also learns and follows international HR standards and follows international HR standards.
3. Because of free movement of capital and goods, competition increases. Because of FDI and imports in this situation, a business unit can survive only by providing a world-class product. And to provide world-class products, it must have HR practices of international standards and it has to invest in its nourishment.
4. When the cost of HR is a significant cost of production as in case of the software or service industry, the new trend is to shift the location of the unit where HR is available in abundance. This is the reason that more and more software companies are coming to India.

Source: Business Environment, Dr Vivek Mittal, Excel Books

11.2 Emerging Technology

This section emphasises on the emerging technology as a result of globalisation. Given below are the emerging technologies:

1. You must understand that by signing the WTO over 150 nations agreed to either decrease or to eliminate tariffs and to remove non-tariff barriers. This led to a free flow of factors of production that is machines, capital, labour, and raw material. Therefore, the world is becoming borderless as far as trade is involved and organisations have wide opportunities with relation to new market, new sources of raw material and human resource and capital.
2. While the speed of eliminating trade barriers is slow at the WTO and confronts various bottlenecks at several times, regional groupings have attained remarkable success in not only in decreasing tariff internationally, but in removing them at least at the regional level.

There are no trade barriers in NAFTA countries Canada, USA, and Mexico. The EU has gone one step ahead and introduced a single currency, the Euro, which is adopted in most

EU nations. ASEAN is also removing their trade barriers. There is all likelihood that in few years, whole world will be segregated into few regional economic groups.

3. **Multinational Corporations** — It has been said that the Multinational Corporation (MNC) is the most powerful institution in the world today. Certainly, the process of globalisation, which is radically changing our world, is greatly driven by the rapid growth and spread of corporations.

Since the end of the Cold War in 1991, almost all nations in the world have decreased the role of the condition in the economy and decreased barriers to the international movement of goods, capital, services, ideas and technology. As the walls levied by nations/states have crumbled, multinational corporations have flourished, spreading across the world in search of new markets as well as factors of production. MNCs have spread across national borders in two manners: trade and Foreign Direct Investment (FDI). Each has spent to stable, lasting advantages to the world economy.

The rising power of the multinational corporation (MNC) is beyond doubt. The production of MNCs amounts to roughly one-quarter of the world's output. Fifty-one of the world's largest 100 economies are corporations, not countries. The entire value of foreign sales of MNCs now surpasses world exports of goods and services, and intra-firm trade by MNCs alone explains for nearly one-third of world trade.

There are now roughly 63,000 multinational corporations – described as firms that involve in international production – with more than 690,000 foreign affiliates. In 1997, these firms regulated \$12 trillion in foreign assets, hired 30 million workers and earned \$9.5 trillion in revenues – greater than the annual GDP of the United States or the European Union (EU). The rapid growth of MNCs is a direct outcome of the worldwide liberalisation of trade and investment. Corporations have grown larger as they now compete in much larger markets.

4. The close of the cold war and a paradigm shift in erstwhile socialist countries also brought vital changes to the world. International events such as the dismantling of USSR and the end of communist regimes other than those of the USSR as well as Eastern Europe, the unification of Germany, the communist government of China inviting FDI, and former closed economies such as India pursuing a policy of Liberalisation, Privatisation and Globalisation, etc., have contributed in altering the entire world into one economic theatre.
5. Technology is acting as a catalyst to multiply the speed of globalisation. Communication has brought important changes in the way business is performed. Due to communication technology, organisations are dividing their operations all over the world. Now organisations are setting up their fundamental research centres in the US and Britain, value added research centres at China and India, production facilities are moved to India, South East Asia, China or Mexico, designing is moving to Italy and France, quality control techniques are applied from Japan and then the product is marketed globally. All these activities can be coordinated and managed only through the contemporary means of communication and technology. It is due to technology that organisations are able to take benefit of such huge opportunities.



Caution Globalisation has thrown up new challenges like growing inequality across and within nations, volatility in financial market and environmental deteriorations. Another negative aspect of globalisation is that a great majority of developing countries remain removed from the process. Till the nineties the process of globalisation of the Indian economy was constrained by the barriers to trade and investment liberalisation of trade,

Notes

investment and financial flows initiated in the nineties has progressively lowered the barriers to competition and hastened the pace of globalisation.

Self Assessment

Fill in the blanks:

7. is working as a catalyst to multiply the pace of globalisation.
8. has brought significant changes in the way business is conducted.
9. Because of communication technology, ... are fragmenting their operations all over the world.
10. The end of the and a paradigm shift in erstwhile socialist countries also brought significant changes to the world.

11.3 Impact of Globalisation on the Functions of Corporations

In this section, let us now discuss the impact of globalisation on the functions of corporations. Corporations are today altering their strategies and are reorganising their operations to cope up with the altered scenario whether it is their production process or location, Finance, Product strategy, Marketing, HR policies, etc. Organisations have included the following changes:

- **Designing in Global Environment:** It is important to note that in case managing product development processes was a challenge earlier, it is not getting any easier as companies continue to accept global design strategies. Global designing has cost benefits that are very appealing to today's manufacturer, but it also adds latest Product Lifecycle Management (PLM) challenges and intensifies prevailing problem areas like that of safeguarding intellectual property.
- **Production Location Selection:** Jeffrey Immelt of GE Medical Systems (GEMS), pressed for acquisitions to build up scale as for top global competitors, an R&D-to-sales ratio of at least 8 per cent depicts a vital source of scale economies. But he also executed a production strategy that was intended to arbitrage cost differences by focusing on manufacturing operations—and, finally, other activities—wherever in the world they could be conducted most cost effectively. By 2001, GEMS attained 15 per cent of its direct material purchases from, and had placed 40% of its own manufacturing activities in, low-cost countries.
- **Rationalised Production:** Essentially, you should understand that the companies generate different components or varied portions of their product line in different portions of the world to take benefit of low labour costs, capital, and raw materials. This is rationalised production. In a latest, global world, rationalised production is simpler. Now organisations can outsource or can set up their own production units in those regions where it is more economical.



Example: GE used Mexico as a manufacture base for labour-intensive operations. Today, Japanese are selling their cars made in America to the American consumers, while Americans are selling American cars made in Japan. Not only this, British firms are selling English cricket bats which are made in India. Asia manufactures sports shoes for almost all the major shoe manufacturers. Much of the production of motherboards for PCs is located in Taiwan. Japanese brands have less than a 50% share of the US market for microwave ovens but over 70% of the manufacturing is done by Japanese companies. After liberalisation in the economies of India and China, a great shift in location is going on as more and more organisations are shifting their labour-intensive operations to these locations.

Notes

Thailand, Vietnam, Indonesia, Malaysia, Philippines, Singapore and Brunei Darussalam are small countries by themselves. But as they became members of ASEAN, the whole region became attractive from a business point of view and more and more companies started establishing their manufacturing units there to take the advantage of low cost and vast markets. Today, this region is one of the most active business hubs.

- **Vertical Integration:** You may already be aware that vertical Integration is a company's management of the various stages in a value chain of production—from raw material to production to ultimate distribution of the product. As international trade barriers are turning less relevant, organisations can join resources situated in more than one country.



Example: Like Indian petroleum companies who have world class refining capacities import petrol. But under the new system they are allowed to invest abroad and are acquiring oil wells overseas to ensure regular supply of oil in future. Similarly, Shell acquired oil wells the world over and has refineries across the globe.

Companies are vertically integrating themselves. Currently, Videocon attained the picture tube manufacturing capacities of Thomson and got approach to picture tube manufacturing in several countries, involving Europe.



Example: Asian Paints also has its operations in more than 27 nations. Ranbaxy and Dr Reddy's Lab are also taking locational advantage with horizontal integration like acquiring generic pharmaceutical organisations in the US, Europe, Israel and other nations.

Self Assessment

Fill in the blanks:

11.-are vertically integrating themselves.
12. Companies produce different components or of their product line in different parts of the world to take advantage of low labour costs, capital, and raw materials.
13. Corporations are today changing their-and are reorganising their functions to cope up with the changed scenario.



Task Prepare a report on the impact of globalisation on the Indian industry.



Case Study

Puma on Top of the World

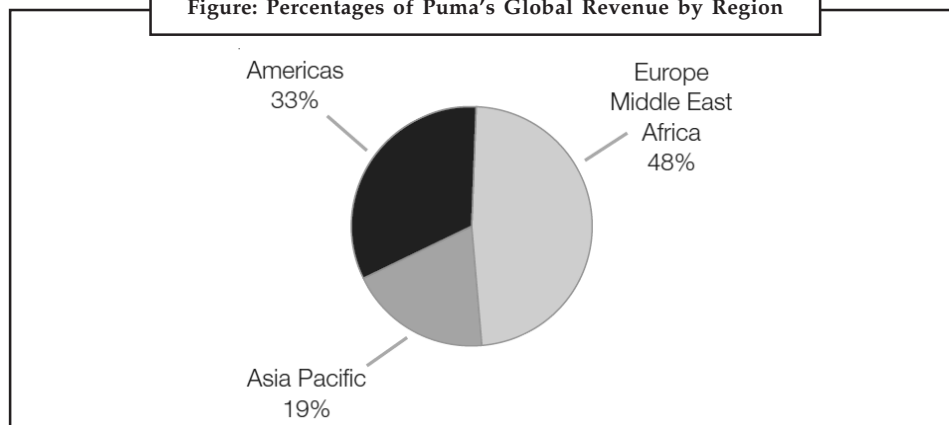
When Italy lifted the football World Cup in 2006, there were celebrations in the town of Herzogenaurach, Germany. Puma, the sportswear company sponsoring Italy, could celebrate a triumph for their brand. Adidas, also based in the town, sponsored the largest number of teams, including France, the runners-up. Puma sponsored all native African teams in the finals of the competition, using the logo, 'United for Africa', looking ahead four years, when Africa will host the finals. Puma's marketing, which cost

Contd...

Notes

a fraction of the marketing budgets of its larger rivals, Adidas and Nike, is indicative of the fresh approach of its entrepreneurial CEO, Jochen Zeitz, who took over the company in 1993. Then, the company was losing money, and its products were more likely to be found in discount stores than in the kit of sports personalities. He was 29 at the time, becoming Germany's youngest chief executive. His twin strategy to revive the company involved cutting costs and building the brand. Production was moved out of Europe to Asia. He is aware that his competitors, who also outsource in Asia, have faced criticisms for sweatshop conditions in sportswear manufacturing, but he points to the fact that Puma uses independent NGOs to monitor conditions, and has had no complaints for years. Zeitz has transformed Puma into a global brand by focusing on sports lifestyle, rather than getting leading athletes to wear its products, as Nike and Adidas have done. It aimed to add a fashion element, to excite the consumer, paying less attention to matching competitors' products head on. Puma now has annual sales of 2 billion, and enjoys the highest profit margins in the industry. It has added two other headquarters, one in Boston, USA, and one in Hong Kong. Its workers come from all over the world. Zeitz says of Puma: 'We are a global company now, no longer German. I mean, can you imagine, when I got here we had what was called an "export manager" and he couldn't speak English' (Milne, 12 June 2006). As indicated in the figure, the Americas and Asia together now account for a slightly larger proportion of Puma's revenue than Europe, the Middle East and Africa.

Figure: Percentages of Puma's Global Revenue by Region



The Puma brand today relies in large measure on trends in fashion, which can be ephemeral and are notoriously hard to predict. The leaping cat logo has become widely recognised, but Adidas and Nike are also seeking to win over consumers with exciting new products. Adidas has hired Stella McCartney, the fashion designer, to design new sportswear. Puma's potential in sports fashion caught the attention of PPR, the French group which owns Gucci and other upmarket labels, as well as large retailers. Having taken a 27% stake in Puma, PPR is contemplating taking it over, with a view to exploiting the growing luxury sports sector. Puma would gain from increased capital investment, helping to boost its sports products as well as luxury fashion products. In the past, Zeitz has been sceptical about mergers, but the backing of a strong luxury and retailing group should strengthen Puma's competitive position.

Questions

1. How did Puma manage to recover its profitability?
2. What is distinctive about Puma's brand strategy in global markets?

Source: <http://www.palgrave.com/business/morrisonib/pdfs/sample.pdf>

11.4 Summary

Notes

- The implications of globalisation for a national economy are many.
- Almost every aspect of modern life is shaped to some extent by processes of globalisation.
- Globalisation has intensified interdependence and competition between economies in the world market. This is reflected in Interdependence in regard to trading in goods and services and in movement of capital.
- As a result domestic economic developments are not determined entirely by domestic policies and market conditions.
- Rather, they are influenced by both domestic and international policies and economic conditions. It is thus clear that a globalising economy, while formulating and evaluating its domestic policy cannot afford to ignore the possible actions and reactions of policies and developments in the rest of the world.
- This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

11.5 Keywords

Developed Country: It is a country whose economy has become industrialised and technologically advanced.

Developing Country: Country in the process of industrialisation and building technological capacity.

Economic Nationalism: Economic nationalism is a term used to describe policies which are guided by the idea of protecting domestic consumption, labour and capital formation.

Foreign Direct Investment (FDI): Investment by an organisation in a business in another country with a view to establishing production in the host country.

Globalisation: It is a modern term used to describe the changes in societies and the world economy that result from dramatically increased international trade and cultural exchange.

11.6 Review Questions

1. Define globalisation and its characteristics.
2. Discuss the impact of globalisation on the strategies of various organisations.
3. Is globalisation a threat or opportunity for Indian organisations? Discuss the statement.
4. What does globalisation mean for business, society and government?
5. Define the term MNCs.
6. Discuss the FDI norms.

Answers: Self Assessment

- | | |
|-----------------------|------------------|
| 1. 1492 | 2. Global |
| 3. Benefits and costs | 4. Globalisation |
| 5. Worldwide | 6. Integrated |

Notes

- | | |
|--------------------------|------------------------|
| 7. Integrated Technology | 8. Communication |
| 9. Organisations | 10. Cold war |
| 11. Companies | 12. Different portions |
| 13. Strategies | |

11.7 Further Readings



Books

Velayudham, T.K. (2002) *Globalisation Trend and Issues*. Page 3, 66. M.O.P. Vaishnav College for Women.

Jain, Sagar. (2007). *Globalization and India*. Retrieved from University of North Carolina Introduction to Globalization Blackboard: <http://blackboard.unc.edu>.

Rai, V.N. (2007). *Repositioning India in the Globalized World*. Retrieved from University of North Carolina Introduction to Globalization Blackboard: <http://blackboard.unc.edu>.

Kastia, Ravi. (2007). *Globalization and India's Business Perspectives*. Retrieved from University of North Carolina Introduction to Globalization Blackboard: <http://blackboard.unc.edu>.

Ojha, A.K. (2002). *Globalization and Liberalization: Prospects of New World Order*. Third Concept, An International Journal of Ideas.



Online links

http://www.academia.edu/222376/Globalization_In_India._New_Frontiers_and_Emerging_Challenges

<http://economics.about.com/od/globalizationtrade/1/aaglobalization.htm>

<http://www.fibre2fashion.com/industry-article/8/738/impact-of-globalization4.asp>

Unit 12: Privatisation and Economic Reforms

Notes

CONTENTS

Objectives

Introduction

12.1 Concept of Privatisation

12.1.1 Issue of Privatisation in India

12.1.2 Policy Regarding Sick Units

12.2 Disinvestment

12.2.1 Objectives of Disinvestment

12.2.2 Methods of Disinvestment in India

12.2.3 Policy of Disinvestment

12.2.4 Approach for Disinvestment

12.2.5 Disinvestments of Equity in Public Sector

12.3 Problems with Privatisation

12.4 Economic Reforms

12.4.1 Then and Now

12.4.2 Using Natural Resources

12.4.3 Food Security Mechanism

12.5 Summary

12.6 Keywords

12.7 Review Questions

12.8 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain the concept of privatisation
- Know the issues of privatisation in India
- Describe the concept of disinvestment
- Generalise the problems with privatisation
- Discuss the economic reforms in India

Introduction

In this unit, you will study about the concept of privatisation, issues of privatisation and the concept of disinvestment. You will also learn about the problems with privatisation and economic reforms.

Notes

The performance of most PSUs is very unsatisfactory. It is unethical to charge the Indian taxpayer just to pay people for unproductive work. Instead, it is better to give it to an institution, which can run it in a better manner. Whether private or public, every business uses the resources of country and society i.e., capital, human, land and machine. And if it cannot add value to these resources, then it is a burden on society as well as on the country. A loss in PSUs not only reduces the nation's resources but also increases the fiscal deficit that leads in inflation.

12.1 Concept of Privatisation

In this section, you will learn the concept of privatisation. Privatisation is the process of including the private sector in the ownership or operation of a state-owned or public sector undertaking. In a wider sense, it connotes private ownership or (even without change of ownership) the stimulation of private control and management in the PSUs. Barbara Lee and John Nellis (1990) describe it therefore as follows:

“Privatisation is the process of involving the private sector in the ownership or operation of a state-owned enterprise. Thus, the term refers to private purchase of all or part of a company. It covers the contracting out and privatisation of management—through management contract, leases or franchise arrangement.”



Did u know? Acharya Vishnugupt (Chanakya) once said that the state should not indulge in business.

It is important to note that privatisation can take three forms:

1. **Ownership Measures:** The degree of privatisation is evaluated by the extent of ownership assigned from the public enterprise to the private sector. It can take the following forms:
 - (a) *Total Denationalisation:* It is a widespread transfer of a public enterprise to the private sector. For example, BALCO, which was acquired by Sterlite industries. Modern Foods was acquired by Hindustan Lever.
 - (b) *Joint Venture:* This indicates partial introduction of private ownership. The range of private ownership can vary; it can be as low as 25 per cent and even as high as 75 per cent or more. As in the case of Maruti Suzuki where earlier, the majority shares were with Maruti but after liberalisation, Suzuki raised its stake and became the majority stake holder.
 - (c) *Liquidation:* The assets are sold to someone who may utilise those assets for the same purpose or for any other purpose.
 - (d) *Workers Co-operative:* Here ownership of the enterprise is transferred to workers who may form a co-operative to run the enterprise.
2. **Organisational Measures:** It is important to note that a number of organisational measures are conceived to limit state control. They involve:
 - (a) *A Holding Company Structure:* Here, the organisation is decentralised and sufficient autonomy of decision-making is given at the operative level but the government still controls decisions made at the apex level. In this way, a decentralised pattern of management emerges.
 - (b) *Leasing:* The government transfers the use of assets to private bidders for a particular period. In the leasing agreement, the bidder is needed to be assured in relation to profit sharing between the State and bidder. This is a kind of tenure ownership.

Notes

- (c) **Restructuring:** Restructuring is of two kinds: financial and basic restructuring. Financial restructuring means the writing off of accumulated losses and rationalisation of capital composition with respect of debt-equity ratio. The main objective of rationalisation is to enhance the financial health of the enterprise and basic restructuring is said to occur when the public enterprise decides to shed some of its activities to be undertaken by ancillaries or small-scale units.
3. **Operational Measures:** The goal of operational measures is to enhance efficiency of the organisation. Operational measures involve the following measures:
- Grant of autonomy to public enterprise in decision making.
 - Provision of incentives for workers and executives consistent with increase in efficiency and productivity.
 - Freedom to acquire specific inputs from the market.
 - Development of proper criteria for investment planning.
 - Permission to public enterprises to raise resources from the capital market to execute plans of diversification and expansion.

Divestiture is one of the important ways of privatisation; it is a privatisation of ownership through the sale of equity. It entails selling stock to the public.



Notes In India, various public sector banks such as State Bank of India, Vijaya Bank, etc., sold their stock to the public through IPOs.

12.1.1 Issue of Privatisation in India

You must understand that the New Industrial Policy declared by the government in July 1991 emphasised upon the following four major steps to reform the public sector enterprise:

- Decrease in the number of industries reserved for the public sector from 17 to 8 (further decreased to 4 and then to 2) and the launch of selective competition in the reserved area.
- The disinvestment of shares of a select set of public sector enterprises.
- The policy towards sick public sector enterprises to be the same as that for private sector.
- An improvement of performance through an MOU system.

De-reservations: The 1991 industrial policy decreased the number of industries reserved for the public sector to 4 from 17. The reserved sectors are:

- Arms and ammunition and allied items of defence equipment, combat aircraft and warships.
- Atomic Energy.
- Minerals specified in the schedule to the Atomic Energy Order, 1953.
- Railway Transport.

Presently, only Railways and Atomic Energy are reserved areas.

12.1.2 Policy Regarding Sick Units

In 1991, Public Sector Units were also brought within the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR). Therefore, it is the BIFR that will now decide whether a sick

Notes

public sector unit can be efficiently restructured or whether it has to be closed down. As on November 30, 1999, 240 cases of public sector units were mentioned to the BIFR, of these, 170 were recorded and 29 of these cases were suggested for winding up.

To assuage resentment among workers, the government has established a National Renewal Fund (NRF). This fund is to be utilised for retraining and redeployment of economised labour and to offer compensation to public sector employees attempting voluntary retirement.

Memorandum of Understanding

You need to know that the concept of Memorandum of Understanding was launched in 1988. The main goal of the MOU was to decrease the Quantum of control and improve the quality of accountability. Through the MOU, more autonomy was given to PSUs. It intends at moving the management of public enterprises from the management by controls and processes to management by results and goals.

Self Assessment

Fill in the blanks:

1. In 1991, ... were also brought within the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR).
2. The concept of was introduced in 1988.
3. The main objective of the MOU was to reduce the of control and increase the quality of accountability.
4. Through the MOU, more autonomy was given to
5. The objective of operational measures is to improve of the organisation.



Caselet

Domino's: The case of the Impact of Socio Culture Environment

Domino's the 50 year old Pizza Brand is continuously reinventing itself in a bid to stay abreast of the changing times. Since April 2008, the Pizza chain has added 93 outlets in 23 cities. Dominos is the fastest growing pizza chain in South Asia. As per the Food Franchisee report, Domino's have a 65% market share in the Pizza delivery segment. Domino's is present in 55 cities and have over 274 stores. Domino's Pizza India Ltd. a subsidiary of the US based Domino's Pizza Ltd. began operations in India in 1996 under the Shyam Bhartiya and Hari Bhartiya – promoted Jubilant Group. Over the years, Indian Private Equity Fund and Indocean Pizza Holding bought a 32% stake in it (the promoters own an approximately 67% stake).

Jubilant food is planning to raise ₹ 300 crore through IPO to reduce its debt burden and fund its ambitious plans. In next 18 months, it plans to grow to 440 outlets with aggressive expansion into Tier II and Tier III cities. In future, the company wishes to introduce other local and international cuisines to its product portfolio and widen its distribution to make itself available at metros, railway stations and airports.

Pizza was doing well with young people. Pizza is seen as a snack and not considered as a meal option. In a survey at New Delhi in a Pizza Chain, it is found that in 67% case Pizza

Contd...

Notes

or like products are ordered during office timings. Pizza is a preferred meal for small and casual parties at offices. Among 67%, only 13% take it regularly that is at least 4 times in a week. Remaining 33% is ordered from houses and other places. Of this 33%, 89% are occasional purchasers who order the Pizza on a particular occasion, moment, small gathering. Houses which regularly take Pizza as substitute to Dinner/Lunch are negligible. However, it is ordered as add on to lunch for a different flavour. Of this 33%, only 11% are regular eaters (at least 4 times in a week) of Pizza or like products. It is a situation of a Metro. The acceptance of Pizza or like products as a serious meal in Tier II cities or onwards is questionable. In fact, the Pizza retail chains are not only competing among themselves rather they are attempting to change the mind-set of people.

The company has 13 training centres supported by a large number of regional training centres which focus on providing good products, service and timely delivery. Later in 2004, the company focused on its 30 – minutes quick delivery service with its '30 minutes nahin toh free' campaign. Next, the company toyed with introducing 'fun meal for four' and 'Pizza mania' campaign to lure the unexplored Tier II consumers. Recently, it launched an online home delivery booking service for its customers in Bangalore on the test basis. Domino's is also using below the line activities such as door hangers and pamphlets advertising to promote itself.

According to the Food Franchising report, the organized food industry which includes sale of foods and beverages for immediate consumption, was estimated to be ₹ 8,000 crore in 2008 and is growing rapidly. A study by Technopark in 2009 revealed that individuals eat out an average of seven times a month. Quick Service Restaurants (QSR) which includes fast food chains like McDonald's, Pizza Hut, Domino's Pizza, etc. are a large recipient of this growing trend. As India moves towards increasing disposable incomes and working couples, the growth potential for restaurants is bound to grow.

Source: Dr Mittal, Vivek. (1990) *Business Environment*. Excel Books Publications. New Delhi

12.2 Disinvestment

In this section, you will learn about the concept of disinvestment. The performance of the public sector was far from acceptable. Diseconomies of scale crept into the public sector. The nine high-performing public sector enterprises (Navratnas) account for approximately 75 per cent of profits of all public sector enterprises. Most of the others are running in losses. The profitability and ROI of profit-making units too is very low in comparison to industry standards.

Of the several factors responsible for low profits in the public sector undertakings, the following are specifically important:

1. Price policy of public sector undertaking
2. Underutilisation of capacity
3. Problems related to planning and construction of projects
4. Problems of labour, personnel and management
5. Lack of autonomy.

In order to ease these problems, the government decided to disinvest its stake in PSUs.

It is important for you to understand that disinvestments connote decrease government stake in the public sector. Disinvestment includes the conversion of money claims or securities into money or cash. They may or may not lead to privatisation, i.e., transfer of control in private hands. Similar to the case of Maruti Suzuki and BALCO, disinvestments led to the transfer of control into private hands, but in the case of public sector banks and most of the oil companies,

Notes

disinvestments ensued in the issue of shares through the IPO route to general public and financial institutions, and thus, majority stake and control remained with the government.

The disinvestment programme was initiated in 1991-92. The total realisation to the government from several rounds of disinvestments till 1998-99 was ₹ 16,809 crore.

12.2.1 Objectives of Disinvestment

You must understand that the following are the main goals of the disinvestment policy:

1. To reduce the financial burden on government
2. To improve public finances
3. To introduce competition and market discipline
4. To improve growth
5. To encourage wider share of ownership
6. To de-politicise essential services.

Arun Shourie, former Disinvestment Minister, on December 9, 2002, stated the following objectives of disinvestment:

You must note that the primary objective of disinvestment is to put national resources and assets to optimal use and in particular, to unleash the productive potential inherent in public sector enterprises. The policy of disinvestment specifically intends at:

1. Modernisation and upgradation of public sector enterprises;
2. Creation of new assets;
3. Generating of employment; and
4. Retiring of public debt.

The government would continue to make sure that disinvestment does not lead to alienation of national assets, which, with the process of disinvestment, remain where they are. It will also make sure that disinvestment does not result in private monopolies. In order to offer complete visibility to the government's sustained commitment of utilisation of disinvestment proceeds for social and infrastructure sectors, the government would establish a Disinvestment Proceeds Fund. This Fund will be utilised for financing fresh employment opportunities and investment, and for retirement of public debt.

12.2.2 Methods of Disinvestment in India

It is important to note that there are three methods adopted by the government for the valuation of shares for disinvestment. They are:

1. **Net Asset Method:** This will signify the net asset of the enterprise as shown in the books of accounts. It shows the historical value of the assets. It does not reflect position of profitability.
2. **Profit Earning Capacity Value Method:** The profit earning capacity is usually based on the profits actually earned or anticipated.
3. **Discounted Cash Flow Method:** In this method, the future incremental cash flows are forecasted and discounted into present value by applying cost of capital rate. The method signifies the intrinsic value of the firm.

12.2.3 Policy of Disinvestment

Notes

You must keep in mind the following policies of Disinvestment:

Past Disinvestment Policy

The policy of disinvestment has largely evolved through the policy statements of former Finance Ministers in their Budget Speeches. The policy as evolved is enumerated below:

1. In the Interim Budget of 1991-92, it was declared that the Government would disinvest up to 20% of its equity in some PSEs in favour of mutual funds and financial and institutional investors in public sector.
2. In the Budget speech of 1992-93, the cap of 20% was reinstated and the list of eligible investors was extended to involve FIIs, employees and OCBs.
3. In April 1993, the Rangarajan Committee suggested disinvesting up to 49% of PSEs equity for industries explicitly reserved for the public sector and over 74% in other industries. However, the then Government did not take any decision on the Committee's recommendations.
4. In 1996, as per the Common Minimum Programme (CMP), the Budget speech of 1996-97 declared the establishing of Disinvestment Commission for 3 years (for more details about the Disinvestment Commission,). CMP also emphasised adding more transparency to the disinvestment process and evaluate the non-core areas of public sector.
5. In the Budget speech of 1998-99, it was declared that the Government shareholding in CPSEs should be brought down to 26% on case-to-case basis, except strategic CPSEs where the Government would retain majority shareholding. The interest of workers was to be safeguarded in all the cases. For this objective, on 16 March 1999, the Government categorised the PSEs into Strategic and Non-Strategic areas. It was determined that Strategic PSEs would be those in areas of:
 - (a) Arms and ammunition and allied items of defence equipment, defence aircraft and warships.
 - (b) Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries).
 - (c) Railway transport.

You must understand that all other PSEs were to be considered non-strategic.

1. In the Budget speech of 1999-2000, it was declared that the Government would continue to strengthen the Strategic units and "privatising" the Non-Strategic ones through gradual disinvestment or strategic sale and develop viable rehabilitation strategies for weak units.
2. The 2000-01 Budget speech emphasised on restructuring and revitalisation of viable CPSEs, closure of PSEs which cannot be revived; bringing down Government shareholdings in Non-Strategic CPSEs to 26% or lower, if necessary, and protection of the interest of workers. The receipts from disinvestment would be used for the social sector, rearrangement of CPSEs and for retirement of public debt.
3. In the suo moto statement of 2002, specific objective was given to the disinvestment Policy – creation of new assets, modernisation and upgradation of PSEs, generation of employment and retiring of public debt.

Notes

4. In the Budget speech of 2003-04, the Government declared details regarding the establishing of Disinvestment Fund and Asset Management Company to hold, manage and dispose the residual holdings of Government.
5. In 2004, with the change in the Government, there was a change in the outlook of Disinvestment Policy.



Did u know? In May 2004, the Government adopted National Common Minimum Programme, which outlined the policy of the Government with respect to the Public Sector.

It is important to note that the UPA Government pledged to transfer full managerial control and commercial autonomy to successful, profit-making companies functioning in competitive environment; they won't be privatised. 'Navratna' companies can procure resources from the capital market. Efforts will be made to modernise and restructure sick PSEs.

1. It favoured sale of small proportions of Government equity through IPO/FPO without altering the character of PSEs. In relation to this, it sanctioned listing of unlisted profitable CPSEs subject to residual equity of the Government remaining at least 51% and Government recollecting the control of management.
2. It also comprised the formation of the 'National Investment Fund', where the advances from disinvestment of CPSEs would be channelised. 75% of annual income of NIF would be used to finance selected Social Sector Schemes—health, education, employment and the rest 25% to fulfil the capital investment needs of profitable and revivable CPSEs.

You may already be aware that on 27 January 2005, the Government sanctioned in principle:

1. Listing of currently unlisted profitable CPSEs, each with a Net Worth in excess of ₹ 200 crore, through an Initial Public Offering (IPO) either in combination with a fresh equity issue by the CPSE associated or independently by the Government, on a case-by-case basis, subject to the residual equity of the Government remaining at least 51 per cent and the Government retaining management control of the CPSE.
2. Sale of minority shareholding of the Government in listed, lucrative CPSEs either in conjunction with a Public Issue of fresh equity by the CPSE apprehensive or independently by the Government, subject to the residual equity of the Government remaining at least 51% and the Government retaining management control of the CPSE.
3. Constitution of a "National Investment Fund."



Notes On 25 November 2005, the Government decided, in principle, to list large, profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the Navratnas).

Present Policy of Disinvestment

It is important to note that the present disinvestment policy has been pronounced in the recent President's addresses to Joint Sessions of Parliament and the Finance Minister's recent Parliament Budget Speeches.

The salient features of the Policy are:

1. Public Sector Undertakings are the wealth of the Nation and this wealth should rest in the hands of the people.
2. Citizens have every right to own part of the shares of Public Sector Undertakings.
3. When pursuing disinvestment, Government has to retain majority shareholding, i.e., at least 51% and management control of the Public Sector Undertakings.

12.2.4 Approach for Disinvestment

You may already be aware that on 5th November 2009, Government approved the following action plan for disinvestment in profit making government companies:

1. Already listed profitable CPSEs (not meeting compulsory shareholding of 10%) are to be made compliant by 'Offer for Sale' by Government or by the CPSEs through issue of fresh shares or a grouping of both.
2. Unlisted CPSEs with no accumulated losses and having earned net profit in three former consecutive years are to be listed.
3. Follow-on public offers would be assumed taking into consideration the needs for capital investment of CPSE, on a case by case basis, and Government could at the same time or independently offer a portion of its equity shareholding.
4. In all cases of disinvestment, the Government would preserve at least 51% equity and the management control.
5. The Department of Disinvestment is to recognise CPSEs in consultation with respective administrative Ministries and submit proposal to Government in cases needing Offer for Sale of Government equity.



Caution All cases of disinvestment are to be decided on a case by case basis.

12.2.5 Disinvestments of Equity in Public Sector

It is important for you to know that the change process in India initiated in the year 1991-92 and within that year, 31 selected PSUs were disinvested computing an aggregate equity of ₹ 3,038 crore as shown in Table 12.1. In the decade 1991-92 to 2000-01, this sum rose to ₹ 20,506 crore as against the target of ₹ 54,300 crore. The details are as follows:

Table 12.1: Disinvestments in Public Sector 1991-92 to 2004-05

Year	Target	Realisation
1991-92	2,500	3,038
1992-93	2,500	1,913
1993-94	3,500	0
1994-95	4,000	4,843
1995-96	7,000	362
1996-97	5,000	380
1997-98	4,800	902

Contd...

Notes

1998-99	5000	5,371
1999-2000	10,000	1,829
2000-01	10,000	1,869
2001-02	12,000	5,632
2002-2003	12,000	3,342
2003-04	14,500	12,742
2004-05	4,000	2,700

Source: ET Survey March 2003, Figures in `Crore

Government stakes in 48 companies have been sold in fluctuating degrees since 1991-92-2004-05, summarised in the table above. In most of these cases, the government sold only a minority stake, but it also included an effective transfer of control and management to private entities (privatisation).



Example: The prominent companies to be privatised were: Modern Foods, BALCO, CMC, VSNL, IBP, ITDC Hotels, Maruti.

CPSE-wise Disinvestment

The following table indicates the actual disinvestment from 1991-92 to 2004-05. The methodologies accepted for such disinvestment and the extent of disinvestment in various CPSUs:

Table 12.2: Disinvestment Methodologies from 1991-92 to 2004-05

Year	No. of transactions in which equity sold	Total receipts (₹ in crore)	Methodology
1991-92	47	3037.74	Minority shares sold in Dec 1991 and Feb 1992 by auction method in bundles of "very good", "good" and "average" companies
1992-93	29	1912.42	Shares sold separately for each company by auction method.
1993-94	–	0.00	Equity of 6 companies sold by open auction but proceeds received in 94-95.
1994-95	17	4843.10	Sale through auction method, in which NRIs and other persons legally permitted to buy, hold or sell equity, allowed to participate.
1995-96	5	168.48	Equities of 4 companies auctioned
1996-97	1	379.67	GDR (VSNL) in international market.
1997-98	1	910.00	GDR (MTNL) in international market.
1998-99	5	5371.11	GDR (VSNL)/Domestic offerings with the participation of FIIs (CONCOR, GAIL). Cross purchase by 3 Oil sector companies i.e. GAIL, ONGC & IOC
1999-00	5	1860.14	GDR-GAIL, VSNL-domestic issue, BALCO restructuring, MFIL's strategic sale and others
2000-01	5	1871.26	Strategic sale of BALCO, LJMC; Takeover - KRL (CRL), CPCL (MRL), BRPL

Contd...

2001-02#	8	5632.25	Strategic sale of CMC - 51%, HTL -74%, VSNL - 25%, IBP - 33.58%, PPL-- 74%, and sale of hotel properties of ITDC & HCI; receipt from surplus cash reserves from STC and MMTC
2002-03#	8	3347.98	Strategic sale: HZL (26%), IPCL (25%), HCI, ITDC, Maruti: control premium from renunciation of rights issue, Put Option - MFIL (26%), Shares to employees in HZL, CMC and VSNL.
2003-04	2	15547.41	Jessop & Co. Ltd. (72% Strategic Sale), HZL (18.92% Call Option), through Public Offer-Maruti (27.5%), ICI Ltd. (9.2%), IBP (26%), IPCL (28.945%), CMC (26.25%), DCI (20%), GAIL (10.%) and ONGC (9.96%)
2004-05	3	2764.87	NTPC (5.25% Offer for Sale), IPCL (5% to Employees) and ONGC (0.01%)
Total		47646.43	

Notes

As per the Economic Survey 2001, the government set out the following policies towards PSUs:

1. Close down PSUs that cannot be revived
2. Re-structure the potential and viable PSUs
3. Bring down the government equity to 26% or lower
4. To protect the interest of the workers.

Table 12.3: Realisation through Strategic Sale during 1999-2000 to 2004-05

Sr. No.	Name	Percentage of Government Equity Sold	Realisation ₹ in Crore	Profit/Loss Making during the Year of Disinvestment
1.a	Modern Food Industries (India) Ltd. (MFIL)	74	105.45	Loss Making
1.b	(MFIL) Phase II	25.995	44.07	
2.	Bharat Aluminium Co. Ltd.	51	826.92 ^	Profit Making
3.a	CMC Ltd.	51	152	Profit Making
3.b	CMC Ltd. @	6.07		
4.	HTL	74	55	Profit Making
5.	Lagan Jute Machinery Corporation	74	2.53	Loss Making
	ITDC-19 HOTELS			
6.	Hotel Agra Ashok	89.97	3.61	Loss Making
7.	Hotel Bodhgaya Ashok	89.97	1.81	Loss Making
8.	Hotel Hassan Ashok	89.97	2.27	Loss Making
9.	TBABR Mamallapuram	89.97	6.13	Loss Making
10.	Hotel Madurai Ashok	89.97	4.97	Loss Making
11.	Hotel Ashok Bangalore*	89.97	39.41	Loss Making
12.	Qutab Hotel, New Delhi	89.97	34.46	Loss Making
13.	Lodhi Hotel, New Delhi	89.97	71.93	Loss Making
14.	LVPH, Udaipur	89.97	6.77	Loss Making

Contd...

Notes

15.	Hotel Manali Ashok	89.97	3.65	Loss Making
16.	KABR, Kovalam	89.97	40.39	Loss Making
17.	Hotel Aurangabad Ashok	89.97	16.50	Loss Making
18.	Hotel Airport Ashok, Kolkata	89.97	19.39	Loss Making
19.	Hotel Khajuraho Ashok	89.97	2.19	Loss Making
20.	Hotel Varanasi Ashok	89.97	8.38	Loss Making
21.	Hotel Kanishka, New Delhi	89.97	92.37	Loss Making
22.	Hotel Indraprastha, New Delhi	89.97	43.39	Loss Making
23.	Chandigarh Hotel Project	89.97	17.27	Loss Making
24.	Hotel Ranjit, New Delhi	89.97	29.28	Loss Making
25.	HCI - Centaur Hotel Juhu Beach, Mumbai	100	153	Loss Making
26.	HCI-Indo Hokke Hotels Ltd. (Centaur Rajgir)	100	6.51	Profit Making
27.	HCI - Centaur Hotel Airport, Mumbai	100	83	Loss Making
28.	IBP Co Ltd	33.58	1153.68	Profit Making
29.	Videsh Sanchar Nigam Ltd.	25	3689^	Profit Making
30.	Paradeep Phosphates Ltd.	74	151.70	Loss Making
31. (a)	Hindustan Zinc Ltd.	26	445	Profit Making
31. (b)	Hindustan Zinc Ltd. @		6.19	
31. (c)	Hindustan Zinc Ltd. @@	18.92	323.88	
32.	Maruti Udyog Ltd.	4.2	1000	Profit Making
33.	Indian Petrochemicals Corporation Ltd.	26	1490.84	Profit Making
34.	State Trading Corporation of India		40 ^^^	
35.	MMTC Ltd.		60 ^^^	
36.	Jessop & Co Ltd	72	18.18	Loss Making
	Grand Total		10257.19	

Note: Including NPV of future earnings on MGAP & lease rentals ^ including dividend & divi. Tax Companies at Sr. No. 5, 23, 25, 26, 27, 36 are subsidiaries. ^^^ The receipt is on account of transfer of cash reserves. @ Disinvestment in favour of employees. @@ Realisation from call option shares also given to VSNL employees, the amount of which is not included.

You must take into consideration the following few PSUs which have been privatised:

Table 12.4: Privatised PSUs

S. No.	Name of the Privatised PSU
1.	Lagan Jute Machinery Company Limited
2.	Modern Food Industries Ltd.
3.	Bharat Aluminium Company Limited (BALCO)
4.	CMC Ltd.
5.	HTL Ltd.
6.	IBP Co. Ltd.

Contd...

Notes

7.	Videsh Sanchar Nigam Ltd.
8.	Indian Tourism Development Corporation
9.	Hotel Corporation of India Limited
10.	Paradeep Phosphates Limited
11.	Jessop and Company Limited
12.	Hindustan Zinc Limited
13.	Maruti Udyog Limited (MUL)
14.	Indian Petrochemicals Corporation Ltd.

Self Assessment

Fill in the blanks:

- connote reducing government stake in the public sector.
- Disinvestment involves the conversion of or securities into money or cash.
- The performance of the was far from satisfactory.
- of scale crept into the public sector.
- The nine public sector enterprises (Navratnas) account for nearly 75% of profits of all public sector enterprises.



Task Prepare an assignment on the success/failure of disinvestment/privatisation policy by India till date.

12.3 Problems with Privatisation

In this section, you will learn about the problems in privatisation. The following reasons have been identified in this regard:

- Absence of Strategy:** There is no proper strategy for disinvestment. There were no pre-defined standards, norms, or procedures relating how to disinvest, when to disinvest, what to disinvest, and to whom to disinvest.
- Unclear Objectives:** There were no clear goals, whether it was to meet fiscal deficit, to create revenue, to make them more competitive, to increase productivity, etc.
- Improper Timing:** The government was not focussing on the timing of disinvestments and consequently, most of the private sector investors are shying away from the process because of unattractive proposals made by the government. Due to wrong timing, several PSUs were privatised at low price, such as ITDC, Maruti, etc. A good price can be achieved if privatisation is done when the performance, market capitalisation and the industry prospects are good.
- Difference of Opinion:** There was no consensus over the disinvestments among the several political parties.
- Lack of Proper Labour Strategy:** Prior to foraying into disinvestments, labour was not taken into confidence. No proper strategy was constituted for their redeployment, training and development. There was labour unrest in BALCO on the issue of disinvestment, and a countrywide strike in PSU banks on the issue of privatisation and consolidation.

Notes

6. **Wrong Objectives:** The entire incomes of disinvestments are being used to mitigate fiscal deficit instead of utilising them for development of the social sector and building infrastructure.
7. **Opaque:** Lack of transparency in the entire process raises various eyebrows of many and has become a big hurdle.
8. **Lack of Marketing:** The government has done little and was unsuccessful to attract foreign suitors for the disinvestment process in India.

You may already be aware that the whole disinvestment programme seems to have been executed by the government in a hasty and hesitant manner. Neither the opposition nor the workforce was assured before disinvestment. It was in the year 1998-99 when Prime Minister Atal Bihari Vajpayee made a statement in parliament about disinvestments,

"Disinvestment/Privatisation is the only panacea for ills of loss-making public sector undertakings."

The opposition response was:

"You can't sell the family silver to meet your daily expenditure."

You must keep in mind that the outcome of the privatisation so far has been unsatisfactory. Only 35 per cent of the targeted figures have been attained in the decade 1991-92 to 2001-02. Though 49 companies have been disinvested but in reality, only few have been genuinely privatised. On the other hand countries like Taiwan, Hungary, Thailand, Philippines, Turkey, Poland, Korea, West Asia, Eastern Europe, and even China have been very successful in privatisation. The privatisation plan depends critically on what we plan to do with the money earned through privatisation. To conclude in words of S. Venkitaramanan:

"At least in India, PSUs are surviving as units with government majority. Our effort should therefore, be to make public sector units work efficiently rather than to cook up gimmicks to enable them to get around their impediments by reducing public ownership."

Self Assessment

Fill in the blanks:

11. The entire seems to have been carried out by the government in a hasty and hesitant manner.
12. Neither the nor the workforce was taken into confidence before disinvestment.

12.4 Economic Reforms

In this section, you will study about the economic reforms in India. With simple ideas that do not require big bang reforms, India can weather the storm caused by global and domestic economic factors.

There are ways of looking at India's present economic woes marked by a rapid fall in the value of the rupee caused by persistent inflation of the past few years and the high current account deficit (CAD) of about \$85 billion (4.5 per cent of GDP) which needs to be funded through uncertain capital inflows year after year. The description of the present crisis by various economic and political analysts by itself tends to carry shades of ideological bias. Some well-known economists on the far right prefer to describe the external sector situation as worse than the 1991 economic crisis India had faced. This narrative suggests the 1991 crisis was marked by a severe, external sector crunch and it acted as a trigger for the big bang reforms of the early 1990s.

This section believes that the present crisis may be worse than that of 1991 but the government this time round is much more complacent, and less inclined to implement drastic reforms to revive growth.

Notes

12.4.1 Then and Now

Of course, not everyone agrees with the narrative that the India of 2013 is worse than it was in 1991. Actually it is not. And more of the same kind of reforms is perhaps not the answer either. The world was very different in 1991 when western economies were still strong and looking outward, trying to deepen the process of economic globalisation. Today, major OECD economies are looking much more inward than before, trying to fix their own domestic economy and polity. Emerging economies like India, which managed to avoid until 2011 the negative impact of the global financial crisis, began to dramatically slowdown after 2011. Most of the BRICS economies have lost over four per cent off their peak GDP growth rates experienced until 2010.

You must consider that after 2010, excess global liquidity flowing from the West, the consequent high international oil and commodity prices fed seamlessly into India's domestic mismanagement of the supply of key resources such as land, coal, iron ore and critical food items to create a potent cocktail of high inflation and low growth, and a bulging CAD. The key difference between 1991 and 2013 is the availability of global financial flows. In 1991, western finance capital had not significantly penetrated India. Now, a substantial part of western capital is tied to India and other emerging economies where OECD companies have developed a long-term stake. The broader logic of the global capital movement is that it will seamlessly move to every nook and corner of the world where unexploited factors of production exist and there is scope to homogenise the modes of production and consumption in a global template. This relentless process may indeed gather steam after the United States shows further signs of recovery. Indeed, some experienced watchers of the global economic scene have said that a recovery in the U.S. will eventually be beneficial for the emerging economies. This basic logic will sink into the financial markets in due course. At present, the prospect of the U.S. Federal Reserve withdrawing some of the liquidity it had poured into the global marketplace is causing emerging market currencies to sharply depreciate.

In a sense, the depreciation of 15 to 20 per cent this year of the currencies in Brazil, South Africa, Turkey, Indonesia and India can be seen partially as a knee-jerk reaction to the smart recovery of the housing market in the U.S. and the consequent prospect of the Federal Reserve gradually unwinding its on-going \$40 billion a month support to mortgage bonds over the next year or so. But eventually, a fuller recovery in the U.S. will mean better economic health globally.

Besides, some tapering of liquidity by the U.S. Federal Reserve is inevitable as such an unconventional monetary policy cannot last forever. The U.S. Federal Reserve balance sheet was roughly \$890 billion in 2007. It has ballooned to a little over \$3 trillion today simply by printing more dollars. Such massive liquidity injection by printing dollars in such a short period is probably unprecedented in American history. This is also unsustainable because sooner rather than later, such excess liquidity could send both inflation and interest rates shooting up in the U.S. — which again may not be good for the rest of the financially connected world.

So what should India learn from the current situation? One, it needs to understand that cheap, finance capital flowing in from the West is a double-edged weapon. If not used judiciously to enhance productivity in the domestic economy, such finance will tend to become an external debt trap. This lesson is as important for the government as it is for the Indian capitalist class which has shown a tendency to use cheap finance and scarce resources such as spectrum, coal, land and iron ore to play stock market games in collusion with the political class. Of course, this is a systemic issue and needs to be addressed at the level of electoral funding reform. Indeed, this is more important than “fresh economic reforms” that blinkered economists advocate.

Notes

12.4.2 Using Natural Resources

It is important to note that India still has time to work towards insulating itself from the vagaries of global finance causing much weakness in the currency and the current account. To begin with, the government can easily generate \$20 billion or one per cent of GDP by allowing higher coal and iron ore production from its large reserves. Our annual coal imports have gone up from roughly \$7 billion five years ago to about \$18 billion now. The increased dollar outflow was largely avoidable because India has among the largest coal reserves in Asia. India could have saved \$10 billion simply by producing more domestic coal. The government must, under a specially regulated dispensation, maybe under the Supreme Court's watch, revive the export of iron ore from Karnataka and Goa where much of the mining has stopped following judicial intervention. Prime Minister Manmohan Singh spoke about making a special plea to the Supreme Court to restart mining and exports from here. This could add another \$7 to \$8 billion to the foreign exchange reserves. These are simple ideas which do not require "big bang reforms," as some overzealous economists might suggest.

If some of these resources are produced optimally and gold imports are brought down by about \$20 billion, to the levels that existed before 2011, the CAD should be back to the comfort zone of less than three per cent of GDP. The moment CAD comes below three per cent of GDP, the overall sentiment would definitely change for the better.

12.4.3 Food Security Mechanism

Further, a more rounded food security mechanism can help insulate the poor from rising food inflation. This can free up the Reserve Bank of India to then look at the manufacturing inflation as a dominant basis for making monetary policy and help ease interest rates for industry. All this needs a dramatic improvement in governance and a return to normality in the strained relations between the bureaucracy, the political class and the judiciary. Some argue that this can only happen after the general election, whenever it is held.

It is important for you to note that the capitalist class also has a big lesson to learn. It merely used cheap, western finance all these years to ramp up stock prices based on cornering scarce resources like land and minerals. All such companies are today quoting at 80 per cent below their peak values seen in 2010 when the economy was still doing well.

These companies today are in a huge debt trap and their interest payments far exceed their earnings annually. Worse, Indian companies have a massive exposure of close to \$200 billion of loans from abroad and the sharp fall in the rupee is making their repayment even more difficult.

Many big business houses thought they could use cheap, global money to create financial, not real wealth. For a while this worked and some of the stock market-created wealth went into the funding of elections. This game is over now. So, the big learning is that there is no substitute for creating real wealth accompanied by higher productivity. Excessively cheap global money is an illusion which gets shattered in a business down cycle.

Self Assessment

Fill in the blanks:

13. still has time to work towards insulating itself from the vagaries of global finance causing much weakness in the currency and the current account.
14. Emerging economies like India, which managed to avoid until the negative impact of the global financial crisis, began to dramatically slowdown after 2011.



Case Study

Dealing with Globalisation

With the Cup of Coffee in his hand and fear in his eyes Mr Choksy was listening to the budget speech of Mr Manmohan Singh, the Finance Minister of the then Congress Government. He was afraid that will happen in this Globalized and Liberalized economy. He has only heard of cutthroat competition in USA and Europe and has never witnessed the same. He was worried about the future of his company.

Mr Mohan Choksy is a son of Gujarati Trader. In 1976, after finishing his Graduation in Pharmaceuticals he decided to establish a pharmaceutical company. His father lent him money and land.

That was the era of License and Permit. The Mantra of successful business is to acquire a permit and license. Patent law was very liberal in India. Companies do not get the patent for the product rather they get the patent for the process. Thus, same drug can be manufactured and marketed by many companies if they just change their manufacturing process. Internationally, Pharmaceutical industry is research-intensive industry but in India, it was a Marketing intensive industry as company can manufacture any drug of their choice by altering the process. In off- patent drugs even that is not required.

Because of License and Permit, there is always a scarcity of drugs. Economy is closed and thus, there is no fear from MNCs.

Thus, environment is very conducive for pharmaceutical industry. The critical success factors are product knowledge, Money, Marketing and above all, political contacts and Mr Mohan Choksy has inherited all of the above except one which he has acquired.

Mr Mohan Choksy launched the firm in 1978 named "Morphene" in Vadodara. After studying the market, Mr Mohan launched few general Antibiotics, Pain Killers, and drugs for seasonal diseases like Paracetamol, etc. He also launched a full range of products for Respiratory disease as he found it a more lucrative market.

Mr Mohan Choksy appointed a very aggressive National Sales Manager Mr Mohit Dalal. Mr Mohit started his career as a Medical Representative (MR) in a Rival firm and within a span of 10 years, he became GM sales. He knows all the tits and bits of the pharmaceutical sales. He knew very well how to allure doctors and find a place in the "Prescription". By 1985, Morphene acquired 15% share in Respiratory Diseases and have a more than 10% share in all the drugs it was selling.

By 1985, competition became very stiff. New companies emerged. Because of process patent, any new company could launch any drug. Mr Mohan Choksy thought of investing in fundamental research but it was very expensive and because of Process Patent. Mr Mohan couldn't get the Patent so he dropped the idea. In 1987, he was going to France with his wife on a holiday. In the flight he met Mr Becker who was a CEO of MNC pharma company named "Novamin". In a discussion Mr Becker told him that his company is in search of Pharmaceutical manufacturer who can manufacture the off patent drugs for Novamin at low cost. Mr Becker told him that in Europe they had limited manufacturing capacity and they wanted to use it only for patented drug. He further told that in Europe, the production cost is high and in off patent drug, the margins are very low so they are looking for low manufacturing base. Mr Mohan saw an opportunity in it. After returning from holiday, Mr Mohan contacted Mr Becker. Mr Mohan increased the capacity of his plant. He started producing on economies of scale as now he was selling the same molecule

Contd...

Notes

Notes

under a brand in India and as a molecule to Novamin. By 1989, Morphene was exporting almost 25% of its production. Everything was going very smoothly but in 1991, the economy was liberalized. Being a signatory of GATT, soon India needed to follow the International Patent norms under which the Product is patented and there was no scope for reverse engineering.

Mr Mohan has to prepare his company for the future. He thought of two strategies:

1. To make the company attractive and sell it to some MNCs which are supposed to come in near future and may be interested in some strong local player to have a strong foothold in the country.
2. To invest in R&D and compete with MNCs.

Mr Mohan was not comfortable with the first option and for him second option was not feasible for his small company with a turnover of ₹ 120 crore.

He lived in this dilemma for the next three years and followed the same business model and by 1994, his turnover reached 160 crore. By 1994, things were changing very fast. His company being a Zero Debt company had enough cash reserves (20 crore) and being a Zero Debt Company and a good profitability ratio (15%), banks were ready to provide liberal loans.

Mr Mohit Dalal, the Marketing Manager of the company looks after the Domestic and International Marketing of the Firm. In 1992, Mr Mohan had sent Mr Dalal to Kellogs to attend the one year Executive Management Programme. After coming from Kellogg, Mr Dalal was continuously trying to foray into the international market.

In April 1995, Mr Mohit Dalal gave a ring to Mr Mohan from USA. He congratulated Mr Mohan and said that it was time for celebration as there were two good news for Morphene, one is that it had fetched an order of supplying a bulk drug to a MNC worth ₹ 100 crore per annum for coming five years. That will not only double the turnover of the company but will also open the avenues for new orders. Mr Dalal further said that WTO agreement will be applicable from 1995 and by 2000, new Patent Law will be applicable in India.

Mr Mohan was very happy with the order but couldn't understand what is good about the new Patent Law, in fact he was worried for the same for last five years. Mr Mohan congratulated Mr Mohit and asked him to return to India.

As Mr Dalal returned, Mr Mohan asked to meet him. Mr Mohan Choksy shared his doubt with Mr Mohit Dalal. Mr Mohit Dalal said that world is Globalizing and "it is not only we but more than 150 nations have signed the WTO Agreement. If our market is open for foreign companies, then foreign market is also open for us". He further added that "Globalisation is an opportunity for Morphene and not a threat". Mr Mohan Choksy was listening to Mr Dalal and asked with a silver line in his eyes that how it is an opportunity. Mr Dalal described that "instead of becoming competitor to MNCs we will become complimentary to MNCs". In the scenario, he said:

1. "MNCs are coming to India and they require manufacturing base and the state of the art manufacturing capacity, we can supply bulk drugs to them.
2. We are already supplying to USA and if those companies come to India, they will come to them naturally.
3. If we collaborate with these MNCs, they will also transfer new technology, manufacturing processes and international practices to get the product of their desired quality. This will help us in getting more export orders.

Contd...

Notes

4. In the present scenario, it will be easy for us to get international client for bulk drug supplies as other economies have to also liberalise their import procedures.
5. Each year, more than 1000 new drugs get off patent. We will not supply these drugs to international market rather we will also launch them under our brand. Our competitive advantage will be the cost structure as we will be operating on the economies of scale because of our bulk drug supplies.
6. Our biggest advantage is our Marketing. MNCs may have an advantage on the patented drugs but they cannot compete with us in our land on the off patented drugs. They can't give the margins which we can give to retailers, they can't even think of incentives which we can provide to the doctors. They cannot penetrate in the rural areas. Their sales cost is very high".

He further added that "we have just received an order of ₹ 100 crore per annum. In the current scenario, we may get many such orders. We have to restructure the organisation for the new environment and we have to design our plant to the international scales and Quality standards". With optimism in his eye, Mr Mohan gave a ring to his GM Production and GM Finance to work out on the cost structure and financing of restructuring.

Questions

1. In the above case, discuss the impact of globalisation on the decisions of Morphene.
2. Discuss how globalisation is an opportunity for Morphene.

Source: Business Environment, Dr Vivek Mittal, Excel Books

12.5 Summary

- Privatisation is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking.
- Privatisation can take three forms, i.e., Ownership Measures, Organisational Measures and Operational Measures.
- The New Industrial Policy has reduced the number of industries reserved for the public sector from 17 to 8 (further reduced to 4 and then to 2) and emphasised the introduction of selective competition in the reserved area.
- In 1991, public sector units have also been brought within the jurisdiction of the Board for Industrial and Financial Reconstruction (BIFR).
- The concept of MOU was introduced to make the PSUs more accountable. The main objective of the MOU is to reduce the quantity of control and increase the quality of accountability.
- The disinvestment programme started in 1991-92 connotes reducing the government stake in the public sector. Disinvestment may or may not lead to privatisation, i.e., transfer of control in private hands.
- The government may only dilute its equity and raise resources to meet the social needs of the people.
- For the Navratna PSUs, the government followed the policy of giving them more autonomy and increased their productivity through restructuring.
- The National Common Minimum Programme of the new government contains clear policy guidelines regarding disinvestment in PSEs. But it does not have a liberal policy regarding disinvestments.

Notes

12.6 Keywords

BRPSE: The Board of Reconstruction of Public Sector Enterprises advises the government on the issue of restructuring PSEs, including cases where disinvestment, closure or sale is justified.

Disinvestment Proceeds Fund: The fund for financing of fresh employment opportunities and investment, and for retirement of public debt.

Disinvestment: Disinvestments connote reducing the government stake in public sector.

Divestiture: It is a privatisation of ownership through the sale of equity.

MOU: A Memorandum of Understanding was signed with PSUs with the objective of giving them more autonomy.

National Investment Fund: The realisation from the sale of minority shareholding of the government in profitable PSEs would be channelized to this fund.

Privatisation: Privatisation is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking.

12.7 Review Questions

1. What is disinvestment?
2. What is the difference between privatisation and disinvestment?
3. What are the objectives of disinvestment?
4. Discuss the various methods of disinvestment.
5. Discuss the policy followed by the government regarding PSUs in 1991.
6. "Profit Making PSUs should not be disinvested." Discuss the statement.
7. Discuss the policy of the present government regarding disinvestment.
8. What are the problems with privatisation in India?
9. Discuss the policy of India regarding the Navratnas.

Answers: Self Assessment

- | | |
|-----------------------------|--------------------------------|
| 1. Public Sector Units | 2. Memorandum of Understanding |
| 3. Quantum | 4. PSUs |
| 5. efficiency | 6. Disinvestments |
| 7. money claims | 8. public sector |
| 9. Diseconomies | 10. high-performing |
| 11. disinvestment programme | 12. opposition |
| 13. India | 14. 2011 |

12.8 Further Readings

Notes



Books

Sobhan, R. 1991. *"An Industrial Strategy for Industrial Policy: Redirecting the Industrial Development of Bangladesh in the 1990s"*, The Bangladesh Development Studies, Vol. XIX, Nos. 1 & 2, Mar-June, pp. 201-215

Wijesekara, Nalin. 1992. *"Sri Lanka"*, Asia Pacific Review, 1991-92. Essex: The World of Information. p.211

Reddy, T.V. 1992. *"Public Enterprise Reform and Privatisation"*, New Delhi: Himalaya Publishing House

Fallon, P.R. and R.E.B. Lucas. 1991. *"The Impact of Changes in Job Security Regulations in India and Zimbabwe"*. The World Bank Economic Review, Vol. 5, No.3, pp 395-413.

Ahluwalia, I.J. 1985. *"Industrial Growth in India: Stagnation Since the Mid-Sixties."* Delhi: Oxford University Press



Online links

<http://www.kpmg.com/in/en/issuesandinsights/articlespublications/kbuzz/pages/gov-september2012.aspx>

<http://www.jstor.org/discover/10.2307/4418227?uid=3738256&uid=2&uid=4&sid=21102652987313>

<http://news.in.msn.com/business/govt-may-privatise-6-more-airports-including-chennai>

<http://www.wsws.org/en/articles/2013/07/12/nlci-j12.html>

<http://www.economist.com/node/2488717>

Unit 13: Small Scale Industrial Sector in India

CONTENTS

Objectives

Introduction

13.1 Role of Small Scale Industry

13.2 Problems and Future Prospects

13.2.1 Challenges of Small Scale Industry

13.3 State and Industrial Development

13.4 Summary

13.5 Keywords

13.6 Review Questions

13.7 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe the role of small-scale industries
- Define the problems and future prospects of small-scale industries
- Interpret the state and industrial development

Introduction

In this unit, you will study about the role of small scale industry, problems and future prospects of small scale industries, and the state and industrial development.

The small scale industrial sector has appeared as a dynamic and vibrant sector of the Indian economy due to its contribution to attaining the socio-economic objectives of employment, exports, production, fostering entrepreneurship, contribution to Gross Domestic Product (GDP) and ensuring industrial dispersal. The small scale industrial sector (SSI's) contributes 8% of the country's GDP, 45% of manufactured output, and 40% of exports. The labour-capital ratio in SSI is much higher than in larger industries. Further, SSIs are better dispersed, and are the second largest employer of human resources after the agriculture sector. The employment in this sector has grown to 29.81 million in 2009-2010 from 3.97 million in 1973-1974. Consequently, this sector was accepted as an engine of economic growth in the early years of planning and the Indian government has initiated several support measures in terms of policies on reservation, revision of investment ceilings, modernization, technological up-gradation, marketing assistance, fiscal incentives, etc., to uplift this sector to enable it to play a crucial role in the process of achieving sustained and inclusive growth.

Small scale industry manufactures a wide variety of commodities from ordinary consumer goods to sophisticated goods based on modern technology such as electronic goods, television sets, engineering products, etc. Several steps have been taken by the government from time to time, for instance, establishing the Handloom board, Cottage industry board, Handicraft board, Khadi and Village industry board, etc. to supplement the performance of the small scale industrial sector in India.

Notes

You must understand that despite these attempts of the government, 77,723 units in the Indian small scale industrial sector were witnessed to be sick in the year 2009-10. In the case of Punjab, the number of sick units in the same period was 2,236. This depicts the gloomy picture of the present status of the Indian small scale industrial sector. The sickness of small scale industries in India in general and Punjab in specific occurred due to several reasons, such as the lack of entrepreneurial skills, irregular supply power and raw material, lack of skilled labour, the restricted role of financial institutions, insufficient market information, global competition, changes in economic conditions, and the installation of technically faulty and out-dated technology.

13.1 Role of Small Scale Industry

In this section, you will learn about the role of small scale industry. On the eve of independence, Punjab had been moderately an industrially backward state, but state activity for the rehabilitation of migrants, traders, entrepreneurs and workers involving large investment in infrastructural sectors created essential environment for industrial development which continued through the 1950s and 60s.

Table 13.1: District Wise Concentration and Types of Industries in Punjab

District	District Wise Concentration of Industries
Amritsar	Power Loom Weaving, Wood & Machine Screws, Radio & Transistors, Agricultural Implements, Paints & Varnishes and Dyes, Electric Fans, Pharmaceuticals, Printing machinery, Textiles, Chemicals, Soap, Acids
Barnala	Small Cutting Tools, Threads by Spinning Mills, Chemicals, Paper, Towels, Combines, Tractors, Electric Scooty, Bulldozers, Cranes and their Components, Agricultural Industries.
Bathinda	Cotton Ginning and Processing, Pharmaceutical, Flour mills.
Faridkot	Agricultural Implements, Cottonseed Oil, Rice Bran Oil.
Fatehgarh Sahib	Steel re-rolling, Pump Parts, Sewing Machine Parts, Truck Body Building.
Ferozepur	Cotton Ginning and Processing, Grey board, Flour Mills, Agricultural Implements, Millboard.
Gurdaspur	Agricultural Implements, Conduit Pipes, Machine Tools, Soap and Chemical Products, C.I. Castings, Brassware.
Hoshiarpur	Rosin & Turpentine Oil, Paints & Varnish, Sugar, Agricultural Implements, Pressure Cookers, Paper and Paper Board
Jalandhar	Surgical Instruments, Sports Goods, Hand Tools, Automobile Parts, Cocks & Valves, Pipe Fittings, Bus Body Building, Leather Tanneries, Ball Bearings, Publication, Switch & Switch -Gears and Rubber Goods

Contd...

Notes

Kapurthala	Agricultural Implements, Pressure Cookers, Fans, Wood & Machine Screws, Electrical Goods, Rice Mills, Rubber Goods, Bolts & Nuts and Diesel Engines.
Ludhiana	Bicycles and Bicycle Parts, Automobile Parts, Hosiery Goods, Sewing Machine & Parts, Home Appliances, Machine Tools, Readymade Garments, Hosiery Needles, Rubber goods, Labels (Metal & Cotton), Chemical Goods, Oil Engines, Agricultural Implements, Electronic Goods, Tractor Parts, Cycle Tyres/Tubes, Plastic Goods.
Mansa	Agricultural Implements, Cotton Spinning
Moga	Agricultural Implements, Milk Products.
Muktsar	Cotton Yarn, Rice Bran Oil, Paper
Patiala	Automobile Parts, Sewing Machine Parts, Enamelled Copper Wire, Electrical Goods, Bakery Machinery, Cutting Tools, Biscuits, and Shoes.
Rup Nagar	Agricultural Implements, Pharmaceuticals, Tractors & Parts, Electronic Components, Electrical Components.
Sangrur	Agricultural Implements, Tractor Parts, Cycle Parts, Sewing Machine Parts, Milk Products, Chilled Rolls.
Shahid Bhagat Singh Nagar	Light Commercial Vehicles, Pharmaceutical, Yarn, and Sugar
Tarn Tarn	Agro Base Industry; Sugar Mill, Spinning Mill, Poultry Farm.

Source: http://shodhganga.inflibnet.ac.in/bitstream/10603/10675/11/11_%20chapter%204.pdf

Nevertheless, you must understand that industrial sector got a boost after the Goa conflict, Chinese aggression and Indo-Pak war, for satisfying the defence needs in hosiery sector, woollen textiles, machine tools and the automobile sector. Moreover, in 1960s, with the arrival of the green revolution, the increasing demand from the quickly growing agriculture sector united with a rise in export demand boosted the process of industrialisation. The industries that evidenced boom were agro processing, agro- input and consumer industries such as woollen products, textile, metal products, food product, engineering and agricultural machinery. Most of these industries were established in the small scale sector and Punjab made extremely rapid progress in industrial development particularly in the small scale segment.



Notes Small-Scale Industries (SSIs) are significantly contributing to the economy of Punjab. In the liberalized era, the SSI sector is facing stiff competition from domestic as well as foreign companies.

In many states of India like Punjab, the primary sector contributes 31.23%, secondary 27.57%, and tertiary sector 41.2% of Gross State Domestic Product (GSDP) in 2007-2008 (Statistical Abstract

Notes

of Punjab, 2010). In terms of location small scale industrial groups emphasise in various districts as, hosiery and garment units are in Ludhiana, basic metal product industry in Mandi Gobindgarh, Batala, Ludhiana, Jalandhar and Amritsar, and textile units in Ludhiana, Amritsar and Dera Bassi. Moreover, several industrial groups involving food products, chemical products, leather products, metal products and machinery, etc. are extensive in the state. Ludhiana leads in Industrialisation and produce 28% of the total industrial output of Punjab and having highest number (166) of large and medium scale units. Amritsar and Jalandhar were traditionally more advanced, whereas, Sangrur was announced as centrally backward district. The major small scale industry in Punjab is hosiery industry, which contributes 91% of the total hosiery goods manufactured in India, 10% of the total production and 48% of total employment of small scale industrial sector in Punjab, whereas, it offers employment to 54 thousand persons. Table 13.1 above shows the district-wise distribution and concentration of industries in Punjab.

Punjab and Haryana are agrarian states and contribute 40% of the total agriculture production in India. About 75% of the total population of these states directly or indirectly relies on agriculture for their livelihood. Punjab and Haryana are self-sufficient in food production and led the nation's Green Revolution in the 1960s; Punjab received the title of India's 'bread basket'. Both states have done remarkably well in the field of agriculture and are now well on their way to rapid industrialisation through the coordinated development of small, medium and large scale industries. Both states have mostly small-scale industry due to the unconquerable spirit and entrepreneurial skills of their peoples.

It is important for you to understand that in Punjab, the number of small scale industrial units is 191,639, whereas there are 340 medium and large scale industries including fixed capital investment of ₹ 5502.94 crore and ₹ 23285.58 crore, respectively. The industries employ approximately 938,684 workers in comparison with 199,342 people in the medium and large scale industrial sector.

Investment Overview

The state has more than 204,000 small and medium enterprises and about 600 large scale companies. It is one of the leaders in the production of printing and paper cutting machinery; machine and hand tools; auto parts and electrical switch gear. It offers more than 75% of the nation's requirement for sewing machines, bicycles, hosiery and sports goods. Punjab has 273 Mega Industrial Manufacturing, Multiplex, Industrial Park and Hotel Projects with proposed investment of ₹ 61466.12 crore which have been sanctioned by State Government for implementation during 2007-08 (31 December 2007). The Empowered Committee has sanctioned 13 more new Mega Projects with an investment of ₹ 1307.54 crore in 2009.

Economic Overview

Punjab which has done extraordinarily well in the field of agriculture is now well on its way to rapid industrialisation through coordinated development of small, medium and large scale industries. The share of primary sector including agriculture and livestock has risen sharply from 1.7% in 2005-06 to 5.08% in 2008-09. The growth of the secondary sector has declined from 7.6% in 2005-06 to 6.5% in 2008-09. The growth of tertiary sector, which consists of services sector along with trade, transport, banking and insurance and public administration, has risen from 4.5% in 2005-06 to 6.95% in 2008-09. This growth is primarily due to rise in contribution from banking, storage and insurance and pharma sectors.

Cumulative FDI in Punjab region for the year ended March 2009 is US\$384mn. The region explains for 0.42% of overall FDI received.

Notes

Major Sectors

- Textiles
- Manufacturing
- Food Processing and Agro-Based
- Chemical and Fertilizers
- Hosiery
- Energy
- IT/ITeS
- Tourism
- Education



Did u know? Punjab, the richest state in India that throbs with the vibrant culture, has always moved on the path of prosperity. The state known as the “Food basket and Granary of India”, has been awarded National Productivity Award for agriculture extension services for consecutively ten years from 1991-92 to 1998-99 and 2001 to 2003-04.



Caselet

New Industrial Policy – Anti Small Scale Industry

The new industrial policy announced by the SAD-BJP Government with great fanfare has failed to enthuse the small scale industry which is the mainstay of the state economy. The new industrial policy has not indicated any programme to revive the sick industrial units. The major beneficiaries will be agro-based industries feel the small scale industrialists.

The zoning of the industries into Zone I and Zone II has been made keeping in view the interests of the large scale industrial house who are close the powers that be, allege the small scale industrialists.

The Punjab’s industrial development was hit hard during the decade long militancy and a number of industrialists migrated to other states. They wound up their units and shifted to states like Haryana, UP, Delhi and Madhya Pradesh. But many of them could not establish themselves in the changed scenario and returned when the militancy was eliminated. It was during the tenure of Beant Singh as chief minister that industrial revival began but his death gave a setback to the revival movement.

The SAD-BJP Government in 1997 and the successive governments till today have failed to make serious efforts to revive the industry in the state. The SAD-BJP Government in 1997 failed in its duty to bring industrial development. The only consolation, the industry had that Chief Minister Parkash Singh Badal would listen to the grievances of the small scale industries with no result.

Amarinder Singh government in 2002-2007 completely ignored the small scale industries and the large scale units were given benefits of tax relief worth several hundred crores. Amarinder Singh did not address a single meeting of the small industrialists.

Contd...

Notes

In 2007, when SAD-BJP Government returned to power, Sukhbir Singh Badal prepared a blue print for the development of the industries. He moved from city to city with a laptop and made presentations to the gatherings of the industrialists but nothing practical happened. The only creditable achievement of the SAD-BJP Government was the establishment of refinery at Bathinda. The state has not seen any mega project under the private sector or the public sector. The present state of the industries in Punjab is that it has become a 'bimaru' state. The small scale industries like the bicycle industry, auto-industry, nut bolt and other engineering industries are in a bad shape. The steel industry of Mandi Gobindgarh is also in shambles. A number of furnaces and the steel rerolling mills in Mandi Gobindgarh and Ludhiana have been closed down.

The export of the bicycle parts and other engineering industries has gone down and China is giving tough time to the small scale manufacturers. The local manufacturers of the cycle parts have started importing cycle parts from China and are selling the same with their stamps. Many of the industrialists have opened their offices in China.

Avtar Singh, General Secretary, Chamber of Industrial and Commercial undertakings, Ludhiana strongly feels that the new industrial policy is biased towards the large scale units. Moreover, the Government has given only lip sympathy in the past and has not devised any plan for the revival of the sick industrial units. There is no provision for enhancing the basic infrastructure in the focal points and the industrial areas. The small scale industrialists are very sore over the indifferent attitude of the state government, he said.

The industrialists are upset over the fact that while chalking out the new industrial policy, the zoning of the state has been done keeping in view the interests of the bigger units and those who are close to the Government. They cite the example of Muktsar and Bathinda have been extended the benefits of zone I – (border areas) because some bigger units are coming up in Bathinda and Lambi area of the chief minister. The vat and power benefits in the zone I are for thirteen years whereas in the other zone these benefits are for seven years.

Interestingly all those close to the deputy chief minister are making huge investments in Madhya Pradesh. They have enjoyed the benefits in Punjab from both the SAD-BJP Government and Amarinder Singh government. These groups are estimated to be making investments worth about 10,000 crore in Madhya Pradesh. One of the groups is developing a textile park in Lambi area of Muktsar and the land belonging to the ruling party politicians has been sold to this group. Another major industrial house Chairman of which is holding an important position in the Punjab Planning Board is making investments worth ₹ 700 crore in Madhya Pradesh. Kamal Oswal, Chairman of the Nahar Group who is the industrial advisor to the chief minister Punjab is the only person who has announced expansion plan of ₹ 1500 crore in Punjab in response to the new industrial policy. Only time will tell when the actual investment takes place.

Tall claims of providing cheap and adequate power supply are also proving hollow as there is a shortage of power in the state and the power tariff in Punjab is the highest. Moreover, the land prices in Punjab are beyond the reach of the industry, so no immediate plans for the investment in new industrial units. The state government will have to review the policy and form a new policy for the revival of the sick industries.

Source: <http://www.punjabnewslines.com/punjab/new-industrial-policy-anti-small-scale-industry/>
80608

Notes

Self Assessment

Fill in the blanks:

1. Punjab and are agrarian states and contribute 40 per cent of the total agriculture production in India.
2. About per cent of the total population of these states directly or indirectly depends on agriculture for their livelihood.
3. Punjab and Haryana are self-sufficient in food production and led the country's Green Revolution in the

13.2 Problems and Future Prospects

This section emphasises on the problems and future prospects. Punjab captures a place of pride in the industrial map of India which is accredited to its small-scale industrial sector. The state received a very weak industrial base when divided in 1947 and underwent further erosion when it was reorganised in 1966. More lately, it has been through a period of terrorism and social unrest, which not only impacted the industrial growth adversely but tended to cause some out migration of industry. With the re-establishment of peace, the state government tried to stimulate the process of industrial development with the hope to enter into a new period of progress.

You must understand that the promotion of the small-scale sector in India has been a significant thrust of industrial policy since independence though the emphasis of concern altered with the priorities of each five year plan. The six Industrial Policy Resolutions which have been bordered since 1948 have set out the guidelines for the nation's industrial development with different degrees of focus on the main goals. The Industries Development and Regulation Act of 1951 offered the basic framework for the post-independence industrialisation strategy. Since the model for industrialisation in the 1950s was dependant on capital-intensive heavy industries, the priority of employment generation needed the development of extensively dispersed, labour-intensive, mass consumption–good producing, small-scale industries. As the process of economic development resulted in changing priorities, the policy focus shifted to ancillarisation (1980), regional imbalances (1977), exports and dispersal in rural areas (1990) and then to Small, Tiny and Village Industries (1991).

The organisational arrangement for SSIs was established in the 1950s with the establishment of a Small Scale Industries Board in 1954. Other important institutions at the country level were the Department of Small Scale Industries and Agricultural & Rural Industries and the Small Industries Development Organisation (SIDO) which was under the Development Commissioner, Small Scale Industries. At the State level, the Commissioner/Directorate of Industries were the main institutional authority for SSIs. This structure has remained, though various other institutions have come into being in the 1970s and 1980s, specifically at the State level.

It is important to note that in the last forty years, several Committees have been comprised by the Government of India to examine the operation of SSIs with a view to encourage their growth and efficiency within the context of the main goals of the national economic plans. The Karve Committee Report (1955) was one of the earliest of these exercises which suggested a protective environment for the growth of small industries in India. Since then, policies intended for the SSI sector have objected at fostering its growth through positive policy interventions in the areas of technology, finance, infrastructure and extension services, among various other requirements of the sector. Supportive policies through the 1960s, 70s and 80s took the form of reservation of products completely for the SSI sector (836 products are reserved extensively for SSIs at present)

Notes

grant of fiscal concessions and government obtaining of supplies from the sector. Currently, 836 products are reserved completely for SSIs. For increased credit flow to the SSI sector, a policy of priority sector lending through nationalised banks has been followed, though this has not been sufficient for the growth requirements of the sector.

Since the 1980s and, more specifically, in the 1990s, there have been marked changes in the policy climate across the globe towards freer markets and reduced government intervention. The global economy is categorised by greater integration, a more liberalised global trade regime following the establishing of the World Trade Organisation (WTO), a rapid pace of technological change, particularly in some high-growth areas for instance, information and knowledge-based industries, and intensified global competition. India's economic policies are in the process of being restructured, through the second generation reforms, to adjust to the emerging challenges. The core emphasis of future policy will be to promote the growth of this dynamic sector through emphasised, sustained and wide-ranging interventions, as the SSI sector has so far been insulated to a large extent from pressures of competition both domestically and globally.

What are the issues and prospects for the development of the SSI sector over the medium-term? Before turning to the issues involved, the economic profile of the SSI sector is useful as a signal of the success or failure of past policies.

The SSI sector is non-homogenous in construction and includes diverse types of production units varying from traditional crafts to high-tech industries. The total number of SSI working units in the nation is approximated to be around 3 million. In terms of ownership, the vast majority of SSI units are proprietary concerns (80.5%) with only 16.8% operating as partnerships and private limited companies. The first census of SSIs in the nation was undertaken in 1972 and the second in 1987-88. Tamil Nadu engaged the first rank in both years in terms of number of units and employment, followed by Maharashtra. Andhra Pradesh was placed at No. 6 and 7 respectively. By 1993, Punjab appeared at the top. One essential factor to be noted in the statistics on small industries is the mortality rate. Whereas the industries may get recorded at the entry point, there is no record of their exit.

The potential of SSIs to create employment has remained the strongest argument in their support. The sector now recruits 17 million persons and is the second largest employer of India's workforce after agriculture. The role of SSIs in the economy can be seen from the fact that it now explains for 95% of all industrial units in the nation and 40% of total output. About 7,500 products are produced in the small-scale sector. The export share is 35%. The composition of exports shows the largest shares of SSIs are in the industry groups: hosiery and garments (29.0%), food products (21.4%) and, leather products (18%). The industry groups which have registered high growth rates and a large share in total production of SSIs are: wood, furniture, textile products, etc., paper and printing, and metal products.

The future policy emphasis for SSIs will be on the development of industrial clusters which have been found in various studies to be effective in terms of resource use and in encouraging inter-industry and inter-sectoral connections. A cluster is described as a geographically bound concentration of similar, associated or complementary businesses. A UNIDO study describes clusters as 100 registered small-scale units. There are approximated to be 350 SME clusters in India which contribute directly and indirectly to 60% of India's exports. Nevertheless, the spatial concentration in clusters will earn a slower dispersion of industrial activity to backward areas. The location-wise distribution of clusters reveals 65% concentrated in cities and metros and only 13% in small towns and rural areas. There is scope for motivating the development of clusters in rural areas and rural-based artisan centres.

13.2.1 Challenges of Small Scale Industry

You must understand that the following recommendations address these challenges:

- To formulate Industrial Clusters under Public Private Partnership (PPP), the government of Punjab must establish industry-specific Task Forces in collaboration with industry relations for instance CII, PHDCC, and FICCI to study the best practices by other states of India or other nations, and come up with concrete proposals on cluster development without losing much time.
- To evaluate why Punjab has failed to benefit from Central Schemes such as Textile Technology Parks, Food Parks, Special Economic Zones, Cluster Development, etc., the government of Punjab must set up a High-Powered Administrative Review Committee with Chief Secretary as Chairman and principal Secretaries of the major economic departments as members. A Secretary level officer should be put in place in the Chief Minister's office to track the opportunities provided by these structures and get the administrative machinery in the state to react to exploit these opportunities.
- The government of Punjab should proactively appeal a large plant for automotive manufacture because of its prospective for positive downstream impacts on the numerous small scale auto-component manufacturers.



Caution To modernise and rejuvenate the small scale units in light engineering, leather, hand tools, sports goods, hosiery, etc., the strategy recommends the development of modern clusters and/or attracting a large scale plant in automotive which can facilitate the technological up gradation of the component suppliers through vendor development.

Self Assessment

Fill in the blanks:

4. The organisational structure for SSIs was set up in the with the establishment of a Small Scale Industries Board in 1954.
5. The promotion of the in India has been an important thrust of industrial policy since independence though the focus of concern changed with the priorities of each five year plan.
6. Punjab occupies a place of pride in the of India which is attributable to its small-scale industrial sector.
7. The state inherited a very weak industrial base when partitioned in 1947 and suffered further erosion when it was reorganized in
8. The potential of SSIs to generate has remained the strongest argument in their favour.

13.3 State and Industrial Development

In this section, you will learn about the state and industrial development. The industrial sector has shown impressive growth in 1980 to 1997, covering the Sixth, Seventh and Eighth Five Year Plans, but declined in 1997 to 2000, the first three years of Ninth Plan. In 1980-2000, employment grew three times, the number of industrial units five times, investment and production 18 times, both in the large and medium and small scale sector. Small-scale industry (SSI) accounts for 80%

of the total employment, contributes 40% to production and 60% to exports, with 20% investment of the industrial sector.

It is important for you to note that the regional disparities in industrialisation persist. Patiala, Ludhiana and Ropar districts account for half the industrial production in the state. On the contrary, Faridkot, Mansa and Muktsar districts have a share of less than 1% each.

The SSI sector, the backbone of the industrial economy in the state, is passing through a crucial phase, prima on account of such factors as low level of technology resulting in low industrial productivity and poor quality of products leading to competitive disadvantage both in domestic and international markets. The small-scale sector has to attain the capability to produce quality products, to compete in the international market. It has to renovate itself from a protective to a competitive environment.



Notes Ludhiana, a district in the state of Punjab, has been adjudged as the best place for doing business in India as per the World Bank Study, 2009. With the up-gradation of Amritsar International Airport and another International Airport coming up in Mohali, Punjab is geared to be one of the finest and easily accessible tourist as well as business destinations in South Asia.

For the existence of industry and to support the tempo of growth, the broad measures recommended are modernisation and technological up gradation through innovative R&D; product adaptation; planned development of quality infrastructure; human resource development through skills up gradation and training; market-oriented policy and institutional framework.

The state must follow a pro-active policy to encourage partnership with industry for both utilising existing infrastructure and setting up badly required new facilities.

The government's role should be restricted to that of an effective facilitator and co-ordinator of the process of growth, offering transparent, conducive policy framework and effective delivery mechanism via good governance.

It is important to note that up gradation of existing research and development centres in the state has been recommended so as to offer the latest design and testing techniques to the industry. Keeping in view the developing requirements of industry and lack of monetary support from central and state governments, the management of these may be delegated to the applicable associations of industry, on the basis of binding partnership protocols evolved through a consultative process. This approach will ensure operative functioning of R&D centres to fulfil their objectives.

Industrial clusters and parks should be established sector/product-wise, with an emphasis on agro-food processing, automobile and automobile parts, bicycle and bicycle parts, machines and machine tools, sports goods, leather and leather goods, hosiery and textile industries. This will facilitate building a centralised and modern infrastructure. The private sector and financial institutions should be encouraged to take part in these activities. Additionally, infrastructure in all existing industrial areas and focal points should be upgraded.



Did u know? Punjab has been declared as one of the best states in India in terms of rail, road and transport network as per National Council of Applied Economic Research (NCAER), 2007.

Notes

Agri-export zones (AEZs) for various products should be set up expeditiously. These will accelerate provision of all export incentives to enhance exports, value addition centralised modern facilities, better productivity and higher incomes to the farming sector. The Government of India should also establish special economic zone (SEZ), for connection with the global market with emphasis on the export of industrial products.

You must understand that it is vital to establish industries in the large and medium (L & M) sector in the state for their balanced growth. Suitable facilities and incentives should be offered to multinational companies (MNCs) to establish manufacturing facilities in the state, particularly in agro-food processing, light engineering and electronic hardware industries. NRIs should be motivated to invest in the state.

An appropriate institutional mechanism, including representatives of the Reserve Bank of India, banks, financial institutions, industry and state government, with sufficient powers and the resources, should be developed, to offer requisite financial support to small-scale units enduring from sickness or showing indications of sickness. A system should be evolved for timely detection of sickness at the initial phases for speedier required action.

The tax structure should be simplified and rationalised, compatible with that of the adjoining states. Easy and timely credit at interest rate equal to Prime Lending Rate (PLR) should be available to the SSI sector.



Task

Research on the recent trends and technologies of Punjab in small scale industries.

Self Assessment

Fill in the blanks:

9. of existing research and development centres in the state has been suggested so as to provide the latest design and testing techniques to the industry.
10. The industrial sector has shown impressive growth during 1980 to 1997, covering the Sixth, Seventh and Eighth Five Year Plans, but declined in 1997 to, the first three years of Ninth Plan.
11. The state must follow a-policy to promote partnership with industry for both utilizing existing infrastructure and establishing badly required new facilities.
12. for different products should be set up expeditiously.
13. It is essential to set up industries in the large and medium (L & M) sector in the state for their growth.
14. A system should be evolved for timely detection of at the initial stages for speedier necessary action.
15. Regional in industrialization persist.



Case Study

Impact of Excise on Diesel Cars

Notes

The diesel version of the Nano, scheduled to debut in the second half of 2010-11, could be the worst hit if the Centre accepts the Kirit Parikh panel's recommendation of imposing a flat ₹ 80,000 excise levy on all diesel cars. Though, there is still no official word on the possible price tag of the car, the top-end could cost around ₹ 2.7 lakh (on-road, in Mumbai) given that its petrol sibling is nearly ₹ 2 lakh.

Should the ₹ 80,000 levy be imposed, the 800cc Nano diesel will be closer to ₹ 3.5 lakh which will put it on a par with the basic Hyundai Santro (petrol) or the present Indica V2 (diesel). And to think that, Tata Motors wanted to position the Nano as "the people's car".

Current Levy Structure

The present excise duty for small cars (those under four metres with maximum engine capacities of 1.2 litres for petrol and 1.5 litres for diesel) is 8 per cent. However, the imposition of the additional ₹ 80,000 would mean a net excise levy of nearly 35 per cent for the diesel Nano which experts say "borders on the absurd".

This would be equally true for all compact diesels, though in terms of percentage, the levy would be gradually lower with higher price tags. "Simply put, the ₹ 80,000 excise levy would make a mockery of the present eight and 20 per cent classifications on small and large cars," sources said.

Typically, diesel cars such as the Indica, Logan, Indigo and the Innova-multipurpose vehicle, are used as taxis, but this user segment is reimbursed by the excise levy which means it would not be passed on to the end-user.

It is also strange why cars are always the ones to bear the cross for any muddle concerning fuel prices. Last fiscal year saw the worst crisis in recent times when crude prices went out of control and the Centre promptly slapped an additional ₹ 15,000-20,000 levy on all cars with engine capacities of 1,500cc-2,000cc. The move, intended to penalise fuel guzzlers, largely impacted diesel utility vehicles. Naturally, there was a lot of heartburn because the Centre was not being seen as too proactive in taking hard decisions on raising prices instead.

Subject of Controversy

In fact, diesel vehicles have always been the subject of controversy for years now. In the early nineties, multi-utility vehicles, with a certain seating capacity, were given sops on excise duty which effectively sealed the fate of the petrol-driven Maruti Gypsy.

The Centre then introduced another norm in 1994-95 where only those MUVs weighing over 2,700 kg could be eligible for the lower duty. "It did not take too long for manufacturers to add a whole lot of steel in their vehicles so that they paid less," sources recalled.

Sanity in the excise duty structure soon prevailed, but the reluctance to hike auto fuel prices resulted in the automobile sector taking the rap instead, the latest being the Kirit Parikh panel's salvo on the ₹ 80,000 levy.

There is no question that the subsidy on diesel is the root cause of this problem. It is unlikely that the Centre will tamper with its price because its fall-out on freight rates would stoke inflation levels which are already hurting consumers.

Contd...

Notes

Ideally, the automobile sector, after this recommendation, would rather be junked. In the event Cabinet seconds the proposal, experts believe the best way forward is to go in for duty gradation where small cars are imposed an additional 8 per cent while other diesels vehicles 12-16 per cent levy.

Question

In the light of above facts, discuss the future of small diesel cars specifically Nano.

Source: Dr Mittal, Vivek. *Business Environment..* Excel Books Publications, New Delhi.

13.4 Summary

- Punjab is also on its way to rapid industrialisation through coordinated development of small, medium and large scale industries.
- Punjab is an agricultural state but it has made honest efforts to provide impetus to the industrial sector especially small scale industrial sector.
- The SSI sector, the backbone of the industrial economy in the state, is passing through a critical phase, mainly on account of such factors as low level of technology resulting in low industrial productivity and poor quality of products leading to competitive disadvantage both in domestic and global markets.
- The small-scale sector has to acquire the capability to produce quality products, to compete in the international market. It has to transform itself from a protective to a competitive environment.
- For the survival of industry and to sustain the tempo of growth, the broad measures are suggested by Punjab government.
- The state must follow a pro-active policy to promote partnership with industry for both utilizing existing infrastructure and establishing badly required new facilities.

13.5 Keywords

Cluster: A group of similar objects growing closely together.

Hosiery: Hosiery, also referred to as legwear, describes garments worn directly on the feet and legs.

Industrial Economy: It concerns those activities combining factors of production (facilities, supplies, work, knowledge) to produce material goods intended for the market.

Small Scale Industry: These are businesses that require few people to run, the number of which will depend on different jurisdictions.

Textile Industry: The textile industry or apparel industry is primarily concerned with the production of yarn, and cloth and the subsequent design or manufacture of clothing and their distribution.

13.6 Review Questions

1. Describe the role of small-scale industries in Punjab.
2. What are the problems and constraints faced by small-scale industries of Punjab?
3. Discuss the future prospects of small-scale industries.

4. Interpret the state and industrial development in brief.
5. Describe the distribution of small-scale industries of Punjab by district-wise.
6. "Regional disparities in industrialization persist." Comment.
7. What measures must be taken by Punjab government in terms of industrialisation?

Notes

Answers: Self Assessment

- | | |
|-----------------------|------------------------------|
| 1. Haryana | 2. 75 |
| 3. 1960 | 4. 1950s |
| 5. Small-scale sector | 6. Industrial map |
| 7. 1966 | 8. Employment |
| 9. Up gradation | 10. 2000 |
| 11. Pro-active | 12. Agri-export zones (AEZs) |
| 13. Balanced | 14. Sickness |
| 15. Disparities | |

13.7 Further Readings



Books

Srinivasan. R. (1997). *"A Study of Marketing Orientation to the Success of Small Scale Industries"*, conducted by Administrative Staff College of India, Sponsored by Indian Council of Social Science Research, New Delhi.

Bepin Behari. (1997). *Rural Industrialisation in India*, Vikas publishing House, New Delhi.

People .T.S. (1997). Spatial, *"Diversification of Manufacturing Industries in Uttarpradesh, Lucknow,"* Giri Institute of Development studies.

Ahluwalia, I. J. (2006), *"Trade Liberalisation and Industrial Performance A Disaggregated View of Indian Manufacturing in the 1990"* in Tendulkar, Mitra, Narayanan and Das (ed.), *India: Industrialisation in a Reforming Economy: Essay for K.L. Krishna* (New Delhi Academic Foundation), pp 71-304.



Online links

<http://www.tradechakra.com/indian-economy/globalization.html>

<http://www.pppinindia.com/state-policy-punjab.php>

http://www.emat-int.com/about_ludhiana.html

<http://www.banknetindia.com/banking/ssi1.htm>

<http://mpira.ub.uni-muenchen.de/39178/1/>

Notes

Unit 14: Tertiary Sector in the Indian Economy**CONTENTS**

Objectives

Introduction

14.1 EXIM Policy of India: A Brief Perspective of Changes

14.1.1 New Trade Policy (1991)

14.2 Foreign Trade (Development and Regulation) Act

14.2.1 Director General of Foreign Trade

14.2.2 Incentives and Promotions for Export

14.2.3 Foreign Trade Policy 2009-2014

14.3 Summary

14.4 Keywords

14.5 Review Questions

14.6 Further Readings

Objectives

After studying this unit, you will be able to:

- Describe EXIM Policy of India
- Define New Trade Policy (1991)
- Know Foreign Trade (Development and Regulation) Act

Introduction

In this unit, you will study about the EXIM policy of India, the new trade policy (1991) and the foreign trade (development and regulation) act. Indian foreign trade under colonial rule was manipulated by the British for their own interests. After independence, the then government included the Import and Export (Control) Act, 1947 with the goal of regulating imports and exports. At that time, the Indian economy was influenced by scarcity. To protect the domestic industry and to limit the export of essential goods, it was essential necessary to regulate international trade.

The National Planning Commission (NPC) has said, "The objective of the country as a whole was the attainment, as far as possible, of national sufficiency. International trade was certainly to be included but we were anxious to avoid being drawn into the whirlpool of economic imperialism."

So in next years, import substitution and safeguard of domestic industry became the chief thrust of the Exim policy for majority of the period during 1950-51 to 1990-91. It was in 1991 that the Indian Exim policy saw a drastic alteration in the shape of liberalisation.

14.1 EXIM Policy of India: A Brief Perspective of Changes

Notes

In the pre-reform era Indian import policy had two constituents:

1. **Import Restrictions:** In the first phases of development, India had to import capital equipment, industrial raw material, machinery, spare parts, etc. From time to time it had to import food grains too, but due to stagnant exports, government had to decide to import curtail. Import was grouped under the categories of: Banned items, canalized items, restricted items, and items under OGL (Open General License). Severe limits were imposed on imports of not-essential goods. Great import tariffs were utilised to control import.
2. **Import Substitution:** Import substitution depicts declining the dependability on imports, i.e., to generate goods that we are importing. Two wide goals of the programme of import substitution in India were:
 - (a) To save scarce foreign currency for the import of more significant goods,
 - (b) To acquire self-reliance in the production of as many goods as possible.

Till 1950-56, there was no obvious Exim policy and no import restrictions of any type. In the second half of the decade (1956-61), the government levied quantitative restrictions on imports and efforts were made to improve exports. Export subsidisation was launched in 1962, mainly to offset the penalties that quantitative restrictions levied. To strengthen exports, the currency was devaluated in 1966.

At the end of the sixties and mid-seventies, export subsidies were restored and augmented and import policy became very restrictive and complicated.



Caution To bring stability to the policy and to reduce uncertainties, the government announced its EXIM policy in 1985 for three years, without any major deviation from the earlier policy. But it did represent some simplification as the number of items in the category of Open General License (OGL) for capital goods import increased from nil in 1975 to over 1,100 items in 1988.

It is important to note that several exports incentives were introduced or spread, particularly after 1985. Exporters were offered Replenishment (REP) licenses for amounts that were nearly twice their imports needs. These REP licenses permitted the holder to even import items in the limited list. These REP were liberally tradable in the market. Export profits were excused from tax, and interest rate on income tax was decreased. Duty-free import of capital goods was permitted in chosen export industries.

With a goal of enhancing the balance of payment position of the country, the EXIM policy of 1990 launched more liberalised steps: The OGL list was spread and a scheme of automatic licensing was launched under which up to 10% of the value of earlier year's license could be imports.

A scheme of Star Trading House was launched for exports with average annual net foreign exchange earnings of ₹ 75 crore in the earlier three licensing years of the base period. Star Trading Houses are eligible for the grant of exclusive additional licenses computed at the rate of 15% of net foreign exchange earned in the earlier year.

Under the Duty Exemption Scheme, a blanket advance licensing has been launched for manufacturers with minimum foreign exchange earnings of ₹ 10 crore in the earlier three years.

Notes

It was since 1991 that radical changes and reforms were launched in the EXIM policy. There has been stable curtailment of import tariffs and liberalisation of quantitative restrictions. The rupee has been made nearly fully convertible on the current account.

14.1.1 New Trade Policy (1991)

You must understand that the new policy substantially removes licensing, quantitative restrictions, and other regulatory and discretionary controls. The chief characteristics of the new trade policy are:

1. **Free Import and Export:** The new trade policy made main alternatives in the import licensing system by substituting a large portion of administered licensing of imports by import entitlements connected to export earnings. The system of advance license, designed to offer exporters with duty free access to inputs, was reinforced further by simplifying and speeding up the process of granting these licenses.

The procedure of import of capital goods was simplified pursuing the Industrial Policy of 1991. New units and units undergoing considerable expansion would be automatically granted licenses for import of capital goods without any clearance from the indigenous availability angle, offered their import is entirely covered by foreign equity or the import requirement was till 25% of the worth of plant and machinery subject to a maximum of ₹ 2 crore.

Import of OGL capital goods, non-OGL capital goods and limited goods would be permitted without a particular license, provided clearance was provided by the RBI and foreign exchange, as their imports are fully covered by foreign equity.

2. **Rationalisation of Tariff Structure:** On the suggestion of Chelliah Committee, import duty was drastically decreased to set parity in prices of goods produced domestically and internationally. The 1993-94 Budget decreased the maximum rate of duty on all goods from 110% to 85%, except for few goods, which was additionally decreased to 40% in 1998-99 and further to 35% in 2000-01.
3. **Decanalisation:** The latest trade policy targeted at progressive decanalisation. The government decontrolled 116 items permitting their exports without any licensing formalities. Another 29 items were moved to OGL. It also decanalised 16 export items and 20 import items involving new print, non-ferrous metals, natural rubber, intermediate and raw material for fertilizers. But, eight items (petroleum products, fertilisers, etc.) stayed canalised.
4. **Exchange Rate Reforms:** The government devalued the rupee in July 1991, which resulted in depreciation in the value of the rupee against the five main international currencies by approximately 22%. It also made the rupee convertible:
 - (i) **Partial Convertibility of Rupee:** In the Budget of 1992-93, the then finance minister declared Liberalised Exchanged Rate Management Systems (LERMS) under which 40% of the foreign exchange receipts were to be exchanged via the RBI at the official exchange rate and remaining was permitted to be converted at market exchange rate. The official exchange rate was lesser than the market exchange rate.
 - (ii) **Fully Convertible on Current Account:** The rupee was made entirely convertible. Current account convertibility depicts the freedom to purchase or sell foreign exchange for the following international transactions: (a) all payment due in relation with foreign trade, recent business, and usual short-term banking and credit amenities, (b) payment due as interest on loans and as net income from other investments, (c) payments of moderate quantity of amortisation of loans or for depreciation of direct investment, as well as (d) moderate remittances for family living expenses.

5. **Phased Manufacturing Programme:** PMP, as per which organisations were needed to substitute all the imported portions with Indian parts in a stated period, was abolished.
6. **Trading House:** In 1991, the policy permitted export houses and trading houses to import a broad range of items. The government also allowed the setting up of trading houses with 51% foreign equity for the reason of promoting exports. Under the 1992-97 trade policy, export houses and trading houses were offered the advantage of self-certification under the advance license system, which allows duty free imports for exports.
7. **Export Oriented Units (EOUs), Electronic Hardware Technology Parks (EHTP), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs):** The units undertaking to export their whole production of goods and services (excluding permissible sales in Domestic Tariff Area (DTA)), may be establish under the Electronics Hardware Technology Park (EHTP) Scheme, Export Oriented Unit (EOU) Scheme, Software Technology Park (STP) Scheme or Bio-Technology Park (BTP) Scheme for manufacture of goods, involving repair, reconditioning, re-making, reengineering and rendering of services. Trading units are not included under these schemes.

Notes

An EOU/EHTP/STP/BTP unit may import and/or procure, from Domestic Tariff Area (DTA) or bonded warehouses in DTA/international exhibition organised in India, without payment of duty, all kinds of goods, involving capital goods, required for its activities, offered they are not banned items of import in the ITC (HS). Any permission needed for import under any other law shall be applicable to these goods. Units shall also be allowed to import goods including capital goods needed for sanctioned activity, free of cost or on loan/lease from clients. Import of capital goods will be on a self-certification basis.



Notes Goods imported by a unit shall be in actual user condition and shall be utilized for export production. State Trading regime shall not apply to EOU manufacturing units.

EOU/EHTP/STP/BTP units may import/procure from DTA, without payment of duty, certain specified goods for creating a central facility. Software EOU/DTA units may use such facility for export of software.

8. **Free Trade & Warehousing Zones:** The Free Trade & Warehousing Zones (FTWZ) shall be an exclusive category of Special Economic Zones with an emphasis on trading and warehousing. The goal of FTWZ is to create trade-related infrastructure to enable the import and export of goods and services with freedom to conduct trade transactions in free currency. The scheme envisions the creation of world-class infrastructure for warehousing of several products, state-of-the-art equipment, transportation and handling amenities; commercial office-space, water, power, communications as well as connectivity; with one-stop clearance of import and export formality and to help the integrated zones as 'international trading hubs'. These Zones would be set up in the adjacent regions to seaports, airports or dry ports so as to provide easy access by rail and road.
9. **Deemed Exports:** Deemed Exports depict those transactions in which goods supplied do not leave country, and payment for such supplies is gained either in Indian rupees or in free foreign exchange. Below mentioned categories of supply of goods by main/subcontractors shall be considered as "Deemed Exports" under FTP, offered goods are manufactured in India:
 - (i) Supply of goods against Advance Authorisation/Advance Authorisation for annual requirement/DFIA;

Notes

- (ii) Supply of goods to EOU/STP/EHTP/BTP;
- (iii) Supply of capital goods to EPCG Authorisation holders;
- (iv) Supply of goods to projects financed by multilateral or bilateral Agencies/Funds as informed by the Department of Economic Affairs (DEA), MoF under International Competitive Bidding (ICB) consistent with procedures of those Agencies/Funds, where legal agreements provide for tender evaluation without involving customs duty; supply and installation of goods and equipment (single responsibility of turnkey contracts) to projects financed by multilateral or bilateral Agencies/Funds as informed by DEA, MoF under ICB, consistence with procedures of those Agencies/Funds, which bids may have been invited and assessed on the basis of Delivered Duty Paid (DDP) prices for goods manufactured overseas;
- (v) Supply of capital goods, involving goods in unassembled/disassembled condition as well as plants, accessories, machinery, tools, dies and such goods which are utilised for installation purposes till the stage of commercial production, and spares to the degree of 10% of FOR value to fertilizer plants;
- (vi) Supply of goods to any project or purpose with relation to which the MoF, by a notification, allows import of such goods at zero customs duty;
- (vii) Supply of goods to power projects and refineries not included in the point above;
- (viii) Supply of marine freight containers by 100% EOU (Domestic freight containers-manufacturers) offered said containers are exported out of India within six months or such extra period as allowed by customs;
- (ix) Supply to projects financed by UN Agencies.

It is important to note that apart from all these, various concessions and exemptions were issued during the nineties to liberalise imports and promote exports. Liberalisation also permitted FDI in many sectors. Foreign companies are permitted to open branch offices, foreign technology agreements were permitted, and the Foreign Investment Promotion Board (FIPB) was set up to process and give speedy approvals for foreign investment proposals. Automatic approval was permitted for technical collaboration and foreign equity participation till 51% in Indian companies in 34% high priority industries.

In totality, we pursued a policy of globalisation after 1991 as far as foreign trade is involved. This may appear like a threat to the domestic industry, but it only assisted Indian industry. Now, domestic industry has to confront competition at an international level, which only enhances their competitive position. It also permits them to import raw material and machines that enhance the quality of their products and decrease the cost.

You must understand that due to the abolition of Phased Manufacturing Programme (PMP), the domestic industry now doesn't have to go for Indianisation. It decreases their cost and releases the R&D budget for something new rather than investing on that which is accessible in the international market at competitive prices.

Self Assessment

Fill in the blanks:

1. In the of development, India had to import capital equipment, machinery, spare parts, industrial raw material, etc.
2. Till, there was no clear Exim policy and no import restrictions of any kind.

3. At the end of the, export subsidies were reinstated and augmented and import policy became very restrictive and complex.
4. The Free Trade & Warehousing Zones (FTWZ) shall be a special category of with a focus on trading and warehousing.
5. The made major changes in the import licensing system by replacing a large part of administered licensing of imports by import entitlements linked to export earnings.

Notes



Caselet

Economic Trade between Australia and India: A Case Study of Foreign Direct Investment

Australia and India have had few reasons in the past to develop systematic and significant levels of economic engagement. This was due to very different positions they have held in the world-system since the Second World War. De-colonization, the fall of the British Empire, the weak status of the British Commonwealth, and the realpolitik of the Cold War saw India and Australia located on different parts of the geo-political and economic world map with small demographic and cultural flows, and insignificant economic trade. Both countries developed similar economic policy regimes that were essentially state-led nationalist projects of economic development with concomitant policies of import-substitution, local industry-subsidization, highly-regulated financial systems, and high tariffs. The last quarter of the 20th century saw a radical revision of both nations' economic strategies, with Australia moving first to drop many of its trade barriers in the 1970s and '80s. It is now one of the most open economies in the world. India's liberalization programme commenced much later in 1991 but nonetheless has had a dramatic impact on its economic fortunes and growing status in the world economy. With these changes there are increasing opportunities for bilateral trade and a greater economic enmeshment in regional engagements and alignments in the Indian Ocean and in wider Asian fora. One significant indicator of change in growing Australia-India economic engagement is to look at Foreign Direct Investment (hereafter FDI). Currently, the movement of FDI between these two countries is still not very large but has a strong potential to grow over the short to medium term. This paper looks at the future prospect of this growth and asserts that, by engaging in areas of comparative advantage, it will benefit both national economies. Moreover, economic flows are also indicators of great social and cultural traffic. The movement of FDI between the two countries will not only encourage greater flow of peoples, especially outward migration from India to Australia, but also trigger more Australian expatriates living in India (from a very low base). Greater economic trade promises more cultural exchange.

Source: <http://the.sagepub.com/content/105/1/79.abstract>

14.2 Foreign Trade (Development and Regulation) Act

This section emphasises on the foreign trade (development and regulation) act. You will also learn the functions of the director general of foreign trade.

The Act is designed to create and monitor foreign trade by enabling imports into India and augmenting exports from India; and matters linked therewith. The Act is planned to authorise the Central government to frame an Export and Import Policy and alter the policy as per changing conditions. The Act grants the government the authority to execute the policy.

Notes

14.2.1 Director General of Foreign Trade

The Central government employs the Director General of Foreign Trade (DGFT) and other officers such as Deputy Director, Additional Director, Joint Director, Assistant Director, and Export Commissioner, etc.

Powers/Functions of DGFT

Powers and functions of DGFT are:

1. Issuing Importer/Exporter Code Number, and suspending or cancelling the same for contravention of Customs Act, FERA, Central Excise Act, FTDR, etc.
2. Granting suspension or cancellation of licence for import or export.
3. Searching premises as well as inspection and seizure of goods, documents, conveyance, etc.
4. Levying penalty for contravention of Act, rules, or EXIM policy.
5. Limit of powers to several grades of officers such as Additional Director, Dy. Director, etc.; have been prescribed by informed orders under the Act.



Did u know? A person authorised by the government can enter any premises, search and seize goods, documents, things and conveyances. Such search and seizure should be as per provision of the Criminal Procedure Code (Section 10 of FTDR).

Penalty and Adjudication under FTDR

You must keep in mind that penalty up to five times the value of goods can be levied. The contravening goods and conveyance conducting the goods are liable to confiscation. 'Adjudicating Authority' can order penalty and confiscation. Adjudicating and Appellate Authority have the entire powers of the Civil Court for summoning and imposing attendance of witnesses, needing production of documents, or calling for public record from any office or court, receiving proof by affidavits, or issuing Commission for inspection of witnesses and documents [Section 17].

14.2.2 Incentives and Promotions for Export

Indian government backs and endorses exports in the following way:

1. **Export Promotion Capital Goods Scheme (EPCG):** To decrease the price of goods produced for export to contest in the international market, this scheme was launched. Under the EPCG scheme, capital goods imported for manufacture were charged less imports duties subject to an export obligation to be completed over a period of time.

Zero duty EPCG scheme permits import of capital goods for pre-production, production and post-production (involving CKD/SKD, thereof, as well as computer software systems) at Zero Customs duty, subject to an export obligation equal to six times of duty saved on capital goods imported under EPCG scheme, to be achieved in six years calculated from Authorisation issue-date.

The scheme will be accessible for the exporters of engineering and electronic products, apparels and textiles, basic chemicals and pharmaceuticals, plastics, handicrafts, chemicals and allied products, leather and leather products, etc.

Notes

2. **Duty Entitlement Passbook Scheme (DEPB):** This is a scheme accessible for a manufacturer, exporter, Trading House, Export House, Star Trading House and Super Star Trading House. The objective of the scheme was to streamline the import procedures for exporters by offering duty-free access to imported inputs for exporters or manufacturers. The schemes are broader in scope and more flexible than the earlier advances licensing schemes.

Imports utilised for export production were exempted from customs duty as well as from extra duties on imports for an exporter holding Import Export Pass book involving import license. The passbook is useful only to registered manufactured exporters.

The goal of DEPB is to neutralize the incidence of customs duty on import content of export product. Component of customs duty on fuel shall also be factored in the DEPB rate. Component of Special Additional Duty shall also be permitted under DEPB (as brand rate) in instance of non-availment of CENVAT credit. Neutralisation shall be offered by the way of grant of duty credit against export product.

An exporter may apply for credit, at stated percentage of FOB value of exports, made in freely convertible currency. In instance of supply by a DTA unit to a SEZ unit/SEZ Developer/Co-Developer, an exporter may apply for credit for exports made in liberally convertible currency or payment made from foreign currency account of SEZ Unit/SEZ Developer/Co-Developer. Additionally, the exporter shall also be eligible for DEPB benefit in case payment is made in Indian Rupees by SEZ Developer/Co-Developer for supplies received w.e.f. 10.2.2006.
3. **Duty Draw Back System:** The Duty Drawback system compensates exporters for the tariffs paid on the imported materials and intermediates as well as central excise duties paid on domestically produced generated inputs which enter into export production.
4. **Replenishment and Imprest Licenses:** These licenses were offered to the exporter to have an access to otherwise limited material, (even imports) or canalized, that too of good quality, for the motive of exports, or to be utilised as a raw material to produce export goods. The goal of this license is to make sure the availability of qualitative raw material in adequate quantity and at the right time at competitive prices for export growth.

Impress licenses are granted based on export contracts or on past export performance and the material must really be used in exports. REP licenses are granted against actual exports after they have occurred, and to the extent that imported material is not needed. The REP entitlement can be legitimately sold on the open market.
5. **Advance License:** Advance license is issued for the duty-free imports of raw material, consumables, components, intermediates, parts, spares, etc. Advance license may either be quantity-based or value-based.
6. **Tax Benefit:** To encourage exports, government exempts the export profits from tax under 80 HHC provision of the IT Act.
7. **Finance Facility:** Credit facility is made accessible to the exporters for purchase, manufacture and packaging before the shipment, as also post-shipment, credit amenities. Medium and long-term credits are also made accessible for the export of capital equipment. Assistance, in the shape of grants, is offered to the export promotion councils, sanctioned organizations, export houses, consultancy organization and individual exporters to conduct:
 - (i) Market research, commodity research, etc.,
 - (ii) To send trade delegation and teams,
 - (iii) For export publicity and spreading of information,
 - (iv) For setting up of offices and branches in countries abroad,

Notes

- (v) For taking up in trade fairs and exhibitions, or
- (vi) For any other mean which will encourage development of market for Indian goods abroad.

8. **Subsidies on Domestic Raw Material:** In case the domestic price of material utilised for exports is higher than international price, then there was the provision of offering subsidy to the degree of difference of price. This scheme was launched in 1981 in steel and was termed as the 'International Price Reimbursement Schemes' (IPRS), which later involved other imported raw materials like aluminium and copper.
9. **Blanket Exchange Permit Scheme:** Under this scheme, exporters are permitted, barring a few products, to use 5-10% of their foreign exchange earnings for carrying out export promotion activities.
10. **Free Trade Zones and Export Oriented Units:** The government has established free trade zone to give impetus to exports. The goal behind this is that in these zones, capital goods can be imported liberally and there will be minimum red-tapism. These zones are treated separately from Domestic Tariff Area (DTA) and have a right to import all their needs, including capital goods and spare parts and raw material, free of import licensing controls and import duties. The initial EPZ was set up in Kandla. Now, India has eleven operating SEZs of which seven are set up by the centre and four are encouraged by the private/joint stake—Kandla, Cochin, Chennai, Surat, Santa Cruz, Indore, Falta, Vishakhapatnam, Noida, Salt Lake (Calcutta) and Jaipur. Approval has already been offered for 35 new SEZs in private/state sector.

The SEZ bill was submitted in parliament in May, 2005, which proposed for the units in SEZ:

- (i) A 15 year tax holiday,
- (ii) Single window clearance,
- (iii) 100% tax exemption for five years,
- (iv) 50% for subsequent five years, and
- (v) 50% of the ploughed back export for subsequent five years.

The goals of setting up Export-oriented Units are to offer free access to imports of all inputs for such export-oriented units and to develop a single point clearance with relation to industrial licensing and foreign collaboration.

11. **Infrastructure Set-Up and Aids:**
 - (i) **Export Promotion Council:** A number of export promotion councils have been established with a view to help the promotion of exports of particular commodities or groups of products. Few of them are such as Apparel Export Promotion Council, Engineering Export Promotion Council, Cashew Export Promotion Council, Cotton Textile Export Promotion Council, Sports' Good Export Promotion Council, etc.
 - (ii) **Commodity Board:** The government has established an Eight-commodity Board to frame the policies in order to enhance the production and export of respective commodities. These boards are – Coffee, Tea, Spices, Marine Products, Rubber, Tobacco, Agriculture and Processed Food Export Development Authority.
12. **Target Plus:** This scheme has been launched to acquire growth in exports. According to this scheme, exporters who will acquire a substantial greater growth than that of general export target will become duty-free credit based on their performance. For a growth of more than 20%, duty-free credit will be 5%, for 25% it will be 10% and for 100% it will be 15%, respectively of FOB worth of incremental exports.

Notes

To give motivation to trading in India, a scheme is launched to establish Free trades and Warehousing Zones. These zones will have suitable infrastructure to support the import and export of goods and services. Foreign direct investment would be allowed up to 100% in the development and establishment of these zones and their infrastructure amenities.

It is important for you to note that the Foreign Trade Policy 2009-2014 offered exclusive emphasis to agriculture, gems and jewellery, handicraft, handlooms, and footwear. To encourage this, it liberalised the imports of tubers, seeds, bulbs, and planting material and also the export of plant portion, derivatives, and its extracts. Export of medicinal plants and herbal products are likely to get a boost in the process. For the same purpose, it also permitted imports of restricted items. Export-oriented units involved in production or processing of agro, horticulture and aquaculture products are permitted to move inputs and equipment to farms situated in domestic tariff area. To promote handloom and handicraft, the duty-free import of trimmings and embellishments in such sectors have been enhanced to 5% of FOB value of exports. It will be also excused from countervailing duty. Provision was also made for the setup of a new Handicraft Special Zones.

13. **Vishesh Krishi Upaj Yojna:** The goal of this Yojna is to encourage the exports of flowers, fruits, vegetables, minor forest produce and their value-added products. Exporters of such products will attain duty free credit.
14. **Town of Export Excellence:** The limit to turn into the Town of Export Excellence have been decreased to ₹ 250 crore from ₹ 1000 crore. FTP gave various benefits to become the Town of Export Excellence. It involves exemption from service tax in proportion to their exported goods and services and permission to keep 100% earnings in exchange earner's foreign currency account.
15. **Served from India:** To facilitate the exporter of several kinds of services, the government of India has launched 'Served from India Scheme' as a brand. Under this scheme, service providers of over 100 services like Computer-related services, Professional Services, Hotels, Restaurants, Educational Services, Research and Development Services, Communication Services, Construction and associated Engineering Services, Distribution Service, Tourism and Transport-related Services, Environment-related Services, Health-related Social Service, Recreational, Cultural and Sporting Services, etc., are titled for Duty Credit Scrip. Service providers with a total foreign exchange earning of minimum ₹ 10 lakhs in preceding or recent financial year shall qualify for the Duty Credit Scrip. For Individual Service Providers, the criterion is decreased to ₹ 5 lakhs of foreign exchange earnings.
16. **Service Export Promotion Council:** In order to offer proper direction, guidance and encouragement to the Services Sector, this exclusive council was established by the government of India. Its main goals were to tap the opportunities in key service regions and develop strategic market access programmes, involving brand building in coordination with sectoral players and identified nodal bodies of the services industry.
17. **Common Facility Centre:** The Common Facility Centres shall be encouraged by the government for use by the home-based service providers, particularly in the regions such as engineering and architectural design, software developers, multimedia operations, etc., at the state and district levels, to draw-in a huge multitude of home-based professionals into the service-export area.
18. **Duty Exemption & Remission Scheme:** Duty Exemption Schemes facilitate duty-free import of inputs needed for export production. Duty Exemption Schemes comprise:
 - (i) Advance Authorisation Scheme, and
 - (ii) Duty Free Import Authorisation (DFIA) Scheme.

Notes

A Duty Remission Scheme facilitates post-export replenishment/remission of duty on inputs utilised in export product. Duty Remission Schemes comprise

- (i) Duty Entitlement Passbook (DEPB) Scheme, and
- (ii) Duty Drawback (DBK) Scheme.

Advance Authorisation Scheme

You must understand that an Advance Authorisation is issued to permit duty-free import of inputs, which are physically included in export product (making normal allowance for wastage). Additionally, fuel, oil, energy, catalysts which are consumed/used to attain export product, may also be permitted. DGFT, by means of Public Notice, may omit any product(s) from the purview of Advance Authorisation. Advance Authorisations are exempted from payment of additional customs duty, basic customs duty, education cess, anti-dumping duty and safeguard duty, if any.

Duty Free Import Authorisation (DFIA) Scheme

DFIA is issued to permit duty free import of inputs, fuel, oil, energy sources, catalysts which are needed for the production of export products. DGFT, by means of Public Notice, may omit any product(s) from the purview of DFIA.

Duty Entitlement Passbook Scheme (DEPB)

The goal of DEPB is to counteract the incidence of customs duty on import content of export product. Component of customs duty on fuel (seeming as consumable in the SION) shall also be factored in the DEPB rate. Components of Special Additional Duty shall also be permitted under DEPB (as brand rate) in instance of non-availment of CENVAT credit. Neutralisation shall be offered by the way of issue of duty credit against export product.

14.2.3 Foreign Trade Policy 2009-2014

It is important to note the highlights of the foreign trade policy that are as below:

Higher Support for Market and Product Diversification

1. Incentive schemes have been extended by adding new products and markets.
2. Twenty Six new markets have been added under Focus Market Scheme. These involve 16 new markets in Latin America and 10 in Asia-Oceania.
3. The incentive accessible under Focus Market Scheme (FMS) has been increased from 2.5% to 3%.
4. The incentive accessible under Focus Product Scheme (FPS) has been raised from 1.25% to 2%.
5. A great number of products from various sectors have been involved for benefits under FPS. These involve—Engineering products (agricultural machinery, sewing machines, hand tools, parts of trailers, garden tools, clocks and watches, musical instruments, railway locomotives, etc.), Plastic (value-added products), Jute and Sisal products, Technical Textiles, Green Technology products (wind turbines, wind mills, electric operated vehicles, etc.), Project goods, Vegetable textiles and definite Electronic items.

Notes

6. Market-linked Focus Product Scheme (MLFPS) has been highly expanded by inclusion of products classified under as many as 153 ITC (HS) Codes at 4 digit level. Few main products include—Value-added rubber products, Pharmaceuticals, Synthetic textile fabrics, Value-added plastic goods, textile made-ups, knitted and crocheted fabrics, glass products, definite iron and steel products and definite articles of aluminium among others. Advantages to these products will be offered, if exports are made to 13 recognised markets (Algeria, Egypt, Kenya, Tanzania, Nigeria, South Africa, Brazil, Mexico, Vietnam, Ukraine, Cambodia, Australia and New Zealand).
7. MLFPS benefits also extended for export to extra new markets for certain products. These products involve auto-components, bicycle and its parts, motor cars, and apparels among others.
8. A common simplified application form has been launched for taking advantages under MLFPS, FPS, FMS, and VKGUY.

EPCG Scheme Relaxations

1. To enhance the life of prevailing plant and machinery, export obligation on import of spares, moulds, etc., under EPCG Scheme has been decreased to 50% of the normal specific export obligation.
2. Taking into consideration the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a specific financial year in which there is decrease in exports from the country, has been expanded for the Five year Policy period 2009-14.

Stability/Continuity of the Foreign Trade Policy

1. Income Tax exemption to 100% EOUs and to STPI units under Sections 10B and 10A of Income Tax Act has been expanded for the financial year 2010-11 in the Budget 2009-10.
2. Fisheries have been involved in the sectors which are exempted from maintenance of average EO under EPCG Scheme, subject to the circumstance that Fishing Trawlers, boats, ships and other similar items shall not be permitted to be imported under this provision. This would offer a fillip to the marine sector which has been influenced by the current downturn in exports.
3. Extra flexibility under Target plus Scheme (TPS)/Duty-Free Certificate of Entitlement (DFCE) Scheme for Status Holders has been offered to the Marine sector.



Notes The Hon'ble Union Commerce & Industry Minister Mr Anand Sharma announced the new Foreign Trade Policy 2009–2014 in New Delhi on 27th August, 2009. Mr Jyothiraditya Madhavrao Scindia, Minister of State for Commerce; Dr Rahul Khullar, Commerce Secretary, Ministry of Commerce & Industry and other dignitaries were present on the occasion.

Gems and Jewellery Sector

1. In an effort to make India a diamond international trading hub, it is arranged to set up a 'Diamond Bourse(s)'.
2. A new facility to permit import on consignment basis of cut and polished diamonds for the motive of grading/certification has been launched.

Notes

3. To encourage the export of Gems and Jewellery products, the value limits of personal carriage have been raised from US\$ 2 million to US\$ 5 million in instance of participation in overseas exhibitions. The limit in instance of personal carriage, as samples, for export promotion tours, has also been raised from US\$ 0.1 million to US\$ 1 million.

Agriculture Sector

1. To decrease transaction and handling costs, a single window system to enable the export of perishable agricultural produce has been launched. The system will include creation of multi-functional nodal agencies to be recognized by APEDA.

Leather Sector

1. Leather sector shall be permitted re-export of unsold imported raw hides and skins and semi-finished leather from public bonded warehouses, dependent on payment of 50% of the applicable export duty.
2. Enhancement of FPS rate to 2% would also vitally benefit the leather sector.

Tea

1. Minimum value addition under Advance Authorisation Scheme for export of tea has been decreased from the prevailing 100% to 50%.
2. DTA sale limit of immediate tea by EOU units has been enhanced from the prevailing 30% to 50%.
3. Export of tea has been included under VKGUY Scheme benefits.

Pharmaceutical Sector

1. Export Obligation Period for Advance Authorization published with 6-APA as input has been increased from the prevailing six months to 36 months, as is accessible for other products.
2. Pharma sector has been widely covered under MLFPS for countries in Africa and Latin America and for few countries in Oceania and Far East.

EOUs

1. EOUs have been permitted to sell products manufactured by them in DTA up to a limit of 90% instead of existing 75%, without altering the criteria of 'similar goods', inside the total entitlement of 50% for DTA sale.
2. To offer clarity to the customs field formations, DOR shall issue a clarification to facilitate the procurement of spares outside 5% by granite sector EOUs.
3. EOUs will now be permitted to procure finished goods for consolidation along with their manufactured goods, subject to specific safeguards.
4. EOUs will now be permitted CENVAT Credit facility for the component of SAD and Education Cess on DTA sale.

Simplification of Procedures

1. To enable duty-free import of samples by exporters, number of samples/pieces has been enhanced from the prevailing 15 to 50. Customs clearance of such samples shall be based

on declarations provided by the importers with respect to the restriction of value and quantity of samples.

Notes

2. To permit exemption for up to two stages from payment of excise duty in place of refund, in case of supply to an Advance Authorisation holder (as opposed to invalidation letter) by the domestic intermediate manufacturer. It would permit exemption for supplies made to a manufacturer, in case such manufacturer, in turn, supplies the products to a final exporter. At present, exemption is permitted up to one stage only.
3. Greater flexibility has been allowed to permit conversion of Shipping Bills from one Export Promotion Scheme to other scheme. Customs shall now allow this conversion within three months, rather than the present limited period of only one month.
4. To decrease transaction costs, dispatch of imported goods straight away from the Port to the site has been permitted under Advance Authorisation scheme for deemed supplies. Currently, the duty-free imported goods could be taken only to the manufacturing unit of the authorisation holder or its supporting manufacturer.
5. Regional Authorities have now been sanctioned to issue licences for the import of sports' weapons by 'renowned shooters', based on NOC from the Ministry of Sports & Youth Affairs. At present there will be no requirement to approach DGFT (Hqrs.) in such cases.
6. Automobile industry, having their own R&D establishment, would be permitted free import of reference fuels (petrol and diesel), up to a maximum of 5 KL per annum, which are not generated in India.

Directorate of Trade Remedy Measures

1. To facilitate support to Indian industry and exporters, particularly the MSMEs, in availing their rights via trade remedy instruments, a Directorate of Trade Remedy Measures shall be established.



Task

Prepare a presentation on the Foreign Trade Policy and its implications.

Self Assessment

Fill in the blanks:

6. To reduce, dispatch of imported goods directly from the Port to the site has been allowed under Advance Authorisation scheme for deemed supplies.
7. has been covered under VKGUY Scheme benefits.
8. The objective of is to neutralize the incidence of customs duty on import content of export product.
9. Component of on fuel (appearing as consumable in the SION) shall also be factored in the DEPB rate.
10. To facilitate duty-free import of samples by exporters, number of samples/pieces has been increased from the existing
11. A number of have been set up with a view to assist the promotion of exports of specific commodities or groups of products.
12. The government has set up an to formulate the policies in order to increase the production and export of respective commodities.

Notes



Case Study

Winning through Technology: A Case of Advik Hi-Tech Pvt. Ltd.

Aditya Bhartiya was 23 (2000), when he joined his father's business. He found that his parental business is not exciting enough. So he set up a unit to manufacture tensioners for two-wheelers. A gadget that keeps the vehicle's timing chain taut, this was till then being imported. The technology had just shifted from two-stroke to four stroke engines and a lot of products had to be imported from Japan at a high cost. Bhartiya offered a replacement of these imports at a fraction of the price.

Technology was an entry barrier so Bhartiya's Advik Hi Tech Pvt. Ltd. tied up with Sunworld Industrial Co. of Taiwan for help in designing, developing, and testing in initial batch of tensioners. Sunworld also helped Advik in establishing research and development centre. By 2010, Advik has better technology than Sunworld.

Advik's first customer was Bajaj Auto which gave the fledgling company its first order for tensioners in 2000. As the year went by, it continued to be a regular buyer beginning to buy decompression units for its four-stroke, three wheeler engines in 2001, then fuel cocks and oil pumps in 2003.

In 2003 Honda Motorcycle and Scooter India became the second customer of the Advik. Soon they went on to export to PT Astra Honda Motor in Indonesia. Advik's every component has been tested and approved by Honda's R&D headquarters in Japan and has been rated high on all five factors of quality, cost, delivery, development capability and management. More customers kept coming on board along the way: Suzuki Motorcycle, Yamaha, Kawasaki, LML, Lombardini, Mahindra Two Wheelers, Force Motors, Greaves Cotton, Ducati Motor Holding, Motori Minarelli and Piaggio.

In November 2009, Advik entered into technical collaboration with Trochocentric GmbH to launch its foray into components for four wheelers. The two have established a new company Advik Precision Pvt. Ltd. for which a ₹ 325 crore plant is being set up close to Advik HI-Tech's existing Pune Facility. It will manufacture Oil Pumps, water pumps and hydraulic tensioners for cars. Bhartiya expects that in next 5-10 years, the small car will go the two wheeler way. "Tie up will give us access to the cutting-edge technologies of a global market leader with 30 years of experience and expertise in Oil Pumps," Bhartiya says. And the advantage is that the German Company is an R&D house not a manufacturer - so there will be no market restrictions for Advik, only access to customers like Volkswagen and Mercedes.

With the Indian auto component industry having reached an estimated size of ₹ 68,000 crore in 2006-07 and growing at a compounded annual growth rate of 28.9%, Advik looks set to keep racing along especially with plans for two more plants at Manesar and Pantnagar. By 2015, Bhartiya is looking at running a ₹ 500 crore group with an equal split in business between two and four wheelers.

Questions

1. Discuss the role of technology in the growth of Advik Hi Tech.
2. Analyse the case in your own words.

Source: Business Environment, Dr Vivek Mittal, Excel Books

14.3 Summary

Notes

- The long-term vision of the Department of Commerce is to make India a major player in world trade by 2020, and assume a role of leadership in the international trade organizations commensurate with India's growing economic and demographic profile.
- In consonance with its vision of ensuring sustained accelerated growth of exports and making India a major player of world trade, the Government announces a Foreign Trade Policy (FTP) every five years.
- FTP is annually reviewed to incorporate changes necessary to take care of emerging economic scenarios both domestically and globally.
- The FTP 2009-14, was updated on June, 2012.
- The salient features of this focussed on reducing interest burden and extension of the Interest Subvention Scheme up to 31st March, 2013, focus on labour intensive sectors such as Toys, Sports Goods, Processed Agricultural Products and Ready Made Garments.

14.4 Keywords

Canalisation: Erstwhile import of certain commodities was allowed only through specific government agency. This is called canalisation, where the import of these goods is canalised through government agency.

Decanalisation: Removal of canalisation system.

Import Substitution: It means decreasing the dependability on imports i.e. is to produce goods that we import. It was a policy followed by India after independence.

Liberalized Exchanged Rate Management Systems (LERMS): It is a system under which 40% of the foreign exchange receipts were to be exchanged through RBI at the official exchange rate and rest is allowed to be converted at market exchange rate.

OGL (Open General License): Items included in the list of OGL can be imported easily without much government restriction.

14.5 Review Questions

1. Discuss the role of Foreign Trade Policy in Indian economy.
2. Explain the New Trade Policy (1991) and discuss how it is different from earlier policies.
3. "Indian Government supports and promotes the exports". Discuss this statement and explain various incentives and promotions schemes for exports.
4. Explain the Foreign Trade Policy 2009-2014 in detail.
5. Describe the EXIM policy of India.
6. Explain the import policy prior to 1991.

Answers: Self Assessment

- | | |
|------------------------------|---------------------------|
| 1. Initial phases | 2. 1950-56 |
| 3. Sixties and mid seventies | 4. Special Economic Zones |
| 5. New trade policy | 6. Transaction costs |

Notes

- | | |
|-------------------------------|---------------------------|
| 7. Export of tea | 8. DEPB |
| 9. Customs duty | 10. 15 to 50 |
| 11. Export promotion councils | 12. Eight-commodity Board |

14.6 Further Readings



Books

Giovanni Dosi, Keith Pavitt, and Luc Soete. (1988) *The Economics of Technical Change and International Trade*. Brighton: Wheatsheaf.

MacDougall, G.D.A. (1952) "British and American Exports: A Study Suggested by the Theory of Comparative Costs." *Economic Journal* 61 September 1952) pp.487-521.

Mill, John Stuart (1917) *Principles of Political Economy*. London: Longmans Green.

Ricardo, David (1963) *The Principles of Political Economy and Taxation*. Homewood Illinois: Irwin, 1963



Online links

<http://dgft.gov.in/exim/2000/Highlights1314E.pdf>

<http://www.eximguru.com/exim/dgft/exim-policy/2013-2014/default.aspx>

http://commerce.nic.in/trade/national_ftpp.asp

http://www.gjepc.org/trade_information/government_policy_handbook

http://www.fieo.org/view_section.php?id=0,30,155,633