SELF LEARNING MATERIAL

INDIAN ECONOMY

COURSE CODE : M23EC03DC

POST GRADUATE PROGRAMME IN ECONOMICS

SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

SREENARAYANAGURU OPEN UNIVERSITY

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To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

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Indian Economy

Course Code: M23EC03DC

Semester - I

Discipline Core Course
Master of Arts Economics
Self Learning Material

(With Model Question Paper Sets)

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I greet all of you with deep delight and great excitement. I welcome you to the Sreenarayanaguru Open University.

Sreenarayanaguru Open University was established in September 2020 as a state initiative for fostering higher education in open and distance mode. We shaped our dreams through a pathway defined by a dictum 'access and quality define equity'. It provides all reasons to us for the celebration of quality in the process of education. I am overwhelmed to let you know that we have resolved not to become ourselves a reason or cause a reason for the dissemination of inferior education. It sets the pace as well as the destination. The name of the University centres around the aura of Sreenarayanaguru, the great renaissance thinker of modern India. His name is a reminder for us to ensure quality in the delivery of all academic endeavours.

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Feel free to write to us about anything that you feel relevant regarding the academic programme.

Wish you the best.

Regards,
Dr. P. M. Mubarak Pasha

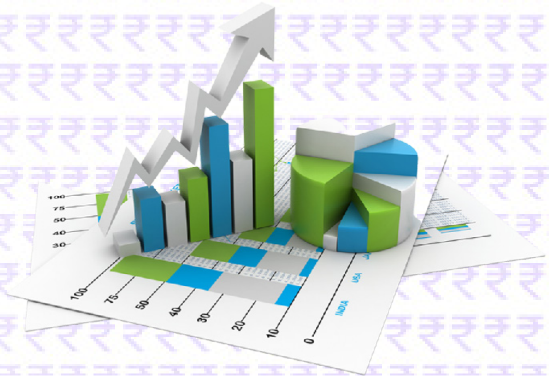
01.01.2024

CONTENTS

MASTER OF ARTS ECONOMICS

Introduction to Indian Economy

Block 1



UNIT 1
Indian Economy During the British Period

Learning Outcomes

After completing this unit, learner will be able to:

- understand the extent of colonialism and resource exploitation during the British period
- assess the colonial impact on Indian agriculture
- explore the challenges faced by traditional industries in India during the colonial era
- recognise the reasons behind the decline of trade under British rule

Background

Mercantilism was a system in which trade was regarded as the engine of growth. It was based on the idea that a nation's wealth was determined by its stock of precious metals like gold and silver. Mercantilist nations tried to achieve a positive balance of trade, where export was greater than import. Some mercantile European countries like England, France, Spain, Germany, and Italy traded with each other and with their colonies in order to import raw materials, and export finished goods. The British arrived in India in the late 16th century. They first came to India as small trading companies, and at that time, they were not interested in acquiring political power but gradually expanded their presence inland. They took advantage of the decline of the Mughal Empire to establish political control over India. In 1858, the British Crown took direct control of India from the East India Company. The British East India Company played a major role in mercantilism, which was granted a monopoly on trade with India by the British Crown. The Company exported spices, textiles, and tea to Britain and imported cloth and metal products to India.

British rule in India was characterised by political and economic exploitation. They imposed several economic policies that benefited Britain at the expense of India. Most of the important industries in India, like railways, mining, and textiles, were owned and controlled by the British. This gave the British the power to set prices and wages in India. With such policies, the British were able to extract huge profits from India. The British exploitation of India had a destructive effect on the Indian economy. The British drained India's wealth to finance their own industrial revolution. British also ruined Indian industries and handicrafts. This led to widespread poverty and unemployment in India.

Keywords

Colonialism, Zamindari, Ryotwari, Mahalwari, Drain of wealth, GDP

Discussion

1.1.1 Indian Economy during the British Period

- British exploitation

Angus Maddison, a famous historian in his magnum opus 'Contours of the World Economy, 1-2030 AD' wrote: "India's share of world GDP was 24.4% in 1700, before British rule but fell to 4.2% by 1950". The British connection with India started in 1600 with the creation of the East India Company. Initially, the company had the aim of finding raw materials for their factories and searching the market for their finished manufactured goods. But gradually, the company moved ahead to acquire both administrative and political power. The company brought precious metals like gold and silver and, in return, exported silk, cotton cloths, spices, and saltpetre from India, which had huge demand across the world. Through this, the trading company earned a good profit and shared it with Indian manufacturers who helped for the company's interest.

The Battle of Plassey was a milestone under colonial rule in India. The Battle of Plassey was between the East India Company (EIC) force led by Robert Clive and the army of Siraj-ud-Daulah, the Nawab of Bengal. The conflict arose due to the East India Company's perceived abuse of the trade privileges granted to it by Nawab. It denotes the victory of British East India Company over Nawab of Bengal, and it paved

- British rule in India

the way for British entry into India. After that, the company acquired political and economic power in Bengal province, which was detrimental to revenue collection and authoritative trade policy. This had a long-term effect on Indian farmers and traders, and this period was characterised as a period of direct plunder of East India Company in the form of trade, exploitative land revenue policies, and corruption.

- British power after the Sepoy Mutiny

In the aftermath of the sepoy mutiny of 1857, also known as the First War of Indian Independence, the British government took control of India. This resulted in the end of the rule of the East India Company in India. The Sepoy Mutiny marked a significant increase in the British military presence in India. The British population in India swelled to 168,000 by 1931 from a mere 31,000 in 1805. This inflow of British personnel reinforced the colonial hierarchy, with the upper grades of administration almost exclusively reserved for Britishers. The Indian Civil Services Examination was conducted solely in the United Kingdom, which further fixed the British dominance.

- Resource drain

This era of colonial rule witnessed the exploitation of India's resources, driven by industrial and financial capital. Agriculture was transformed into a commercial enterprise, while the import of manufactured goods from England increased. The plantation sector and railways experienced substantial investments, further strengthening British economic control over India. The British exploitation of different sectors of the Indian economy can be summarised below.

1.1.1.1 Impact of British Rule on Indian Agriculture

- Transformation of agriculture

Before the advent of the British, traditional methods of farming technology and irrigation facilities were used in India, and agriculture in the Villages was self-sufficient and independent. Until the late seventeenth century, cash crops like high-quality cotton, along with wheat, rice, maize, millet, and tobacco, were the primary produce in India. But from the eighteenth century onwards, the British introduced commercialisation of agriculture and land revenue policies. As a result of this, India's per-head agricultural output decreased, which was insufficient to meet the basic needs of our population. Through the commercialisation of agriculture and land revenue policies, the British transformed the structure of Indian agriculture. Let us discuss these below.

Land Revenue policy

- Emergence of intermediaries

The British first came to India as a small trading company. At that time, they were not interested in acquiring territories. But over time, they started to acquire territories in India. To acquire territories, they need money and connections. They also need money to pursue trade and run the administration. With this end in mind, they introduced different land revenue experiments. The first among them was **Permanent Settlement.** It was introduced by Lord Cornwallis in 1793 in Bengal and Bihar. Under this, Zamindars owned the land and had the right to collect land revenue from the peasants. The zamindars acted as an intermediary between the Government and peasants. Through this, the British created a class of people whose interests were directly tied to British rule in India. The government gave freedom to the zamindars to raise the rent. The result was that they tried to exploit the tenants and sometimes joined with dominant tenants to control weaker ones.

- Settlement with the village headman

In 1822, the **Mahalwari system** was introduced by Lord William Bentick. It was introduced in the north-western frontiers, Punjab, central provinces, Ganga Valley, and some parts of central India. The Government fixed the revenue for a limited period of thirty years in some places and twenty years in some other places. Under this system, the land was divided into mahals comprising one or more villages, and it was the duty of the village headman to collect the land revenue and submit it to the government.

- Settlement with peasant cultivators

At the beginning of the nineteenth century, the **Ryotwari system** was introduced in many parts of Madras and Bombay. In this system, the peasants, or cultivators, were considered the rightful owners of the land. They possessed complete ownership rights, allowing them to sell, mortgage, or gift the land. The government levied taxes directly on the peasants, with rates varying from 50% for drylands to 60% for wetlands. The arrangements where cultivators received proprietorship were known as ryotwari. The Ryotwari system, as against Zamindari, creates direct contact between the peasant cultivator and the State

In the Zamindari areas, it was the responsibility of the Zamindars to make investments in agriculture. In contrast, in the ryotwari areas, the government implicitly assumed the responsibility. The new zamindars had increased power but were not interested in new investments. They resorted to land grabbing and sub-infeudation (the granting of land by a lord to another man who became his tenant). The tenants also neither had resources nor any incentive to invest in agriculture. Meanwhile, the government spent little on agriculture and technology. The sub-infeudation of land also led to the fragmentation of land. As a result of all these, the implementation of modern technology became difficult in agriculture and also caused a low level of agricultural output in India.

- Stagnation and deterioration of agriculture

The commercialisation of Indian agriculture

Commercialisation of agriculture means the transformation of Indian agriculture from the production of food grains to the production of cash crops. During the period of British rule, agriculture began to be influenced by commercial considerations. It was mainly due to several factors. The expansion of India's rail and road network facilitated efficient transportation of surplus crops from areas of abundance to areas of demand. Additionally, the development of port infrastructure enabled the export of agricultural produce to international markets. The opening of the Suez Canal in 1869 revolutionised maritime trade by significantly reducing travel time and distance between London and India. The American Civil War, which disrupted the supply of cotton to British industries, created an opportunity for Indian cotton growers to meet the increased global demand. Furthermore, the introduction of money as a medium of exchange replaced the barter system, which facilitated trade, rent collection, and tax remittance and enabled a more market-driven agricultural economy.

- Shift from food crops to cash crops

Commercialisation of agriculture leads to specialisation and regionalisation of crop production in India. Certain crops became associated with specific regions, such as sugarcane in the Deccan, jute in Bengal, wheat in the Punjab, and cotton in the Berar province. British Government encouraged the cultivation of a wide range of commercial crops, including tea, coffee, indigo, opium, cotton, jute, sugarcane, and oilseeds, each with distinct motives. For instance, the British tightly controlled the opium market, utilising Indian opium to offset Britain's trade deficit with China in tea imports. This arrangement limited Indian producers' opportunities for profit. Indian farmers were compelled to dedicate a portion

- Regional specialisation of crop production of their land, specifically 15%, to indigo cultivation, which was primarily exported to England for use as a textile dye. Indigo cultivation depleted soil fertility for several years, discouraging farmers from continuing its production. Over time, the decline in food grain production contributed to the frequent occurrence of famines.

1.1.1.2 Impact of British Rule on Industry

Deindustrialisation

- The manufacturing share of India declined

India's manufacturing share declined significantly from the mid-18th to the late 19th century. In 1750, India had a share of 24.5% of global manufacturing output, but this figure steadily declined to 17.6% by 1830. By 1880, India's manufacturing share fell to a mere 2.8% of global manufacturing output. It is known as the deindustrialisation of the Indian economy. According to Clingingsmith and Williamson, India's deindustrialisation period can be divided into two, each marked by unique underlying causes. The first phase was from approximately 1760 to 1810, primarily driven by adverse climatic conditions and the disintegration of the Mughal Empire. These factors combined diminish agricultural productivity, increase crop prices, and raise nominal wages for Indian textile workers. This rendered Indian textiles less competitive in the global market, particularly against British producers.

- Deindustrialisation driven by the industrial and transportation revolution

The second phase of deindustrialisation was spanning from 1810 to 1860. During this period, the Industrial Revolution propelled advancements in productivity through the adoption of the factory system, resulting in a significant reduction in the comparative prices of British textiles. The revolution in transportation via the introduction of the railway further lowered the costs of European textile imports, causing a gradual decline in India's handloom weaving industry. By 1860, India had transitioned from a net exporter to a net importer of textiles. The deindustrialisation trajectory of India reached its end by the late 19th century with diminished manufacturing ability and a transition to a textile-importing nation.

Impact on Traditional Industries and Crafts

Britain imposed restrictions on Indian exports to Western European nations. At the same time, favours were granted to British exporters. With the spread of Western education, a new class of people grew in India. They imitate the Western people in dress, fashion, and manner. The adoption of the Western style by Indians caused low demand for traditional Indian products. During the reign of princely states in India, nawabs, rajas, and princes exhibited substantial demand for Indian handicrafts, leading to the international acclaim of these products. But, under British rule, the power of princely states was destroyed, which resulted in the decline of protection for traditional industries. The decline of local royal patronage, once a cornerstone of traditional handicrafts and artisanal production, ruined the demand for these goods. The British, driven by a mercantilist agenda, sought to transform India into a captive market for their manufactured goods. This strategy led to the systematic dismantling of India's domestic industries, particularly in textiles, metalwork, glass, and paper production. By 1813, the once-thriving handicraft industry had lost its place in both domestic and international markets. The Indian handicraft industry faced tight competition of cheap, machine-made imports from Britain.

- Ruin of artisans

The period 1850-1855 saw the establishment of the first cotton mill, jute mill, and coal mine. The first railway line was also laid in India in the same period. By the last quarter of the 19th century, 51 cotton mills and 18 jute mills had been established in India. Inspite of the rapid increase in industrialisation, India was gradually converted into an agricultural colony of Britain. In 1900, India became a great exporter of cotton, jute, wheat, rice, oilseeds, and tea. Besides, much of the business developed in India was related either to the Government or connected in some way with Britain. Though Britain started industrialisation in the 19th century, the Britishers were more interested in their profit and not in accelerating the economic growth of India.

- Industrial transition

1.1.1.3 Impact on Foreign Trade

Britain aims to divert India's trade volume for its benefit. For this, they cut out Indian trade relations with the rest of the world through restrictive trade policies like tariffs. Much of our trade was restricted to Britain and converted India as an exporter of raw materials like cotton, wool, indigo and an importer of finished manufactured goods like Woolen cloth, silk, and light machinery. Britain allowed India to maintain trade relations with some countries like China, Persia (Iran), and Ceylon (Sri Lanka), while Britain strictly monitored these trade relations. There was a large trade surplus for Britain because most of the Indian resources were being

- Changed the pattern of foreign trade

used to produce items that were exported. This trade surplus was used to build offices in Britain and to meet war expenses. As a result of these policies, India's foreign trade eventually declined.

- Decline in trade share

India's share of foreign trade was reduced to 4%, which was around 20% of the world trade in the pre-British period. India enjoyed a worldwide demand for its manufactured goods before the intervention of the British. Indian products like stones, marble work, and jewellery made of gold and silver, along with cinnamon, pepper, indigo, and opium, constituted a major proportion of exports from India and enjoyed a considerable trade share in the world economy. However, during British rule, the situation changed and destroyed India's trade position. During the late eighteenth century, Bombay, Calcutta, and Madras became the centres of British power, and at the same time, many towns that were manufacturing specialised goods declined due to a fall in the demand for what they produced. The rise of new administrative centres like Bombay, Calcutta, and Madras led to the decline of the old trading centres due to the shift of trade flow to new centres.

1.1.2 Drain Theory

- Economic drain

One of the impacts of British policies in India was the drain of resources from the country. The Indian nationalists vehemently criticised the British rule in India for the massive drain of wealth from this country to England. Dadabhai Naoroji, Romesh Dutt, M.G. Ranade, Lala Lajpat Rai, and William Digby wrote deeply on the British drain of wealth from India. In their opinion, the drain of wealth was the major cause of increasing poverty in India during British rule. Dadabhai Naoroji, known as the 'Grand Old Man of India', was a prominent economic analyst who wrote against British rule at that time. He put forward the 'economic drain theory' in his book 'Poverty and un-British Rule in India in 1871. In his book, Dadabhai Naoroji highlighted the outflow of wealth and capital from the country, which commenced post-1757 and contributed to the lack of development in India.

Dadabhai Naoroji argued that home charges and interest payments were a form of economic exploitation that drained India's wealth. The wealth from India was used to give salaries and pensions to the employees of England who were working for India. It was known as home charges. Before 1857, these home charges varied from ten to twenty percent of India's average revenue. After the Mutiny in 1857, the proportion rose to 24 percent, and it further increased to 40% of the total revenue from India. The major components of this drain were salaries, pensions of military and civil officials, interest on loans taken by the Indian government from abroad, banking and insurance services, and profit on foreign investment in India. This stopped the growth of these sections, and poverty was visible throughout the country, while the same portion of wealth boosted the growth of the British economy.

- Home charges

Based on Naoroji's estimates, Britain extracted around £50 crore of wealth from India to England between 1835 and 1872. C.N Vakil has also estimated the drain, and in his opinion, the total drain from 1834 to 1939 amounted to £ 85 crore. William Digby, a leading authority on the colonial exploitation of India under British rule, estimated the drain between the period of the battle of Plassey and Waterloo. In his estimation, wealth worth £ 50 crore to £100 crore was appropriated from India by Britain. K. T. Shah and K.J. Khambata presented estimates of the drain in the early decades of the 20th century. In their opinion, Britain appropriated annually around ten percent of India's Gross National Income.

- Outflow of wealth

1.1.3 Sectoral Composition of GDP

According to British economist Angus Maddison, India's contribution to the global economy declined from 24.4% in 1700 to 4.2% in 1950. India's share of global industrial output also fell from 25% in 1750 to 2% in 1900. Meanwhile, the United Kingdom's share of the global economy rose from 2.9% in 1700 to 9% in 1870, and Britain replaced India as the world's largest textile manufacturer in the 19th century. Historian Shireen Moosvi estimates that Mughal India's per capita income was 1.24% higher in the late 16th century than British India's in the early 20th century, and the secondary sector contributed a higher percentage to the Mughal Empire's economy (18.2%) than it did to early 20th-century British India's economy (11.2%).

- Falling GDP per capita

Modern economic historians argue that British rule stunted India's economic growth, as investment in Indian industries was limited. Under British rule, India experienced a deindustrialisation process, with the yarn output of the handloom industry declining from 419 million pounds in 1850 to 240 million pounds in 1900. British colonial

- Stunted economic growth

policies led to a significant transfer of wealth from India to England, draining revenue from the country and preventing systematic modernisation of the domestic economy. At the time of independence, India's GDP was just 3% of the world's GDP. India's export share constituted 33% of the world's exports in 1600 A.D., and the share was less than 3% in 1947.

Table 1.1.1 India's GDP (% of World)

Year	GDP as Percentage of World
1500	24.5%
1600	22.6%
1700	24.4%
1820	16%
1870	12.2%
1913	7.6%
1950	4.2%

Source: Angus Maddison, Contours of the World Economy 1-2001 AD

- Falling standard of living

Angus Maddison in his book *Contours of the World Economy, 1–2030 AD,* clearly illustrates the fact that India's GDP always varied between 25 - 65% world's total GDP which dropped to 2% by the Independence of India in 1947. At the same time, Britain's share of the world economy rose from 2.9% in 1700 up to 9% in 1870 alone. The above table shows that during 1500, India's GDP share was 24.5% of the total world's GDP. At the time of independence, it was just 4.2%.

Summarised Overview

British rule impacted the Indian economy in various ways. Through different land revenue settlements like Zamindari, Ryotwari, and Mahalwari, the Britishers exploited tillers of the soil. The commercialisation of agriculture worsened the situation of farmers, and there was a shift from the production of food crops to cash crops. The share of the manufacturing sector, which was above twenty percentage before the British arrival, declined to seventeen percentage during the British rule. Their operations led to the deindustrialisation of the Indian economy. Restrictive trade practices caused the destruction of rural artisans, handicrafts, and traditional industries in India. These led to the underdeveloped state of the Indian economy during the British period. The government's policies often restrict India's economic growth. The government imposed high taxes on Indian industries, which made it difficult for Indian businesses to compete with British businesses. The government also restricted Indian trade, which limited India's access to foreign markets.

The English East India Company extracted the vast majority of its wealth from India. This drain of wealth harmed India's economic development. Dadabhai Naoroji, in his book Poverty and un-British rule in India, highlighted the outflow of wealth and capital from the country. The drain of wealth commenced in post-1757 and contributed to the lack of development in India. India's GDP share, which was around 25% of the world GDP during the time of British arrival , fell to 4.2% at the time of independence. Thus, British rule in India had a significant negative impact on the Indian economy.

Assignments

1. The Zamindari system was abolished in India after Independence. Identify the reasons for it.
2. Describe the advantages and disadvantages of British policies in India
3. Find out how British tax policies differ from the tax policies of the present-day Governments.
4. Explain the share of GDP towards the global GDP under British rule.

Suggested Reading

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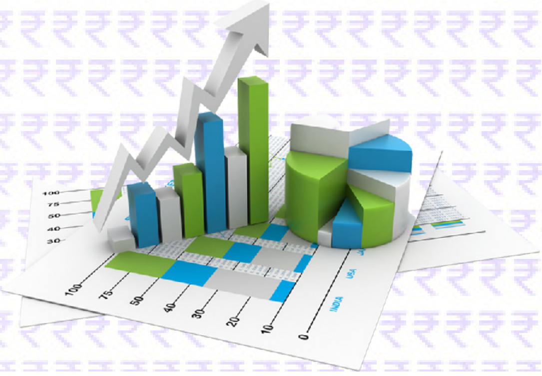
6. Angus Maddison, *Contours of the World Economy 1-2001 AD*, Oxfrod University Press.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



Unit 2
Economic Planning

Learning Outcomes

After completing this unit, learner will be able to:

- understand the history of Economic planning in India
- identify the achievements and failures of Economic planning
- examine the difference in the working of the Planning Commission and the National Institution for Transforming India Aayog

Background

India operates under a mixed economic framework where resources are owned by both private and public sectors. This system was shaped by Prime Minister Jawaharlal Nehru and it emerged during the country's early years of independence. While recognising the importance of private markets, Nehru believed in the crucial role of the state in guiding economic development. This idea led to the establishment of a strong public sector alongside a growing private sector, each contributing to India's economic growth. The Bombay Plan, which was drafted in 1944 by eight prominent industrialists, proposed a blueprint for India's post-independence economic development. It emphasised the importance of state intervention and regulation in key sectors like heavy industries, infrastructure, and transportation. Following independence in 1947, the need for a centralised approach to economic growth became evident. Inspired by successful models like the Soviet Union's Five-Year Plans, India introduced a series of ambitious plans for economic development.

Although the Government did not officially adopt the Bombay Plan, it significantly influenced India's economic development and laid the groundwork for future planning efforts. In 1950, the Planning Commission was established at the forefront of India's economic planning efforts. The first five-year plan, launched in 1951, focused on agricultural development and infrastructure building. Subsequent plans addressed various priorities like industrialisation, poverty alleviation, and social welfare. In 2014, the Planning Commission was replaced by NITI Aayog. This new institution focuses on promoting cooperative federalism, fostering innovation, and driving sustainable development.

Keywords

Mixed economy, National Development Council, Planning Commission, Five-Year Plans, NITI Aayog

Discussion

1.2.1 Mixed Economy

- Government and private involvement

In every economy, there exist two sectors, public and private. When these two sectors perform an essential role in its administration, it is said to be the main feature of a mixed economy. World economies adopted mixed economic systems when they were trying to overcome the great depression of the 1930s. France was the first nation to adopt a mixed economic framework in the world. In the mid-1980s, the reports of the World Bank also accepted 'state intervention' on policy making. Further, it suggests that neither a market economy nor non-market economies are free from flaws. The best way for an economy to work well is to have a mix of both public sector and private sector involved. Most countries, like India, China, Russia, and France, have mixed economies with varying degrees of government intervention.

1.2.1.1 Features of Mixed Economy

- The existence of private and public sectors, along with joint sectors, helps keeping the economy stable. The private sector and government companies jointly run the joint sector with at least 51% share belonging to the government.
- Private sectors are more profit motive, and with this aim, they undertake the production and supply of 'private goods', and the state will not restrict them from play-

ing such roles. Private goods and services are those that people can purchase by paying their individual income.

- The public sector has the motive of providing welfare to the people, and with this aim, they supply 'public goods'. The people can enjoy public goods and services without direct payment from their individual income.
- The responsibilities of both private and public sectors are not fixed; they can change as adjustments are needed.
- In the economic system, rules and regulations, competition, taxation, etc, should be taken care of by the state.
- Individuals and business can freely start and run their own ventures without government interference. Market forces of demand and supply determine prices.

1.2.2 Historical Background of Planning

- Idea of economic planning

It was the former USSR which gave shape to the idea of economic planning.The first Soviet plan commenced in 1928 for five years to attain rapid economic growth.The great depression in 1930 also revealed less confidence towards market mechanisms, so the idea of planning became popular during this period. From the 1930s, the rest of the world became fully aware of the idea of planning as an instrument of economic progress.

- Attempts of planning in India

The first attempt at the direction of planning in India was made by M. Visvesvaraya in his book 'Planned Economy for India 'in 1934, and he is known as the father of Indian planning. In 1938, the Indian National Congress set up a National Planning Committee under the chairmanship of Jawahar Lal Nehru to analyse development programmes for all major areas of the economy. Due to some political reasons, the committee was suspended. In due course, Sriman Narayan Agarwal formulated the **Gandhian plan** in 1944, and its main focus was agriculture. In 1945, M.N Roy formulated the **People's Plan,** which focused on both agriculture and industry equally. Then, in 1950, a blueprint for the planned development of India was developed by socialist leader Jayaprakash Narayan. All these plan frameworks were established for the purpose of implementing the Five-Year Plans in India.

1.2.2.1 Types of Planning

- Planning by State

There are two types of planning: imperative and indicative. The first type of planning is followed by the State economies, i.e., socialist or communist. It is also called directive or target planning. Here all economic decisions are made by the state or centralised planning committee. USSR, Poland, Australia, Hungary, Romania and China are basically centralised economies. In such plans, there is no involvement of private participation, no role for the market, and specific numerical targets are set for growth and development. For example, in the next five years, the plan includes the construction of 2000 primary schools, 5000 national highways, and the production of 2 lakh tonnes of cement.

- Decentralised planning

The Second type of planning is Indicative planning, which works through the market or price system. This is in contrast to imperative planning, which is used in some countries. All countries with mixed economies follow the features of indicative planning. Today, the development plans of all mixed economies are indicative types. In India, there was a significant shift away from imperative planning in 1991 when economic reforms began. At that time, our political leaders were keen on introducing decentralised planning in India. This approach aims to coordinate both private and public investments. It operates voluntarily and relies on forecasts and output targets.

1.2.3 Bombay Plan

- Import substitution

The Second World War concluded in the mid-1940s, leading to Britain's economic decline, and there was a sign of freedom to its colonies, including India. After the Second World War, global income was severely impacted due to the expenses of the war, the price for the imported machine-made goods from Britain increased, and this, in turn, led to expensive imports. Due to British policies, India had to import many industrial products that could have been produced locally. After 1947, Indian leaders prioritised reducing imports and focused on producing goods within the country.

In 1945, Purushotamdas Thakur Das, J R D Tata, G D Birla, Lala Sri Ram, Kashtoor Bai Lalbai, A D Shroff, Ardeshir Dalal and John Mathai, who were prominent industrialists at that time, collaborated to formulate the plan. Together, they

• Vision of the plan

• Proposed provisions under the plan

• Plan rejection

• Establishment of the Planning Commission

prepared a brief memorandum outlining a plan for economic development for India. The basic goals of the Bombay Plan were to increase industrial output by up to 5 times and to increase agriculture output by up to 2 times for which the government, along with some private entities, should invest 100 billion at that time. After independence, it was presented before our first Prime Minister, Jawahar Lal Nehru.

In the Bombay Plan, more importance was given to the participation of the State Government. Heavy industries were intended to operate under mixed economy models. The Government should establish public sector companies in critical sectors, facilitating collaboration with private industries and leading to their rapid growth. Some social welfare measures were also included in the Bombay Plan to make the lives of common people better. The plan agreed to establish medium-scale, small-scale, and cottage industries due to their low capital and machinery requirements, as well as their potential to generate more employment opportunities.

A huge amount of capital was needed for the implementation of provisions under the plan. But at that time, the Government ran into deficit finance, and for the implementation of the plan, the Government had to invest more money than the budget it had at that time. So, the plan was not officially accepted. Later, the plan was severely criticised on many grounds. Around the 1950s c ommunalism had a huge influence within our country, and these communal bodies did not like the idea of letting private companies set up industries. The Government created a lot of public sector units, but the participation of private bodies was lower. Others argue that the creators of this plan were mostly capitalists; hence, this plan will not be beneficial for common people in the long run. Economists argued that rapid capital growth could lead to inflation in the country's economy, causing an increase in prices. These concerns contributed to the rejection of the Bombay Plan.

1.2.4 Planning Commission and Five-Year Plans

After independence, India faced a series of challenges, including the need to improve the standard of living and to distribute income more evenly in the country. The planning commission was established on March 15, 1950, by keeping all these problems in mind. The Planning Commission of India is the core of the planning mechanism. It formulates and supervises the planning mechanism. The planning commission tentatively formulates plans for a longer period and aims to promote a rise in the standard of living of the people through efficient allocation of resources.

- Working members

The Planning Commission was a Government agency in India that was responsible for developing and implementing five-year plans. The Prime Minister serves as the ex-officio chairman of the Planning Commission and appoints a deputy chairperson. The deputy chairman holds a position equivalent to that of a cabinet minister. The health minister, law minister, finance minister, agriculture minister, etc., were the permanent members of the Planning Commission. The commission consists of 4 to 7 full-time members who are specialists in different fields. A senior IAS officer generally acts as a member secretary under the Planning Commission, and it is a non-constitutional and non-statutory body.

1.2.4.1 Functions of the Planning Commission

1. To assess India's material, capital and human resources.
2. Formulate a plan for a balanced and most effective utilisation of the country's resources.
3. Define the stages in which the plan should carry out on the basis of priorities.
4. Finding the factors that hinder economic development and determining the conditions that should be established for the successful execution of the plan.
5. Execute from time to time the progress achieved in each stage of the plan and recommend the adjustments of policy and measures.
6. Review and analysis of particular issues raised by the central or state government seeking guidance and advice.

1.2.4.2 Major Objectives of Planning

Our constitution placed importance on equal distribution of resources, which means that the operation of the economic system does not result in the concentration of wealth among a few people. Therefore, the Government of India adopted planning as a means of fostering economic development. As a result, the basic aim of economic planning in India is to

• Economic growth

bring about rapid economic growth through the development of agriculture, industry, transport, communication and all other sectors of the economy. The continuous expansion of national and per capita income is the basic measure of the economic growth of a country. After colonial rule, India was a poor country with a low standard of living. In order to judge the country's economic development, it is important to consider not only the increase in national income but also the increase in per capita income and the improvement in quality of life. Starting from the fourth plan, the focus shifted to not only economic growth but also in improving the living standards of those who have been living in poverty.

• Employment generation

From the very beginning of planning, reducing unemployment has been a goal of economic planning in India, as it is the main cause of poverty in India. So, the Planning Commission assumed that an increase in investment would create more demand for labour and, in turn, generate employment opportunities, which would also increase the national income of the country. Similarly, eliminating unemployment will increase the gross national product and the standard of living of the people.

• Reduction of income inequality

The vast majority of people were impoverished due to low income. A very small group of people, like rich landlords, merchants, bankers, industrialists, etc, are better off and have not experienced poverty. Extreme inequality of income and wealth has its roots in traditional social formation. The abolition of semi-feudal relations in village production would make it possible to reduce inequalities. Considering this in view, the Commission concentrated on measures such as the removal of intermediaries and ceiling on land holdings. Likewise, large disparities exist between rural and urban incomes. These disparities were the result of industrialisation and economic growth. Therefore, the Commission suggested measures to raise agriculture productivity, fair prices to farmers for their products, development of agro-based industries etc., to reduce rural-urban income disparity.

The Indian planners visualised the establishment of a socialist pattern of society in which everyone would have equal opportunities in education, health, occupation, etc. Wealth would be distributed more equally, and there would be a check on the concentration of economic power. Therefore, the first three plans suggested setting up a socialist pattern of society.

Then, there would be no scope for the exploitation of man by man. The fourth plan envisioned the establishment of social and economic democracy, but the definition given to economic democracy by the Indian planners differed from its common meaning. The broad definition of economic democracy is the availability of opportunities for public health, education, sanitation, drinking water supply, etc., to all, irrespective of whether they are rich or poor. Whereas Indian planners propose that economic democracy is nearly identical to a free-market economy, which has aided developed economies in alleviating severe poverty.

- Socialist line of development

1.2.4.3 Five-Year Plans in India

In the five-year plan (FYP), the government used to set objectives that were to be achieved within the five-year time frame. On August 6, 1952, the National Development Council (NDC) was formed by a resolution issued by the central cabinet. It was an executive body and also an apex body to take decisions on matters related to the approval of five-year plans in India. The first plan for India was initiated prior to the establishment of the National Development Council. The NDC initially includes the Prime Minister as ex-officio chairman, Chief Ministers of all the states and the members of the Planning Commission. The major functions of NDC were to consider the proposal formulated for plans and accept them, to review the working of the plans from time to time, to examine important questions of social and economic policy affecting national development, to recommend measures for the achievement of aims and targets set out in the national plan.

- Functions of NDC

Let us have a look at the major features of five-year plans implemented in India.

Table 1.2.1 India's FIve-Year Plans

Five-year plans with year	Growth rate (%)	Major features of plans
I FYP (1951-56) Harrod- Domar model	Target growth:2.1% Actual growth: 3.6%	1. Gave importance to the agriculture sector including irrigation and power projects. 2. A round 44.6% of the plan outlay went in favour of the public sector undertakings.
2nd FYP (1956-61) Mahalanobis model	Target growth:4.5% Actual growth:4.3%	1. Gave importance to the industrial sector 2. Rapid industrialisation with a focus on heavy industries and capital goods
3rd FYP (1961-66) John Sandy & Chakravarthy model	Target growth:5.6% Actual growth:2.8%	Focused on agriculture and prioritised achieving balanced and regional development.
Due to the Indo-China war in 1961-62, the Indo-Pak war in1965-66 and heavy rain, the third plan utterly failed to meet its targets. Then, because of the weak financial situation, the government decided to opt for annual plans for the next three years (i.e., from 1966-67,1967-68,1968-69). This period is named 'Plan Holiday'.		
4th FYP (1969-74) Allen S Manne & Ashok Rudra	Target growth:5.7% Actual growth:3.3%	Focus on growth with stability and progress towards self-reliance. Indo-Pak war of 1971-72 affected the financial stability and could not attain targeted growth.
5th FYP (1974-79) Dhar model	Target growth:4.4% Actual growth:4.8%	Focus on poverty alleviation (familiar with slogan 'Garibi hatao') and self–reliance . One of the major objectives of the fifth plan was 'growth with stability.

<table>
<tr><td colspan="3">After the national emergency proclamation by the Indira Gandhi government in 1975, the Congress government failed the next election and then the elected Prime minister of the Janata government stopped 5th plan in 1978 and introduced a fresh plan for 1978-80. It is called ‘Rolling Plan’. But in 1980, there was again a change of government, and with the return of Congress, the government decided to continue with the Five-Year plan. The sixth five-year plan was started from 1980 to 1985.</td></tr>
<tr><td>6th FYP (1980-1985)</td><td>Target growth:5.2%

Actual growth:5.7%</td><td>Aimed at the removal of poverty and modernisation, and it was a period of the beginning of economic liberalisation.</td></tr>
<tr><td>7th FYP (1985-90)</td><td>Target growth:5.0%

Actual growth:6.0%</td><td>1. Focused on growth, self-reliance, and modernisation.
2. Rapid food grains production and increased employment creation and productivity.</td></tr>
<tr><td colspan="3">Even though the country had better growth rates throughout the seventh plan period, India's economy suffered from fiscal imbalances. Government expenditures were met from foreign loans. Fiscal imbalances and economic reforms caused a delay in the launch of the Eighth Plan and the government decided to initiate the Eighth Plan for the period 1992-1997.</td></tr>
<tr><td>8th FYP (1992-97)

John W Miller model</td><td>Target growth:5.6%

Actual growth:6.8%</td><td>1. Economic reforms were started.
2. Steps were taken to check rising non-plan expenditure and fiscal deficit.
3. Initiated decentralised planning
4. Greater focus on agriculture and rural activities.</td></tr>
<tr><td>9th FYP (1997-2002)</td><td>Target growth: 6.5 %

Actual growth:5.4%</td><td>The ninth plan aims to attain growth with social justice and equality.</td></tr>
</table>

10th FYP (2002-2007)	Target growth:8 % Actual growth:7.6 %	1. The plan aims to double per capita income in ten years. 2. Reforms in the public sector, legal reforms, administrative reforms, labour market, etc. 3. Increased emphasis on social sectors like education and health.
11th FYP (2007-2012)	Target growth:9 % Actual growth:8 %	Focused on attaining 'faster and more inclusive growth', targeted 7 million employment opportunities, safe drinking water to all, lowering infant mortality and child mortality rate.
12th FYP (2012-17)	Target growth: 9 %	Aimed for 'faster, sustainable and more inclusive growth

1.2.4.4 Achievements of Economic Planning in India

- Increased Gross Domestic Product (GDP)

India's national income increased significantly throughout the planning era. In 1950-51, India's national income was 1,95,000 crores. It raised to 242,21,000 crores by the end of 2020-21. Per capita income also increased from Rs.3200 in 1950-51 to Rs.1,23,240 in 2020-21. Savings and investments in the country had also increased; domestic savings was 11% of GDP in 1950-51, and it increased to 34% in 2020-21. In the case of investment, it was 14% of GDP in 1950-51 and rose to 32% in 2020-21.

- Increased agrarian output

The agriculture sector underwent significant institutional and technical changes in the planning era. During the 1960s, India witnessed a green revolution in the agriculture sector. The usage of high-yielding varieties of seeds, fertilisers, irrigation, etc., in agriculture led to a rapid rise in food grain production. The elimination of intermediaries who act between the government and tillers of land resulted in a rise in production and productivity in agriculture. Food grain production in India increased from 510 lakh tonnes in 1950-51 to 211.9 million tonnes in 2001-2002. Similarly, the production of cotton and sugarcane also increased during the planning era.

- Industrial expansion

The development of consumer and capital goods industries resulted in the growth of the industrial sector. Around 50% of the total expenditure of the first plan was invested in the development of industry and defence. Due to this, the industrial production of the country increased to a great extent. The development of transportation and communication also gets wide attention throughout economic planning. More than one-fourth of the total outlay was invested in the development of transport and communication during the first plan.

- Job creation

The problem of unemployment was crucial in India, so the emphasis was given to employment generation during the first nine plans. To generate employment opportunities, emphasis should be placed on establishing small-scale industries, expanding technical education, and developing self-employment schemes, among other measures. Around 16 million job opportunities were created during the first two plans, and further, during 1961-71, 20 million more people got fresh job opportunities. However, due to the increasing size of the working population, unemployment exists at the end of each plan.

1.2.4.5 Critical Evaluation of Economic Planning

- Income inequality and poverty

Even though the equitable distribution of income and wealth was one of the aims, economic planning fell short in promoting equal distribution of income and wealth. Inequality can be observed in both the agriculture and industrial sectors, and around 3% of households own roughly 50% of cultivable land. In India, during the planning period, 21.9% of the population is below the poverty line. Poverty alleviation was the main aim of planning, yet more than half of the population lacks even the basic necessities of life.

It is important to acknowledge that each plan provided special schemes for the provision of employment opportunities. From the third plan onwards, a number of rural employment schemes were introduced in India, but they failed to tackle unemployment. During the sixth plan period, the National Rural Employment Programme (NREP), Rural Landless

Employment Guarantee Programme (RLEGP) and Integrated Rural Development Programme (IRDP) were undertaken, and these programmes were much better conceived than the earlier employment schemes. Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) was introduced in 2006, and it helps tackle the unemployment problem to some extent. Even after all these initiatives, the estimates of the employment elasticity show that there has been a considerable decline in employment elasticity over the years from 0.52 during 1982-83 to 0.29 during 2004-05 and further to just 0.04 during 2011-12. The number of unemployed was 7.49 million in 1993-94, and this number rose as high as 10.85 million in 2011-12 and further to 28.1 million in 2019-2020. The data indicates that the goal of creating more employment opportunities was not fulfilled as intended.

- Employment goals not fulfilled

After sixty-seven years of planning, the development of infrastructure, including power, dams, colleges, schools, hospitals, roads, etc, remains inadequate. In particular, power shortages have been a significant problem for growth and development. This has led to a disparity between the desired growth outlined in the planning and the actual progress achieved. For example, the First Five Year Plan set a target of increasing agricultural productivity by 25%. However, the actual increase in agricultural production was only 15%. This gap was due to a number of factors, including a shortage of water, fertilisers and agricultural machinery. Thus, the shortage of resources and faulty implementation of the plans are the major reasons for the gap, and this gap between targets and achievements underlines the failures of Five-Year Plans in India.

- Gap between desired and actual growth

1.2.5 National Institution for Transforming India Aayog (NITI Aayog)

By mid-2014, the NDA Government, led by Bharatiya Janata Party, assumed office at the centre. The newly elected government dismantled the planning commission and introduced a new entity known as the NITI Aayog. Over the past six decades, India has undergone significant change politically, economically, socially, technologically and demographically. Keeping this in view, the government decided to set up the NITI Aayog to address the needs and aspirations of the people of India more effectively.That

- Replacement of Planning Commission

means the government want to 'transform the development agenda of India' and was given the slogan 'from planning to NITI'. It serves as a think tank of the Government both at the central and state levels .

The Prime Minister of India is the chairman of NITI Aayog, and a Vice Chairperson is appointed by Prime Minister. Its governing council consists of the chief ministers of all states and the governors of union territories. There are five full-time members and two part-time members. A maximum of four Union Council ministers are to be appointed by the Prime Minister as ex-officio members. Chief Executive Officer is to be appointed for a fixed term in the rank of secretary to the Government of India. It also has three specialised wings- the research wing, the consultancy wing, and the team India wing.

- Working members

1.2.5.1 Functions of NITI Aayog

1. To act as a think tank of government to serve as a knowledge and innovation hub.
2. Promote cooperative and competitive federalism between the centre and state.
3. To strengthen various states and regions by tackling their unique challenges, NITI Aayog collaborates with ministries, channels their ideas to the central government, and offers advisory support.
4. Foster decentralised planning. The new body restructures the planning process into a 'bottom-up model'
5. NITI Aayog has a clear vision for guiding the nation's direction rather than just focusing on how the nation's money is spent.
6. Adopts a harmonisation approach of actions across different layers of the government.
7. Monitoring, implementation of policies and programmes and assessing their effects.
8. NITI Aayog primarily formulates policies, and it never plans. Based on these policies, the different ministers of the central government prepare projects.
9. The Aayog favours cooperative federalism, where the centre and state governments work together to create development policies.
10. It promotes healthy competition among developing countries.

- Empowering India

NITI Aayog provides strategic and policy advice to the government on a range of economic issues, including agriculture, industry, infrastructure and trade. It also monitors the performance of the Indian economy and identifies areas for improvement. NITI Ayog works to improve the lives of all Indians, with a focus on poor people. With this aim, it has launched a number of initiatives, including the Swachh Barat Mission, the Pradhan Mantri Kaushal Vikas Yojana and the Atal Pension Yojana. It also works to promote sustainable development in India.

Features	Planning Commission	NITI Aayog
Establishment	1950 March 15	2015 January 1
Structure	A central government body with Prime minister serving as its chairman.	A non-constitutional body with a Prime Minister as its chairman and a CEO appointed by the Prime Minister.
Purpose	Formulates India's Five-year plans	Offers guidance and recommendations on strategic and policy matters to the government.
Powers	It had the power to impose policies on the state and approve final projects.	Does not have the power to impose policies on the state. Chief Ministers of all states are members here.
Funding	Funded only by the Central government.	Funded by both central and state governments.

Summarised Overview

The private and public sectors coexisting in economic operations is called a mixed economy**.** A mixed economy deals with both private and public goods. Sri. M. Vishweshwarayya was known as the father of economic planning in India. Frameworks like the Gandhian Plan, People's Plan, etc., were established to implement India's five-year plans. Almost all countries in the world adopted planned economic development after the Second World War. In India, this led to the establishment of a planning commission on March 15, 1950. The Planning Commission concentrated on setting the targets the country aimed to achieve over five-year periods. With the formulation of the first five-year plan, India started the programme of planned economic development. It continued its work from 1950 to 2015, and throughout the period, India underwent many changes. The central government had control over the formulation and execution of five-year plans. It doesn't include the State's representative for making plans. It was a major drawback of the Indian five-year plans.

In 2015, NITI Aayog came into existence, and the new plan is set to replace the centralised five-year plan the country has been following for decades. The idea of NITI Aayog does look innovative in its approach and is also quite contemporary in nature. India is a dynamic economy changing its population, GDP growth, the role of states, technologies and so on. These changes have been recognised by the experts, and with the changing contours of the economy, the institutions guiding the economy should also change.

Assignments

1. Discuss the objectives of economic planning in India and explain the achievements and failures of planning in our country.
2. Examine why NITI Aayog obsoleted the planning commission and explain the functions and operations of NITI Aayog
3. Compare and contrast the Indian five-year plan with the Planning implemented in Russia.

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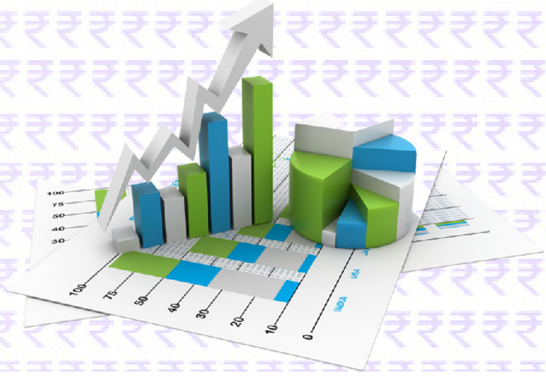
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 3
Demographic Features

Learning Outcomes

After completing this unit, learner will be able to:

- understand the demographic changes in India
- assess the origin of population policies
- examine the impact of rural-urban migration
- identify the urbanisation trends in India

Background

India's population is a vibrant blend of diverse and distinct groups. A young population, with a median age of 28.7 in 2023, presents immense potential for economic growth. However, significant variations exist in literacy rates, fertility levels, and access to basic necessities across the state. The growth of the Indian population has been unprecedented over the past 60-70 years. Increasing population means demand for more homes, food, water, public services, sanitation and amenities, but it is becoming difficult with the limited resources of the earth. India is the most populous country in the world, with a population of over 1.4 billion people, according to the Office of the Registrar General and Census Commissioner, India (ORGI) data. ORGI is the organisation responsible for collecting the most recent population data in India. The National Family Planning Programme, initiated in 1952, aimed to stabilise population growth through family planning initiatives. While the program achieved significant success in reducing fertility rates, the regional imbalances and socio-economic disparities remained unchanged.

Better economic opportunities, education, and healthcare attract millions from rural India to urban centers. This continuing rural-to-urban migration has generated rapid urbanisation, with the urban population expected to reach 60% by 2031. While this shift contributes to economic growth, it also presents challenges to infrastructure development, housing shortages, and environmental degradation. So this unit deals with India's major demographic features, population policies, rural-urban migration, and its urbanisation trend.

Keywords

Demographic transition, Population, Migration, Demographic dividend, Urbanisation

Discussion

1.3.1 Demographic Features of the Indian Population

- Demographics

The population plays a crucial role in influencing both the economic growth and the availability of resources within a country. In India, the first population census was conducted in 1881. Following that, the census is conducted regularly after every ten years. A census is a systematic count of the population of a country or a region. The data collected in a census can be used to calculate demographic indicators. The demographic indicators of the Indian economy refer to the features of its population that have an impact on the Indian economy. These features are complex and ever-changing. Some of the most important demographic features of the Indian economy include population size, literacy rate, sex ratio, life expectancy, etc. Important demographic features of Indian economy are discussed in detail below.

1.3.1.1 Population Size and Growth

- Population growth

In 1947, when India gained its independence, India's population was around 345 million. By January 1, 2020, that number had risen to an estimated 1307 billion. India's life expectancy was just around 33 years, and the Total Fertility Rate (TFR) was near six births. But the decades since have brought remarkable transformations. After independence in 1947, the fall in the death rate due to better healthcare resulted in a significant rise in the rate of population growth. During 1951-1961, the rate of population growth reached almost 2.2 percent. Bringing down the birth rate proved harder than tackling the death rate. It was only during 1991-2001 the birth rate fell faster than the death rate. So this brings about a significant decline in the rate of population growth. While India's TFR (the average number of births per couple) is still larger than the 'replacement level (around 2.1), fertility in India has dropped dramatically in recent decades. TFR was around 6.0 in 1961 and fell to 2.4 in 2012.

1.3.1.2 Literacy Rate

- Steadily increasing literacy

The literacy rate shows the percentage of people aged seven and above who can read and write with understanding in any language. It is an important indicator of development and one of the components in the human development index. Education is crucial for securing employment, making it a pathway to escape poverty and famine. According to the National Statistical Office (NSO) survey conducted in 2017-18, the literacy rate in India is 77.7%.This is higher than the 74.04% reported by the Census 2011. From the table below , it can be seen that the literacy rate in India has been steadily increasing over the years. There is still a significant gender gap in literacy rates. In 2011, 82.14% of males were literate, while the female literacy rate was 65.46 %. This meant that there are still 16.68 % of women are illiterate in India.

Table 1.3.1 Literacy Rate in India from 1951 to 2011

Year	Male literacy rate	Female literacy rate	Total literacy rate
1951	27.22%	8.86%	18.33%
1961	34.45%	12.96%	24.13%
1971	43.57%	18.20%	34.44%
1981	52.21%	24.82%	39.45%
1991	64.13%	39.29%	52.21%
2001	75.36%	54.16%	65.38%
2011	82.14%	65.46%	74.04%

Source: Census data from 1951 to 2011

1.3.1.3 Density of Population

- Higher concentration of Population

The density of population is the number of people living per square kilometre. It was 77 in 1901, increased to 117 in 1951 and then 324 in 2001 for the country as a whole. The density of the population, as per the 2011 census, is 382 per square kilometre. The highest population density was reported in Delhi, followed by Chandigarh and Pondicherry. Among the major states, the highest density is found in the state of Bengal (1012), followed by Bihar and Kerala. The lowest population density is in Arunachal Pradesh (21).

1.3.1.4 Sex Composition

- Variation in Sex ratio across the states

Sex composition is the female-male ratio. As per the 2011 census, the sex ratio in India is 940 females to 1000 males. The sex ratio in India varies significantly across states. As per National Family Health Survey 2019-20, Kerala has the highest sex ratio, with 1145 females for 1000 males. In Kerala, as women received education and proper health care, their chance of survival was as good as that of males. Haryana has the lowest sex ratio among Indian states, with 926 females for 1000 males. On the contrary, in North India, specifically in Punjab and Haryana, an adverse sex ratio is observed. These states, being predominantly agrarian economies, have a societal preference for sons, as they contribute to labour for farm operations. In North Indian States like Maharashtra, Bihar, Uttar Pradesh and Gujarat, the sex ratio is declining.

India's Demographic Transition

- Demographic transition due to reduction in average death rate

The census data from the year 1951 suggest that the country's demographic transition really began, rather hesitatingly, with a reduction in the average death rate during the 1920s and 1930s. These decades saw a decline in the frequency of major famine and epidemics (smallpox, malaria, cholera), which previously had made the lives of people uncertain. As a result, there was a slight rise in life expectancy. These small gains in mortality were sufficient to raise the average annual rate of population growth to over one percent per year during the 1920s,1930s, and 1940s. By 1947, India's population had increased to around 336 million. Table 1.3.2 provides a summary of statistics relating to India's demographic transition.

Table 1.3.2 Demographic Estimators for India, 1951-2011

Year	Population (millions)	Crude Birth Rate (per 1000)	Crude Death Rate (per 1000)	Life Expectancy at Birth (years)		Total Fertility Rate per Woman
				Male	Female	
1951	361	45.6	37.2	27.4	27.8	5.86
1961	439	45.5	25.9	36.8	36.6	6.11
1971	548	43.5	21.3	44.0	43.0	6.50

1981	683	38.0	16.0	50.0	49.0	5.40
1991	846	35.0	13.6	55.5	56.0	4.60
2001	1029	28.2	9.3	60.8	62.3	3.50
2011	1400	19.6	7.3	64.6	67.7	2.2

Source: Census data

- Rapid increase in life expectancy

The late 1940s and early 1950s witnessed a remarkable leap in life expectancy in India, possibly rising to two years per year Table 1.3.2 reveals this trend continued, with sizeable gains in each subsequent decade. Today, the average Indian's life expectancy is likely around 64. Along with increased control of infectious diseases, general progress in improving sanitation and water supplies, increased level of education in the population, and considerable expansion of health facilities played significant roles in mortality improvement. The average increment in male life expectancy has been smaller and it has diminished in size from 1991 to 2011. Today, the female life expectancy exceeds that of males by two to three years. Fertility decline was one of the factors that probably helped slightly faster mortality improvement experienced by Indian females in recent times. Whereas behavioural factors such as greater alcohol and tobacco consumption cause male mortality at later adult ages (for e.g. over 30 years).

- Declining birth rates due to increased contraceptive use

While Table 1.3.2 shows a significant drop in India's birth rate only starting in the 1970s, several factors contributed to this shift. One key contributor is the rising average age of marriage, from around 15 in 1951 to over 20 today. This undoubtedly led to a decrease in births among young women (15-19). However, the main cause behind the fertility decline was the rise in the use of contraception, particularly female sterilisation. According to the National Family Health Survey (NFHS-3), nearly half of married women aged 15-49 use modern contraception, and about three-quarters of these women are protected by sterilisation. This widespread adoption explains why the total fertility rate was probably around 2.9 births per woman by the early 2000s, accompanied by a crude birth rate of approximately 25 per thousand population. During 1991-2001, India's crude death rate was probably around 9 percent. It will never fall much lower than 7 percent. The country has been experiencing a transition from a former state in which both the crude death rate and the crude birth rate were high to another state in which both the death rate and the birth rate are low. This is the demographic transition.

1.3.2 Population Policy

- Relation between food shortage and population growth

The late 1940s witnessed a surge in public debate about population growth and family planning due to the occurrence of several poor harvests, which necessitated food imports. This momentum was further expanded by the 1951 Census, which revealed significant demographic growth. To overcome this situation, Prime Minister Nehru declared India's commitment to a national family planning program. This pioneering initiative found formal expression in the First Five-Year Plan (1952), which prominently featured a program for "family limitation and population control." Thus, India became the first nation to adopt an official national population policy advocating for family planning.

- Initial success of family planning in urban areas

While public funding for the program remained limited, and societal reservations about modern contraception persisted, significant progress was made in urban areas. Drawing inspiration from Madra's successful vasectomy programs, Kerala, Mysore, and Maharashtra implemented similar initiatives. Additionally, Madras introduced financial assistance for sterilisation among underprivileged communities. By the time of the Third Five-Year Plan (1961-1966), population stabilisation became a central pillar of India's development agenda, with voluntary sterilisation recognised as a key potential tool for achieving this goal. The late 1960s also witnessed the introduction of timebound demographic targets with the aim of accelerating population stabilisation. In 1968, a goal was set to reduce the birth rate from 41 to 23 per 1,000 population within a decade. But by the beginning of the 21st century, the birth rate had only reached around 25 per 1,000, highlighting the challenges involved in achieving the desired goals.

- Growing concern and changing emphasis on population growth

Concerns about India's rapid population growth intensified during the Fourth Five-Year Plan (1969-1974). The 1971 census revealed a decadal population increase of 109 million, prompting a renewed focus on achieving specific demographic targets. This led to increased emphasis on incentives like compensation payments and a push for male sterilisation, which continued into the Fifth Plan. This culminated in the atmosphere of urgency which characterised Prime Minister Indira Gandhi's declaration of Emergency in 1975-1977, during which vasectomy rates dramatically increased. However, this period was followed by a backlash against the program, particularly in the northern states, that persisted into the 1980s. Consequently, while sterilisation remains a component of the government's family welfare program, the focus has shifted towards female tubectomy as a preferred method.

- Focus on reproductive health

The Sixth Five-Year Plan (1980-1985) marked a significant shift in India's approach to population control. Since the Seventh Plan (1986-1990), the emphasis has shifted towards tailoring family welfare programs to specific state conditions, recognising the links between family planning and other development sectors like education, and involving the private sector more in contraceptive delivery. Incentive payments and targets, which had been prominent earlier, were gradually eliminated. The 1994 Cairo Population Conference further cemented this shift by placing reproductive health and women's needs at the centre of family welfare initiatives.

1.3.2.1 National Population Policy (2000)

- Demographic goals

Through Population policy, the government aimed to reduce the birth rate and improve the quality of life. The National Democratic Alliance (NDA) government introduced a national population policy on 15th February 2000. The long-term objective of the policy was to achieve a stable population by 2045. The immediate objective was to address the needs for healthcare infrastructure and contraception and to provide integrated service delivery for basic reproductive and child health care. The medium-term objective was to bring the Total Fertility Rate (TFR) to replacement level by 2010. The government, through the policy, decided to freeze the number of Lok Sabha seats, which is based on the 1971 census, till 2026. So, states like Tamil Nadu and Kerala should not be penalised as they followed the small family norms effectively. States like Uttar Pradesh, Madya Pradesh, Bihar and Rajasthan should not be rewarded by granting more seats in Lok Sabha.

1.3.2.2 Features of the Policy

- Bringing Infant Mortality Rate down to below 30 per 1000 live births.
- Reduce maternal mortality rate to below 100 per 1,00,000 live births.

- Universal immunisation.
- To attend 80% of deliveries in regular dispensaries, hospitals, and medical institutions.
- Access to information containing AIDS, prevention and control of communicable diseases.
- Incentive to adopt two-child family norms.
- Safe abortions to be promoted.
- The Government must strictly enforce the Child Marriage Restraint Act and Pre-Natal Diagnostic Techniques Act to address the issues of female feticide in India.
- Raising the age of marriage for girls not earlier than 18, and preferably raising it to 20 years or more.
- Women who marry after 21 years and opt for a terminal method of contraception after the second child will be eligible for a special reward.
- Provide health insurance cover for those below the poverty line who undergo sterilisation after having two children.

1.3.2.3 Critical Evaluation of Population Policy 2000

- Excessive burden on Women

With this policy, the total fertility rate has declined from 2.9 in 2005 to 2.2 in 2018, and the crude birth rate also declined from 23.8 in 2005 to 20.0 in 2018. However the policy imposes a more burden on women, and male participation is minimal. The policy suggested contraceptive measures for women, but they often had difficulty in accessing contraception, especially in rural areas. Lack of support was another problem women faced in India. This support can come from their partners, families and community. The policy provides an incentive for women to accept terminal methods of contraception after the second child.

- Over-emphasise on contraceptive measures

Despite the adoption of population control policies, India has a population of over 1.4 billion as of 2022, making it the world's most populous country, according to the United Nations Organisation. The fertility rate was high in certain Indian states as against the objectives of the policy, while other states have fertility rates below the replacement level. The policy aimed to reduce the fertility rate by increasing the supply of contraceptive methods and popularising their use. But only a few initiatives were taken to improve the people's standard of living. The poverty among the people induces them to have more children and will cause population problems. Kerala, Tamil Nadu, and Goa successively solved population issues mainly through the spread of literacy among women and their better health care.

- Forced sterilisation

Many people were unaware of the pressing need to control population growth in the country. Individuals from different religious backgrounds hold diverse beliefs about the size of their families. In 1976, the government of India adopted coercive methods to control overpopulation. However, the majority of demographers and economists who favoured family planning programmes do not approve the coercive methods. The experience regarding the forced sterilisation policy in 1976 clearly suggests that it hurt the dignity of people and was ultimately counterproductive.

1.3.3 Demographic Dividend

- Massive young workforce

On July 11, 2017, the National Population Stabilisation Fund announced India's population had reached 1.34 billion, comprising 17.25% of the world's 7.2 billion people. This figure, coupled with a 1.2% annual growth rate, projects India to become the most populous nation by 2030, surpassing China. If current trends continue, India's population is expected to reach 1.53 billion by 2030. Furthermore, India is composed to possess the world's largest working-age population by 2030, estimated to reach 962 million. By 2020, India is projected to be the world's youngest nation, with an average age of 29, compared to 40 in the US, 46 in Europe, and 47 in Japan. This young workforce offers the potential to both meet domestic needs and establish India as a global hub for skilled labour. This demographic dividend, coinciding with an ageing global population, presents a unique opportunity for India. However, capitalising on this demographic advantage requires effective investment in education and skill development to equip this workforce for the evolving global economy.

The varied pace of demographic transition across Indian states calls for state-specific policy approaches to maximise the potential of the demographic dividend. Southern states, having experienced a significant decline in fertility rates over the past two decades, are at a more advanced stage of

- Faster demographic transition in Southern states

the transition compared to their northern counterparts. This presents an immediate opportunity for reaping the benefits of this demographic shift in the south, as evident in several states already exceeding the projected national average age of 29 in 2020. Examples include Kerala (33 years), Goa (32.3 years), Tamil Nadu (31.3 years), Himachal Pradesh (30.4 years), Punjab (29.9 years), Andhra Pradesh (29.3 years), and West Bengal (29.1 years).

- Different age groups

Overpopulation is often seen as a liability, but it can also be an asset. To achieve this, the structure of the population must change. The structure of the population can be divided into three parts. Populations in the age group below 15 are considered children, those between the age group 15-64 years are working age or productive age group, and those in the age group belonging 65 and above are considered old age. The child and old age population depend on the productive age group for their sustenance. The demographic dividend occurs when there is a high proportion of the working-age population in relation to the total population.

- Demographic dividend

According to the United Nations Population Fund's (UNFPA) World Population Report 2023, around 26% of the population is below 15 years, and 7% is above the age of 65. India's working-age population is rising and stood at 68% compared with 67.3% in 2020 and 66% in 2015. In turn, the economy can harness the potential of the increasing working-age population in productive activities, and this will determine the actual realisation of the demographic dividend. As the structure of the economy is undergoing changes from agriculture to industry and service, there would be a strong need to develop a new skill. It will help the economy to absorb the growing working-age population in newly emerging areas of development.

Table 1.3.3 Population Projections of India (in millions)

Year	2001	2006	2011	2016	2021	2026
Total	1029	1112	1193	1269	1340	1400
Below 15 years	365	357	347	340	337	327
15-64 years	619	699	780	851	908	957
Above 65 years	45	56	66	78	95	116

Source: Population Projections for India and States 2001-2006

- Changes in age distribution

As per Sample Registration System (SRS),2013 data there has been a gradual decline in the share of the population in the age group 0-14 from 365 million in 2001 to 337 million in 2021. On the other hand, the proportion of the economically active population (15-64) or India's demographic dividend has increased from 619 million in 2001 to 908 million in 2021.On account of better health facilities, increased life expectancy and better education, the percentage of elderly has gone up from 45 million in 2001 to 95 million in 2021.

1.3.4 Rural-Urban Migration

- Intra-district moves rather than move between districts

Migration refers to the movement of people from one place to another. In India, about 60% of people make intra-district moves (migration within the same district). The second common type of migrants are those who move between districts, which accounts for 11% of migrants in India. The adventurous ones who venture beyond state borders make up roughly 31%. Interestingly, more women than men migrate, often because of marriage traditions where they join their husbands' families.

- Economic and non-economic factors affecting migration

Migration from rural to urban areas in earlier times was largely on account of non-economic factors such as demographic, social, physical, and cultural factors. In the villages, social organisations are rigid. Therefore, the people who wanted to break away from these organisations used to migrate to cities. The decline in mortality rate in recent times has resulted in rapid population growth in rural areas. Young people have shown a tendency to migrate to cities in search of jobs. Improved health facilities, education, transportation, and the impact of cinema, radio, and television have also induced the migration of people from rural to urban areas. All these non-economic factors remain relevant even today, alongside certain economic factors. The economic factors include a 'push' from subsistence agriculture, a 'pull' of relatively high urban wages, and a 'push back' towards rural areas.

1.3.4.1 Push from Subsistence Agriculture

In India, for small farmers and agricultural workers, agriculture work often provides barely enough to survive. Their holdings are simply too small to offer productive work for everyone in the family. On small holdings, there is a considerable amount of disguised unemployment. This type of unemployment pushes them towards the city, seeking opportunities. Seasonal agriculture jobs offer little wages, which are not enough for

- Agriculture sector inability to provide productive work

their subsistence. Unfortunately, the absence of industries and businesses leaves a few options. Even activities linked to agriculture, like dairying and poultry, haven't seen the necessary support. The growth of new jobs in the countryside is slower than the rate of workforce growth. Therefore, a large proportion of the rural population migrates to cities due to push factors like disguised unemployment, wages, etc.

1.3.4.2 Pull of Relatively High Urban Wages

- Increased wage employments in urban areas

Urban wages are generally higher than rural wages. In the countryside, wages are traditionally determined and are low. Agricultural workers rarely receive wages that could be considered just and fair, as it is n em. There is no administrative system in place to ensure that agricultural workers are paid the minimum wage. In contrast, industrial workers in cities receive fair wages. Trade unions protect the interests of workers employed in organised sectors. The. Even in unorganised and informal sectors, the exploitation of workers is far less than in agriculture. Therefore, the pull of relatively high urban wages is quite strong, and a large number of people, particularly young men and women, keep migrating to cities.

1.3.4.3 Pushback Towards Rural Areas

- Return migration caused by unmet expectations in cities

Cities offer jobs in both organised and unorganised sectors at relatively high wages, but they cannot accommodate all job seekers. In India, urban unemployment rates are generally higher than rural unemployment rates. Rural-urban migration is the main reason for the higher rate of unemployment in urban areas. Although new industries have been established in cities and fresh job opportunities have been created, India's experience in recent years has shown that rural-urban migration rates have exceeded urban job creation rates and greatly exceeded the absorption capacity of both industry and urban social services. As a result, there is sometimes a pushback toward rural areas. This implies that out of a large number of migrants from rural to urban areas, some of those who are unable to find work in cities return to villages.

1.3.5 Urbanisation

Urbanisation refers to the rise in the proportion of the population living in urban areas. India's urbanisation growth has played a crucial role in accelerating the country's demographic transition. Cities offer undeniable advantages in facilitating both declining mortality and reduced fertility, crucial aspects

- impact of urban life on reducing family size

of this population shift. Concentrated populations make it more efficient to provide infrastructure like healthcare facilities and family planning resources. Additionally, urban living often presents inherent challenges to raising large families. The urban areas frequently boast superior infrastructure with improved water supply, sanitation, and access to education. These factors directly contribute to longer lifespans, evidenced by the fact that life expectation in the country's urban sector today is several years higher than in rural areas. Similarly, the level of total fertility per woman in the urban sector is probably about one birth below that holding in rural areas.

- Rural-urban migration for urban survival

The census data shows that from 1871 to 1941, India's urbanisation shows a very slow rise from 8% to 13.9 percent. A mere 3.7 million urban people were added per decade. The main reason behind low-level urbanisation in this period of 70 years was the direct link between population density and mortality from infectious diseases. Before India's demographic transition, the death rate in urban area surpassed that in rural areas. The Birth rate in the urban sector was lower than the death rate. This situation makes the constant rural-urban migration essential for urban survival.

- Difference in health outcomes between urban and rural populations

While the battle against high urban mortality in India met some success. Public health initiatives played a crucial role in resolving this situation. The second half of the 20th century witnessed a dramatic transformation in India, with a sustained and significant decline in mortality rates. This trend disproportionately benefited the urban sector, promoting its growth and urbanisation. The Sample Registration System (SRS) estimates suggest that by 1970-1975, life expectancy in urban India was 10.9 years higher than in rural areas. Even two decades later, in 1992-1996, the gap remained substantial at 6.9 years. This disparity likely persists even today.

Table 1.3.4 Urban Population Estimate for India, 1951-2001

Year	Population (Millions)	Urban Population (%)
1951	361	17.3
1961	439	18.0
1971	548	19.9
1981	683	23.3
1991	846	25.7
2001	1029	27.8

Source: Census data from1951 to 2001

Rapid improvements in urban mortality removed the barrier to urbanisation in India. The dramatic growth of urban populations evidences this. Table 1.3.4 reveals growth from 17.3% to 27.8% among urban residents between 1951 and 2001. By 2001, urbanisation officially reached 27.8%, though this figure would be much higher by some other criteria. For instance, the 1991 census identified 13,376 villages with a population of 5000 people or more, totalling around 113 million residents. As Pravin Visaria (2000) argues, these villages, if classified as "urban" in 1991, would have raised the country's level of urbanisation from 25.7 to about 39 percent.

- Rapid increase in urban population due to reduced mortality

India's urbanisation occurs because the urban sector grows faster than the rural sector. Unlike the rural sector, the urban sector has two main sources of growth during the demographic transition: (1) urban natural increase and (2) rural-to-urban migration. The volume of urban growth from both natural increase and migration reflects the overall growth of population, which itself reflects the mortality decline in the urban sector. Therefore, the process of urbanisation is ultimately brought by the mortality decline of the demographic transition. India's urbanisation is on a steady upward path. The country's current position in the mid-stage of its demographic transition plays a crucial role in this rapid urban population growth, which is faster than rural.

- Declining urban mortality leads to faster growth and urbanisation

Summarised Overview

The population of India increased from 0.361 billion in 1951 to 1.5 billion by 2030 and is projected to reach 1.7 billion by 2050. The demographic dividend is a period of economic growth that can occur when a country has a large proportion of its population in the working age group. This is because the working-age population is the group that is most likely to be employed and contribute to the economy. India's demographic dividend is favourable because the share of the working-age population is increasing. India's demographic dividend is favourable as the share of the working-age population is increasing. While the number of children under the age of five peaked in 2007 and has been declining since then, the number of people under the age of 15 is also declining.

The Government has implemented various family planning measures to reduce the birth rate, but the death rate has remained stable due to improved healthcare facilities, literacy and old age care. This has resulted in a higher population. Although India has a favourable demographic dividend, the skills and abilities of the workforce are not sufficient to drive the country's development. The urban population is higher than the rural population. Still, due to population pressure, many people are migrating to urban areas where they cannot find a good standard of living. This is causing a pushback to rural areas. Urbanisation is a rapid process in India, but increasing urbanisation will cause air pollution, water pollution, deforestation and environmental degradation.

Assignments

1. Examine the similarities and differences between the structure and pattern of the Indian population and China.
2. Compare the population policies adopted by other developed countries with the Indian population policy.
3. Comment on the urbanisation trends in other developed countries of the world.

Suggested Reading

1. Bhramananda P R and V. A Panchamukhi (Ed) (2001) *Development Experience in Indian Economy, Interstate Perspectives*, Bookwell, New Delhi
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3. Banik Nilanjan (2015) The Indian Economy: *A Macro Economic Perspective*, Sage Publications, New Delhi 16
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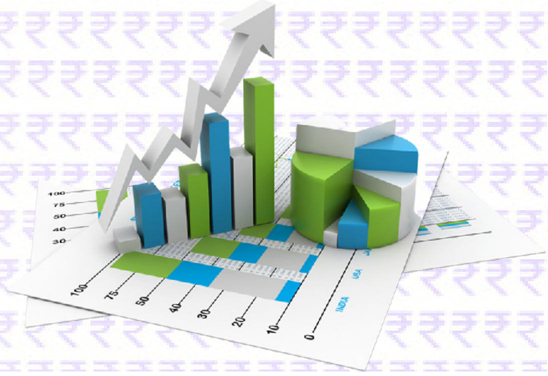
Reference

1. B A Prakash (ed) (2012) *The Indian Economy Since 1991: Economic Reforms and Performance*, Pearson, New Delhi
2. Kapila Uma (ed) (2016) *Indian Economy Since Independence: A Comprehensive and Critical Analysis of India's Economy 1947-2016*, Academic Foundation, New Delhi
3. Kaushik Basu (ed) (2004), *India's Emerging Economy*, Oxford University Press, NewDelhi.
4. V.K. Puri, S.K . Misra, and Bharat Garg (2022), *Indian Economy*, Himalaya Publishing House

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 4
Poverty, Unemployment, Inequality and Regional Disparity in India

Learning Outcomes

After completing this unit, learner will be able to:

- understand the estimation of poverty and unemployment in India
- familiarise with poverty alleviation programmes in India
- acquire knowledge about the status of unemployment
- recognise the issues of regional disparity and inequality in India

Background

India, a diverse nation with distinct religion, race, class, caste, and sex, has a number of socio economic problems that have a big impact on the population as a whole and the nation's overall development. The important challenges faced by the nation comprise poverty, unemployment, inequality, and regional disparity. These problems are considered to be the biggest hurdle to Indian planning also. Although the Indian economy has experienced significant growth and development over the previous few decades, these interrelated problems hinder India's economic development. As these socio economic challenges seem to be persistent in our nation, Poverty remains a big concern in the country. The historical data shows that, the Indian people were brutally decimated by famines that occurred one after another during the 19th century, when Britain was ruling in India as a colony. Famines in India are primarily the result of distributional issues rather than production issues. There were 31 famines in total when the British were in control of India, and the last one, the Bengal Famine (1943), claimed 4 million lives. India's current poverty trend indicates positive advancements, attributed to focused initiatives in economic growth and social welfare activities.

The issue of unemployment is another significant issue that both rural and urban India have to tackle. The inability of the Indian economy to absorb the job seekers hampers the livelihood of millions. Lack of suitable skills for the workforce makes the unemployment issue even worse. Indian economy displays a growing gap between the rich and the poor due to increasing income and wealth inequality. For society to be just and equitable, inequality must be addressed effectively. Regional disparity, which is common in India, hinders the balanced growth and equitable development. In India, there is a significant gap across the states in terms of income, infrastructure, health, and other factors.

Tackling these issues requires a comprehensive approach and the Government is addressing the issues like poverty, unemployment, and inequality through a number of citizen centric activities. As a result of this, India has made significant progress in the past 20 years in the fight against these issues. As long as India's economy continues to expand and stabilise, its citizens will have a better chance of escaping from poverty, unemployment and moving up the economic ladder by overcoming inequality and regional disparity. In this unit, learners will gain awareness on a variety of social issues like poverty, unemployment, inequality, and regional disparity.

Keywords

Poverty Line, Purchasing Power Parity, Inequality, Imbalanced Growth, Regional disparity.

Discussion

1.4.1 Poverty

- Unfair treatment of the extremely impoverished

Do you recall Madhu? On February 22, 2018, a mob in Kerala's Palakkad district lynched a 27-year-old tribal from Attappadi after accusing him of stealing food from a store. He has never been aggressive or committed any heinous act. Madhu made the mistake of stealing rice from a provision shop. On figuring out this incident, the enraged mob attacked and killed Madhu. He was compelled to steal from the grocery shop since he was out of supplies. Lack of resources caused Madhu to become impoverished. This incident is a living illustration of poverty.

Poverty is a condition in which society lacks the necessities like food, cloth, and shelter for a minimal level of existence. According to the World Bank, poverty is a serious loss of wellbeing that takes many forms. Examples of this include low pay and the inability to access the essential products and services needed for humane survival. Poverty can be treated as a situation in which there is utmost deficiency in the wellness of individuals. Poor are those who do not earn enough money or consume enough to raise them above a sufficient minimum level. Poverty is both an individual issue and a larger societal issue. As far as the individuals are concerned, inability in making both ends meet can result in a variety of physical and mental problems. At the societal level, high poverty rates can have a negative impact on society as a whole and are linked to issues like crime, unemployment, urban deterioration, and ill health. Social welfare programmes are implemented by governments to aid in lifting individuals out of poverty on an individual, family, and community level.

- Inability to meet the needs

1.4.2 Poverty Estimations in India

Poverty estimation is a major task in India due to its vast population. In order to create a just and equitable society, the estimation of poverty should be made and necessary policies and programmes should have to be implemented. Only reliable poverty estimation can make the first step towards eradication of poverty by framing adequate poverty alleviation programmes. India has an extensive record of studying how to define poverty. Prior to the establishment of NITI Aayog, the Planning Commission in India was responsible for executing methods proposed by various Expert Groups/Committees to measure poverty. The National Sample Survey Organisation's (NSSO) household survey data are the basis for the regular publications on poverty by the Planning Commission. Poverty estimations were done in India prior to Independence also. The detailed analysis of poverty estimations in India prior to Independence and after Independence can be discussed as follows:

- Framing poverty eradication programmes

1.4.2.1 Poverty Estimation in India Prior to Independence

a. Poverty Estimation by Dadabhai Naoroji

In 1901, Dadabhai Naoroji published the well-known book 'Poverty and the Un-British Rule in India' where he initiated the estimation of poverty in India. As the basis for assessment, he used food items like rice, flour, dal, mutton, vegetables, ghee, vegetable oil and salt as the staples of a subsistence diet. He believed that, to maintain the basic needs and a sense of decency, a minimum level of income is required to meet the essential requirements and he arrived at a poverty level using subsistence costs that ranged from Rupees 16 to 35 per person per year in India. Even though he never used the phrase "poverty line" in his work, Dadabhai Naoroji's efforts and thorough investigation allowed him to reach the conclusion that there was a subsistence-based poverty line at prices in 1867–1868.

- Expenditure on essential diet

b. Poverty Estimation by National Planning Committee

In 1938 Subash Chandra Bose, the President of Indian National Congress at that time, founded the National Planning Committee. Jawaharlal Nehru was appointed as the Chairman and K T Shah was appointed as the Secretary of the National Planning Committee. The irreducible minimal income, according to the Committee, should be in between Rupees 15 and Rupees 25 per person per month. However, the National Planning Committee's estimation of poverty is not a generally accepted one.

- Per capita monthly expenditure

c. Bombay Plan

A set of businessmen and technocrats suggested the Bombay Plan in January 1944, as an economic strategy for the post independence development of India. The main concept advanced by the Bombay Plan was that, without government participation and economic control, no economy could grow. The creators of the Bombay Plan envisioned that our local industries should be protected by our government from the competitive free market economy. The formulators of Bombay Plan provided several recommendations to the government for a better India. The major recommendations to the Government are to bring transition from an agrarian to industrialised society, to establish critical public sector enterprises, to make an active role by the Government in deficit financing, and to make planned equitable growth etc. Regarding the poverty estimation, the poverty limit put up by supporters of Bombay Plan was substantially lower than the National Planning Committee. The Bombay plan suggested a poverty level of Rupees 75 per person per year.

- Consumption expenditure per year

1.4.2.2 Poverty Estimation Committees in India after Independence

Since Independence, Planning Commission was the nodal agency for estimating the proportion of people living below poverty line at the national and state level. Following are the significant poverty estimation committees established in India after Independence.

1971 : Poverty estimation by V.M Dandekar and N.Rath

1979 : Poverty estimation by Y.K Alagh Committee

1993 : Poverty estimation by Lakdawala Committee

2009 : Tendulkar Expert Group (Tendulkar Committee)

2014 : Rangarajan Committee

Fig 1.4.1 Poverty Estimation Committees

1. Poverty Estimation by V M Dandekar and N Rath

- 2250 calories per day for both rural and urban

Before 1970's the minimal requirements (food, clothing, and shelter) or subsistence living were used as the norm for determining the poverty line in India. However, in 1971, V.M. Dandekar and N. Rath proposed a set of rigorous criteria for the measurement of poverty using data given by the National Sample Survey Organisation (NSSO). In contrast to prior researchers who had utilised mere sustenance as a measure of poverty, Dandekar and Rath recommended the intake of 2250 calories per day for calculating the poverty lines in both the rural and urban areas. The poverty line is determined as the amount required to fulfil this recommended calorie requirement. The committee fixed the poverty line on the basis of 1960-61 prices and recommended Rs. 15 and Rs. 22.5 per person per month as the poverty benchmark for rural and urban households respectively.

2. Y K Alagh Committee

In 1979, the planning commission constituted Y K Alagh Committee to estimate poverty levels in India. The Committee suggested an urban and rural poverty based on dietary requirements and consumer spending. The Committee recommended 2100 calories for rural areas and 2400 calories for urban areas as a daily minimum calorie intake. With reference to the 1971 population census, The Nutrition Expert Group (1968) proposed age-gender and activity specific calorie limits. This population-weighted average was used to calculate the average calorie requirements by the Committee. On the basis of 1973–1974 prices, Alagh Committee set the poverty line at Rs. 49.09 and Rs. 56.64 respectively in rural and urban areas.

- Separate calorie norms for rural and urban areas

3. Lakdawala Committee

The Lakdawala Committee was constituted by the planning commission with the objective to examine and redefine the poverty line if necessary. The Committee published its report in 1993, and doesn't make any deviation from the previous poverty line estimations. Lakdawala committee kept the distinct rural and urban poverty limits that the Alagh Committee had suggested on the basis of minimal nutrition requisite. In order to account for the interstate price changes, Lakdawala Committee introduced state specific poverty levels.

- Maintained the recommendation of Alagh Committee

The Lakdawala Committee made several new additions in poverty estimation. Health and education were the new variables added in the poverty estimation. In addition, poverty line estimation was made by utilising the Consumer Price Indices for Industrial Labourers (CPI-IL) and Consumer Price Indices for Agricultural Labourers (CPI-AL). The consumption expenditure made by the individual household is used to determine the poverty line. The poverty line data figures showed that the number of individuals living below the poverty line has been doubled on the basis of Lakdawala Committee recommendations. As per the previous Alagh Committee's estimation of poverty, the percentage of population living below the poverty line was just 16%. But under Lakdawala's estimation, the percentage of population living below poverty line was 36.3%.

- Consumption expenditure

4. Tendulkar Committee

In December 2005, the Planning Commission established an Expert Group, which was led by Professor Suresh D. Tendulkar.

In December 2009, the committee submitted its final report. Based on the Tendulkar Committee's recommendations, the Planning Commission updated the poverty lines and poverty ratios for 2011-12 using Household Consumer Expenditure Survey data from the 68th round of the National Sample Survey Organisation (NSSO). Unlike earlier methods of poverty estimation, Tendulkar based his calculations on the consumption of the items like food, clothing, footwear, education, entertainment, medical, personal and toilet goods. The Tendulkar Committee established a fixed poverty line basket and set the poverty levels based on consumption expenditure in rural areas at Rs. 446.68 and in urban areas at Rs. 578.80 per person per month. Thus, based on the purchasing power parity terms, it becomes Rs 33 per day and Rs 27 per day in urban and rural areas respectively.

- Consumption expenditure of Rs 33(urban) and 27 (rural)per day

5. C Rangarajan Committee on Poverty estimation (2013)

C. Rangarajan carried out his estimation on poverty on the basis of household survey conducted by Centre for Monitoring Indian Economy (CMIE). According to C Rangarajan committee, the poverty line is based on the following criteria:

a. Calorie - In urban area, the calorie intake is set as 2090 kcal and in rural area, it is 2154 kcal.

b. Protein - The protein intake in urban area is set as 50 gm and for rural area, it is 48 gm.

- Increased Poverty Percentages

c. Fat - For urban area, the fat intake is set as 28 gm and for rural area, it is 26 gm.

The Rangarajan Committee set the daily expenditure benchmark as rupees 32 in rural areas and rupees 47 in urban areas. According to this analysis, the percentage of poor people was 41% and 19% higher in cities and rural areas respectively as compared to the estimates given by Tendulkar committee.

For estimating poverty, Rangarajan Committee has recommended Modified Mixed Reference Period (MMRP). Based on the nature of the commodity, different reference periods have been set. For clothing, education, footwear, medical, and other durable goods, the reference period is 365 days. For perishable goods (fruits, vegetables, fish and meat), beverages, and intoxicants, it is 7 days, and for other items

- Introduced Modified Mixed Reference Period (MMRP) which include fuel, miscellaneous goods etc., the reference period is 30 days.

1.4.3 Policies and Programmes for Poverty Alleviation

- Region specific and comprehensive programmes

The policies and programmes envisaged for poverty alleviation can be discussed under the two phases. The poverty alleviation measures adopted in the initial phase during early 1970's and poverty alleviation measures adopted in the later phase during 1980's. In the initial phase, Government has given more priority to the agricultural labourers. The newly introduced programmes in the 1970's like Small Farmers Development Agency and Drought Prone Area were mainly focused on farmers. The majority of the labour force of the country at that time was agricultural labourers, and through those programmes, the government made an effort to rescue the farmers from the brink of poverty. Later on, broad initiatives to reduce poverty were launched. The most important among them is MGNREGA. The programmes for reducing poverty that have been implemented in India are discussed below.

1.4.3.1 Initial Phase

- Rural poverty alleviation

During the initial phase, a good number of poverty alleviation measures were adopted in the 1970's. One major initiative was the introduction of Small Farmers Development Agency (SFDA) to determine the issues facing by small farmers and to ensure that the services intended for them are actually being received by them. Another programme was Drought Prone Area Programme (DPAP) to provide support to farmers during times of drought. Through Crash Scheme for Rural Employment (CSRE) programme, Government tried to generate at least 1,000 employment in every district each year. Apart from this, Food for Work Programme (FWP) was started for providing unskilled manual work for rural poor and payments were given to them in terms of food grains. All these programmes were implemented only in selected regions of the country. One of the major drawback of these programmes were that, all these end up with mere subsidy giving programmes.

1.4.3.2 Later Phase: Widespread Programmes

Integrated Rural Development Programme (IRDP), National Rural Employment Guarantee Programme (NREGP), and Rural Landless Employment Guarantee Programme (RLEGP) were the important poverty reduction programmes introduced by central government in the later phase and these were more comprehensive and wide spread initiatives.

• Aimed at unskilled labourers

1. **Integrated Rural Development Programme (IRDP):** The programme was initiated in the year 1978-79 in 2300 blocks in the country. In the 6th five year plan, IRDP was expanded to all over India. Integrated Rural Development Programme is a centrally sponsored scheme funded on 50:50 basis by the central and state governments. Since 1980, this scheme has been in operation in the entire blocks of the country. Initially this programme aimed at small and marginal farmers, landless labourers, and artisans. Through this plan, the government aims to give the rural poor, opportunities for employment and to help them develop their skill sets. Only by developing the necessary skills can such people live a standard life. The primary beneficiaries of this scheme were rural craftsmen, small and marginal farmers, scheduled castes, scheduled tribes, etc. District Rural Development Agencies carried out the execution of this programme across the nation.

• Support to daily wage earners

2. **National Rural Employment Programme (NREP):** The programme was introduced in the year 1980 during the sixth five year plan period. The main objective is to provide support to wage earning group in India like the farmers in the country who were in great distress during the lean agricultural season. The primary goal of the NREP's implementation was to provide gainful employment opportunities for the unemployed and under employed rural poor. The goal of providing employment was to raise the general living conditions of the rural poor through creating productive assets for the nation. Landless labourers were given preference under the programme, and among landless workers, Scheduled Caste and Scheduled Tribes were given preference. Contractors were not allowed as mediators in the programme. Wages were paid partly in cash and partly in food grains.

3. **Rural Landless Employment Guarantee Programme (RLEGP):** Along with the objective of providing employment for landless rural poor, RLEGP was introduced on the Independence Day of 1983. On 1st April 1989, NREP and RLEGP merged together and renamed as Jawahar Rozgar Yojana (JRY). The government started its flagship programme by providing 100 days of work each year in order to improve job opportunities for the

landless rural poor and to give employment opportunity to at least one member of every rural landless household. The work's focus is on building durable assets to improve rural infrastructure. In the sixth five year plan period, central government has earmarked rupees five hundred crores for RLEGP. The implementation of the programme was entrusted to the states and union territories with the approval from a central committee.

- Support to landless rural poor

4. **Sampoorna Grameen Rozgar Yojana (SGRY):** Sampoorna Grameen Rozgar Yojana was launched in 2001 for providing 100 work days for the unskilled poor workers in the rural areas. This programme intended to provide wages and employment for the rural poor and thereby making food security. For the implementation of poverty reduction schemes effectively, Jawahar Gram Samridhi Yojana (JGSY) and Employment Assurance Scheme (EAS) were merged with Sampoorna Grameen Rozgar Yojana. As of now, Swarnajayanthi Gram Swarozgar Yojana (SGSY) and Sampoorna Grameen Rozgar Yojana (SGRY) are devoted at rural level and Nehru Rozgar Yojana launched in October 1989 is meant for urban poor. The Nehru Rozgar Yojana merged into Swarnajayathi Shahari Rozgar Yojana in 1997-98.

- For unskilled rural poor

5. **Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS):** The Mahatma Gandhi National Rural Employment Guarantee Act was passed in the year 2005 and it was instigated in February 2006. This most popular act aimed a minimum hundred days of assured work in a financial year to every household in the rural areas of the country. The work nature of this programme is of unskilled manual work. MGNREGA is a right based system with employment on demand. Under this programme, in every household, whose adult member who volunteers to perform unskilled physical labour will receive at least 100 days of guaranteed pay employment. The main features of MGNREGA are to guarante within 15 days of registration and un employment allowances are paid if work is not granted within 15 days, employment will be provided within 5 kilometres of residence, the State governments are required to pay the minimum wages etc. This flagship programme stands out for ensuring that one-third of its workforce comprises women, which is a significant advantage. Men and women are equally paid under this programme and there is mechanism for openness and accountability under MGNREGA.

- 100 days assured work for rural poor

1.4.4 Unemployment

- Concerning rise of unemployment

Unemployment is a situation where a person who actively search for job and is unable to fetch a job. Most often, apart from other indicators, the wellbeing of an economy is calculated with unemployment rate. In simple manner, the rate of unemployment is estimated by dividing the total number of unemployed people by the total number of people in the labour force multiplied by 100. If you are going through the unemployment data of the country since 1991, we will get an input about one of the major socio economic issue in India. The percentage of unemployment in India in 1991 was 5.60%, and in 1995 percentage of unemployment slightly rose to 5.76%. In the year 2000, the rate of unemployment in India was 5.56% and in 2005 it minimally increased to 5.61%. But in the year 2010, unemployment rate fall to 5.55% and in 2015, it again fall to 5.44%. The rate of unemployment sharply increased to 8% in 2020 and fall down to 5.98% in 2021. Unemployment rate in India rose from 7.8 % in March 2023 to 8.1 % in April 2023 based on the estimates by Centre for Monitoring Indian Economy (CMIE). Although the Indian economy is growing faster, the unemployment rate is also growing is a major cause of concern. This situation can lead to jobless growth.

1.4.5 Estimation of Trends in Unemployment

Basically, three concepts are there to estimate unemployment in India.

1. Usual Status Method

- Comprehensive

In the first method, the status of unemployed or employed is estimated by determining the usual activity status of the population. The reference period is longer in this case like one year before the survey. The usual status unemployment data gives the unemployed status of the entire population during the past one year.

2. Current Weekly Status Method

- Technical method

In the second method, the reference period is preceding seven days. If a person failed to get at least an hour of work during the survey week, the person will be treated as unemployed.

- Hourly employment

3. Current Daily Status Method

The third concept of calculating unemployment is a unique method under which a person worked for an hour but less than 4 hours will be considered as having worked for half a day. If a person works for four hours or more during a day, he will be considered as employed for the whole day.

1.4.6 Rural-Urban and Female-Male Unemployment Trends

The National Sample Survey Organisation (NSSO) conducted several rounds of surveys, and the results were available in three ways for estimating unemployment. They are the usual status method, the current weekly status method, and the current daily status method.

1.4.6.1 Rural-Urban and Female-Male Unemployment

Table 1.4.1 Unemployment Rates: Rural & Urban – for Male & Female (number of people unemployed in percentage wise)

NSSO Round	Rural Males		Rural Females	
	Usual Status	Current weekly Status	Usual Status	Current weekly Status
27th (1972-73)	1.2	3.0	0.5	5.5
32nd (1977-78	1.3	3.6	2.0	4.1
38th (1983)	1.4	3.7	0.7	4.3
43rd (1987-88)	1.8	4.2	2.4	4.4
50th (1993-94)	1.4	3.1	0.9	2.9
55th (1999-2000)	1.7	3.9	1.0	3.7
61st (2004-05)	1.6	3.8	1.8	4.2
66th (2009-10)	1.6	3.2	1.6	3.7
68th (2011-12)	1.7	3.3	1.7	3.5
PLFS (2017-18)	5.8	8.8	3.8	7.7

NSSO Round	Urban Males		Urban Females	
	Usual Status	Current weekly Status	Usual Status	Current weekly Status
27th (1972-73)	4.8	6.0	6.0	9.2
32nd (1977-78	5.4	7.1	12.4	10.9
38th (1983)	5.1	6.7	4.9	7.5
43rd (1987-88)	5.2	6.6	6.2	9.2
50th (1993-94)	4.1	5.2	6.1	7.9
55th (1999-2000)	4.5	5.6	5.7	7.3
61st (2004-05)	3.8	5.2	6.9	9.0
66th (2009-10)	2.8	3.6	5.7	7.2
68th (2011-12)	3.0	3.8	5.2	6.7
PLFS (2017-18)	7.1	8.8	10.8	12.8

Source: NSSO's Various Round survey on employment and unemployment

- Increasing unemployment is a concern

The Periodic Labour Force Survey (PLFS) was constituted by the Union Ministry of Statistics and Programme Implementation (MoSPI) in April 2017 to calculate the worker population ratio, the labour force participation rate, and the unemployment rate in India. PLFS exclusively uses the Current Weekly Status to produce unemployment data for cities. The annual unemployment rates for rural and urban areas are estimated by PLFS using Usual Status and Current weekly Status. Sine, 1972 the unemployment rate is increasing in rural areas (for both male and female) under Usual Status method. Under Current Weekly Status Method, rate of unemployment among males showed an increasing trend till 1999-2000. There after it starts diminishing. Unemployment rate is high among rural males as per PLFS Survey 2017-18. For both male and female unemployment rate is high in urban areas compared to rural areas.

Table 1.4.2 All India Rural Urban Unemployment Rates for 2011-12 (in percentage)

Sl No.	Estimate	Rural	Urban	**Total**
1	Usual Primary Status	2.3	3.8	2.7
2	Usual Primary Status (Adjusted)	1.7	3.4	2.2
3	Current Weekly Status	3.4	4.4	3.7
4	Current Daily Status	5.7	5.5	5.6

Source: NSSO's 68th Round survey on employment and unemployment conducted in 2011-12 (June 2013)

- High unemployment in Urban areas

From the above table, it is understood that the unemployment rate was higher in urban areas compared to rural areas. The unemployment rate is significantly greater as per the Current Daily Status technique than it is according to other methods.

1.4.7 Causes of Unemployment in India

a. **Social stratification:** The age old social stratification in the Indian society is a hurdle to get into an employment. In many parts of the country, people from certain castes are not allowed to do certain jobs. Many times some jobs are reserved for certain communities that may make others unemployed.

b. **Imbalanced growth in the country:** As our economy is a developing economy, the economic growth is not enough to cater the needs of the population. The resources are not equally distributing in our country and this will create unemployment.

c. **Increase in population:** The recent United Nations estimates and projections on global populations indicate that China won't be the most populous country in the world for much longer. In April 2023, India's population reached at the level of China and now surpassed the population of mainland China as per UN Department of Economic and Social Affairs policy brief number 153. As the economic growth in India is not in tandem with population growth, this will lead to a larger number of population unemployed.

d. **Seasonal nature of agriculture:** Agricultural occupation in our country is seasonal in nature. During lean agricultural season, a large segment of the society may not have any source of income. Hence, the extent of unemployment will increase as a result of lack of employment for agricultural labourers during the off season.

e. **The loss of handicraft and cottage industries:** Due to rapid industrialisation in the country, the age old handicraft and cottage industry were not economically profitable. People often demanded the cheap industrial goods. This resulted in massive unemployment for those people who engaged in handicraft and cottage industry.

f. **Absence of labour mobility:** The Indian tradition culturally owes its attachment and maintenance of closeness to family. A large section of the society is not ready to travel long distance to earn a living. Hence, result in unemployment. Apart from this, lack of knowledge other than mother tongue, change in lifestyle etc also result in the lack of labour mobility.

g. **Lack of skill acquisition from educational Institutions:** According to Team Lease Services Limited, (an Indian recruitment and human resources services company established in 2002 with its headquarters in Bengaluru, Karnataka) India will need 30 million digitally skilled professionals by 2026 and more than half of the current work force would need to reskill themselves in areas of emerging technologies. More than 2 million jobs in Artificial Intelligence, Cyber Security and the Block chain experts jobs may remain vacant in 2024. The education system in our country does not change much from the system introduced by the British in India.

1.4.8 Inequality

For the last three decades inequality has been rising sharply in India. The huge part of the wealth is concentrated among the richest Indians. As the old famous quote says, the richer becomes richer and the poor become poorer in India. Even if achieving absolute equality is probably impossible, economic disparities between social classes become an issue when there is huge income difference among people. Over the past ten years, there has been a rising belief that China and India are emerging

- Unequal concentration of wealth

as two of the world's major economic superpowers. In order to benefit from the established and rapidly expanding markets in China and India, commercial organisations, particularly multinational enterprises, are establishing their ventures in these countries. This tendency is being accompanied by the emergence of Indian corporate tycoons. According to Oxfam International (a global movement works to eradicate injustice and poverty), **"**The top 10% of the Indian population holds 77% of the total national wealth. 73% of the wealth generated in 2017 went to the richest 1%, while 670 million Indians who comprise the poorest half of the population saw only 1% is increase in their wealth." Thus we can say that millions of Indians are experiencing hardships especially in rural areas and slums in urban areas.

1.4.9 State of Inequality in India Report, 2022

- Factors influencing inequality

The State of Inequality in India Report, 2022 was released by Dr. Bibek Debroy, Chairman, Economic Advisory Council to the Prime Minister on 18th May 2022. The report gives information on inequalities in various areas like education, health, household characteristics and the labour market. The report gives comprehensive analysis of inequality in the country. The report consists of two parts: economic and socio economic manifestations. It looks at 5 areas that influence inequality. They are income distribution, labour market dynamics, health, education, and household characteristics. The State of Inequality in India Report 2022 collected data from various sources including Periodic Labour Force Survey (PLFS), National Family Health Survey (NFHS) and Unified District Information System for Education Plus (UDISE+).

The report shows that changes in people's purchasing power are not reflected in wealth concentration as an indication of inequality. The analysis, based on income data from the Periodic Labour Force Survey (PLFS) 2019-20, highlights that having a monthly income of Rs. 25,000 places an individual among the top 10% of all income earners in India. This underlines a disparity where a relatively modest income is considered high in the context of the country's overall income distribution.

Universal Basic Income (UBI)

Every adult citizen will receive a specific amount of money on a monthly basis under the UBI programme, which is run by the government.

- Concern regarding nutrition

According to the report, infrastructure capabilities of the health sector have significantly improved in India. However, there are lot of reasons for concern when it comes to other health indicators like nutrition. The prevalence of anaemia (especially in children, teenage females, and pregnant women) indicates inadequate nutrition for these population. Overweight and underweight is also a great concern. A long-term remedy for inequality, according to the report, is cognitive growth, in a child from his formative years. The major recommendation made in the report to eliminate inequality includes establishing Universal Basic Income (UBI), creating jobs, increasing the budget for social protection schemes etc.

1.4.10 Regional Disparity in India

- Socio economic factors

The variation in economic development among different regions is referred to as regional disparity. It is challenging to measure regional disparity when it comes to the Indian economy. Disparity between States and within States is one way to picture regional disparity. The difference in per capita income of various States is frequently highlighted for measuring regional disparity. There are other significant disparities between the States and regions of India in terms of literacy rates, health and education services, levels of industrialisation, infrastructure facilities, rates of industrial and agricultural growth, the proportion of workers in manufacturing to all workers, the length of all roads, the infant mortality rate, etc. Since each of these can be used as an indication when examining imbalances and inequities in regional development. Let us discuss about the regional differences in terms of the following indicators.

a. **Per Capita Income (PCI) disparity:** Per capita income (PCI) serves as an indicator for economic development, representing the income each individual earns within an economy. The calculation involves dividing the nation's total income by its population. The per capita income figure reveals an aspect of unequal distribution or inequity. In the fiscal year 2021–2022, the average per capita income (PCI) for all of India (Net State Domestic Product (NSDP) per capita in Current Prices) was ₹ 1,48,524. Goa had the highest PCI at ₹ 4,72,070, while Bihar had the lowest at ₹ 47,498. The highest and lowest PCI data for selective states are listed below.

Table 1.4.3 : State/UT by Net State Domestic Product NSDP per capita (Current Prices, ₹)

Position	State	NSDP per capita
1	Goa	₹ 4,72,070
2	Sikkim	₹ 4,63,509
3	Delhi	₹ 3,89,529
4	Chandigarh	₹ 3,33,932
5	Telangana	₹ 2,70,839
6	Karnataka	₹ 2,65,623
7	Haryana	₹ 2,64,835
8	Puducherry	₹ 2,51,344
9	Tamil Nadu	₹ 2,42,253
10	Gujarat	₹ 2,41,930
11	Kerala	₹ 2,33,855
	India	**₹ 1,48,524**
27	Chhattisgarh	₹ 1,20,704
28	Meghalaya	₹ 1,03,335
29	Assam	₹ 1,02,965
30	Manipur	₹ 91,560
31	Jharkhand	₹ 84,059
32	Uttar Pradesh	₹ 73,048
33	Bihar	₹ 47,498

Source: Handbook of Statistics on the Indian Economy, 2022-23, Reserve Bank of India, 2023

- Higher Per Capita Income decrease disparity

b. Regional disparity in terms of poverty: In 2011-12 almost 22% of Indians were considered to be living in poverty. The prevalence of poverty was significantly lower in some States (Punjab 8.3%, Andhra Pradesh 9.2%, Kerala 1%). Incidences of poverty are also quite high in Bihar 33.7%, Odisha 32.6%, Madhya Pradesh 31.7% and Uttar Pradesh 29.4%.

Table: 1.4.4 State-wise Poverty Situation in different states of India in the year 2011-12

Sl No	Population below poverty line	States
1.	Less than 10 percentage	Goa, Kerala, Himachal Pradesh, Sikkim, Punjab, Andhra Pradesh.
2.	10 - 20 percentage	J&K, Haryana, Uttarakhand, Tamil Nadu, Meghalaya, Tripura, Rajasthan, Gujarat, Maharashtra, Nagaland, West Bengal.
3.	20 - 30 percentage	Mizoram, Karnataka, Uttar Pradesh.
4.	30 - 4 0 percentage	Madhya Pradesh, Assam, Odisha, Bihar, Arunachal Pradesh, Manipur, Jharkhand, Chattisgarh.

Source: NITI Aayog Estimates, 2011-12

- Poverty brings disparity

In 2011-12, India's poverty scenario varied across states. States like Bihar and Jharkhand had higher poverty rates, indicating more people living below the poverty line. Southern states like Kerala, Andra Pradesh and Tamil Nadu showed relatively lower poverty levels, reflecting better economic conditions. Uttar Pradesh and Odisha faced significant poverty challenges. Maharashtra and Gujarat demonstrated improved poverty situations due to economic development. Overall, diverse State-wise factors contributed to the varied poverty scenario in India during 2011-12. Efforts for inclusive growth and targeted interventions were crucial to addressing these disparities and uplifting vulnerable communities.

c. Regional disparity in terms of human development:

Human Development is a composite measure that considers three key dimensions of human well-being: health, education, and income. Health is assessed using life expectancy at birth, education is represented by a combination of mean years of schooling for adults and expected years

- Components of HDI

of schooling for children entering school, and income is measured by Gross National Income (GNI) per capita. The United Nations Development Programme (UNDP) uses a classification system for Human Development based on the Human Development Index (HDI). This index has specific cut off points. Less than 0.550 is classified as low human development. Between 0.550 and 0.699 falls under medium human development. From 0.700 to 0.799 is considered high human development. 0.800 or greater is categorised as very high human development.

Table: 1.4.5 Human Development Indices of India

Rank	State/UT	HDI 2021
High Human Development		
1.	Kerala	0.752
2.	Goa	0.751
3.	Chandigarh	0.744
4.	Delhi	0.730
5.	Puducherry	0.726
6.	Lakshadweep	0.715
Medium Human Development		
9.	Jammu and Kashmir	0.699
10.	Punjab	0.694
11.	Haryana	0.691
12.	Maharashtra	0.688
13.	Mizoram	
14.	Tamil Nadu	0.686
India Average		**0.633**

Low Human Development		
31.	Odisha	0.597
32.	Madhya Pradesh	0.596
33.	Uttar Pradesh	0.592
34.	Jharkhand	0.589
35.	Bihar	0.571

Source: Global Data Lab, 2021

- Need improved HDI values

Kerala stands top in Human Development indices of the country. The literacy rate in Kerala is 94% and the female literacy rate is 91.98%. In Kerala, the sex ratio is 1084 females per 1000 males and the infant mortality rate is 7 per 1000 live births. But some states are worst in terms of Human Development. If we focus on Bihar, which has the lowest Human Development Index (HDI) ranking, it indicates that the overall well-being and development indicators in the state are comparatively lower than in other regions. The literacy rate in Bihar is just 61.80%.

- Kerala excels in HDI

In the 2021 Human Development Index (HDI) ranking of different states in India, the top five positions are held by Kerala, Goa, Chandigarh, Delhi, and Puducherry. These States and Union Territories are doing well in terms of factors like education, health, and income. On the other hand, the bottom five states in the ranking are Bihar, Jharkhand, Uttar Pradesh, Madhya Pradesh, Odisha, and Assam. These states are facing challenges in terms of human development indicators compared to the top-ranked ones.

Summarised Overview

Poverty refers to the inability to meet the basic human needs. Poverty estimation in India happened before independence. The first poverty estimation in the pre-independent India was done by Dadabhai Naoroji. All the poverty estimations in the pre-independent India were based on consumption expenditure pattern. The more systematic estimations of poverty in India after independence were given by the Dandekar and Rath Committee, Y K Alagh Committee, Lakdawala Committee, Tendulkar Committee and Rangarajan Committee. Various poverty alleviation programmes like SFDA, DPAP, CSRE, FWP were introduced in the initial phase. IRDP, NREGA, RLEGP, SGRY and MGNREGS were introduced in the later phase.

Unemployment is a situation where a person who actively search for job and is unable to fetch a job. Usual Status, Current Weekly Status and Current Daily Status methods are used to estimate unemployment in the country. Inequality has been rising sharply in India. The state of inequality in India report 2022 gives information on inequalities in various sectors like education, health, household characteristics, and the labour market. The variation in economic development among different regions is referred to as regional disparity. For measuring regional disparity, the differences in per capita income of different States are often highlighted. For analysing regional disparity, various aspects also need to be considered like disparity in industrial and agricultural growth, literacy levels in various States, percentage of manufacturing industry workers to total workers, total road length, infant mortality rate etc.

Assignments

1. Comment on the nature of various Poverty estimation methods in India. Do you believe that the various committees' estimates of poverty accurately reflect the number of poor people in this nation?
2. Discuss the issue of Unemployment in India and Explain the various methods to calculate Unemployment in India.
3. Millions of unemployed university graduates virtually everywhere lack hope for finding a position that pays even the minimum wage. What actions are necessary to address this issue?
4. India's regional disparity is a major source of worry. Explain using current regional disparity scenarios in India.
5. How may regional inequality in India be reduced? Comment.

Suggested Reading

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2. Planning Commission (2006), *Towards faster and more Inclusive growth: An approach to the 11th Five year plan,* December 2006.

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1. Kapila Uma (ed) (2016) *Indian Economy Since Independence: A Comprehensive and Critical Analysis of India's Economy 1947-2016*, Academic Foundation, New Delhi
2. Mahajan Ashwani : *Definition of Poverty- Absence of uniform statistical Measure, The Statesman,* January 21st 2010
3. Government of India, *Economic Survey (2022-23)*

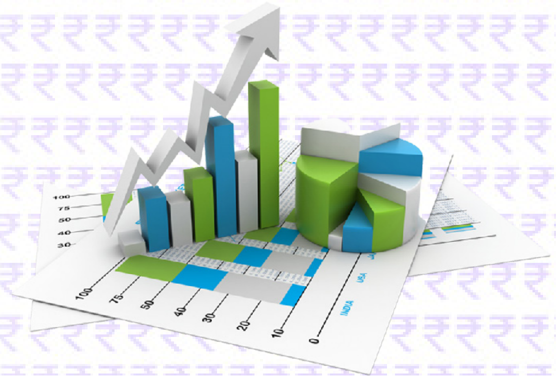
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

MASTER OF ARTS ECONOMICS

Block 2

Sectoral Developments



UNIT 1
Sectoral Composition of GDP

Learning Outcomes

After completing this unit, learner will be able to:

- understand the share of agriculture in India's GDP
- assess the contribution of the industry to economic growth
- examine the service sector growth in India

Background

For a long time since independence from colonial domination, India did not perform well in terms of economic growth. The poverty rate among people was high, and their numbers grew substantially. India was often seen as a country with potential that never materialised. However, things changed since 1980, and especially after the economic reforms in 1991, India joined the ranks of a dozen or so of the world's fastest-growing countries. The economic liberalisation and reforms that began in the early 1990s have been instrumental in unlocking the country's growth potential. India has become one of the few countries in the world that has achieved very high growth rates. The poverty ratio has fallen significantly. India has become a prominent actor in the global economy, attracting foreign investments and promoting innovation and entrepreneurship.

GDP is a key indicator of a country's economic performance, measuring the total value of goods and services produced within its borders. India's GDP has experienced remarkable growth since 1990. It reflects the country's economic development and structural changes, shifting from an agrarian economy to a more varied and service-oriented one. The current unit will examine the growth of agriculture, industry, and service sectors and their impact on GDP.

Keywords

GDP, Structural change, Agriculture, Industry, Service

Discussion

2.1.1 GDP

- Total output

Gross Domestic Product (GDP) plays a crucial role in measuring and assessing the overall economic activity and growth of a country. It is a measure of the total economic output produced within a country's borders during a specific period, usually a year. The income received by nationals of our country within the boundaries of foreign countries should be added to the GDP. While income received by foreign nationals within the boundary of our country should be excluded from GDP. The three sectors which contributes to the GDP are the agriculture, industry, and service sectors. As one of the world's largest and fastest-growing economies, India's GDP has earned significant attention both domestically and internationally.

2.1.2 Sectoral Contribution of Agricultural, Industrial, and Service Sectors

- GDP estimates

Any meaningful assessment of the performance of the Indian economy after independence can be made through a comparison with the colonial era. For this, two periods from 1900-01 to 1946-47 and 1950-51 to 2004-05 are taken. The Sivasubramanian estimate of the national income suggests that during the first half of the 20th century, there was steady growth in both GDP and GDP per capita (average income of a person); they were 1.0% and 0.2% per annum, respectively. But the growth rate from the period 1950-51 to 2004-05 shows a sharp contrast. The GDP was 4.2% per annum, while the growth in per capita income was 2.1% per annum. A comparison among three sectors (primary, secondary, and tertiary) in both periods witnessed the fact that there was significant growth in the share of each sector after independence. This will be clear from the table below.

Table 2.1.1 Economic Growth in India during the 20th Century

Period	Growth rate (%)
A. **1900-01 to 1946-47**	
Primary Sector	0.4
Secondary Sector	1.7
Tertiary Sector	1.7
B. **1950-51 to 2004-05**	
Primary Sector	2.5
Secondary Sector	5.3
Tertiary Sector	5.4

Source: For 1900-01 to 1946-47, Sivasubramaniam estimates (2000). For 1950-51 to 2004-05, National Accounts Statistics of India.

- Stable growth rate after 1980

During the 1970s and 1980s, the growth of three major sectors was high. The growth of agriculture, manufacturing, and services increased considerably in the 1980s and 1990s compared to the previous decades. Agriculture grew by about 2.7 percent more between the 1970s and 1980s, while manufacturing and services achieved growth rates above 6 percent in the 1980s and 1990s, up from about 2-3 percent earlier. Moreover, the growth of output per worker became more stable after 1980. The variation in the growth of output per worker fell sharply from 3.7 percent before 1980 to 1.9 percent post-1980. Thus, India experienced both high and stable growth in the post-1980 period; this shift to a higher growth path is referred to as Indian growth turnaround.

- Service-led growth

The higher growth path during the 1980s was mainly due to two major facts. First, there was the turnaround that happened before the BOP crisis of 1991 and second, the year was followed by large-scale macro-economic reforms. Another important aspect of India's growth turnover is that it was the service sector that led to the increase in overall growth. There was no industrial policy targeted toward developing specific industries at that time. It is a mystery that India's service sector was the driving force for the growth after the turnaround because many service activities depend on income (such as finance, business, and hospitality) and start to grow only after reaching a certain level of industrial development.

2.1.2.1 Growth and Structural Change

- Relative share of agriculture declined

India's growth experience has been characterised by a decline in the share of agriculture and an increase in the the share of industry and services in GDP. It is referred to as the structural change of the economy. The contribution of agriculture to GDP decreased from 53 percent to 22 percent between 1951 and 2000, while the contribution of industry and the contribution of services rose from 16 to 27 percent, and from 30 to 50 percent, respectively. In the period from 2000-01 to 2011-12, the contribution of agriculture dropped further from 22 percent to 13.9 percent, and the contribution of industry remained unchanged at 27 percent in the same period while the contribution of services increased from 50 percent to 59 percent. The entire decline in the share of agriculture has been balanced by an increase in the share of the service sector. Therefore, the ability of the economy to recover from shocks depends on the services sector, which has the biggest share and the steadiest growth performance. The changes in the relative share of these sectors in GDP can be shown in the table below.

Table 2.1.2 Sectoral Composition of GDP in Percentage (%)

Year	Agriculture (Primary)	Industry (Secondary)	Services (Tertiary)
1950-51	53.1	16.6	30.3
1960-61	48.7	20.5	30.8
1970-71	42.3	24.0	33.8
1980-81	36.1	25.9	38.0
1990-91	29.6	27.7	42.7
1999-2000	23.2	26.8	50.0
2012-13	13.9	27.3	58.8
2013-14	13.9	26.1	59.9

Source: Economic Survey 2012-13 and 2013-14

In the case of the industrial sector, the share of manufacturing increased mostly from 2004-05 to 2007-08. During this period, the sector was expanding at an annual average rate above 10 percent, accompanied by strong growth in corporate earnings, savings, and investment. The contribution of services has been steadily increasing, especially since 2004-2005. However, the rate of growth was not even. The main contributors to service sector growth since 2004-05 were communications, banking, and insurance. Strong growth in these sectors mainly drove the growth of the services sector even after 2010-11. Real estate and business services also increased their share. The services that experienced stagnation or a drop in share after 2010-11 include domestic trade, hotels, and storage. The lack of sustained momentum in some of these employment-intensive sectors is one of the factors responsible for the less-than-proportional growth in employment in services. The sector registered a high growth rate in 2013-14, around 60%. Services like rail, transport, trade, communication, and broadcasting services were the main drivers behind this growth rate.

- Increasing contribution of industry and service

2.1.2.2 Structural Change: Cross-Country Evidence

In the 1950s and 1960s, studies by the economists Kuznets and Chenery indicated that development would be linked with a steep drop in the percentage of GDP produced by the primary sector, counterbalanced by a significant increase in industry and by a more modest increase in the service sector. This kind of growth is evident in the cross-country data on shares in GDP. These data imply two phases of development. In the first, both industry and service sectors shares rise as countries transition from low-income to lower middle-income status, while in the second, the share of the industry falls and that of services rises as the economy advances to upper, middle-and higher-income levels. The growth pattern is depicted in the table below.

- Sectoral shift

Table 2.1.3 Sectoral Share in GDP in 2001, Global Average

Country	Agriculture	Industry	Services
Low Income	24%	32%	45%
Lower Middle Income	12%	40%	48%
Upper Middle Income	7%	33%	60%
High Income	2%	29%	70%

Source: World Bank's WDI, 2003

Indian experience also fits in with this growth pattern. In the forty-year period 1950-1990, agriculture's share of GDP dropped by about 25 percentage points, while industry and services increased equally. The share of industry has remained steady since 1990, and the entire subsequent drop in the share of agriculture has been taken up by the services sector. Thus, while over the forty years 1950-1990, the services sector increased by 13 percent, the increase in the 1990s alone was 8 percentage points. As a result, at current levels, India's service sector share of GDP is higher than the average for other low-income countries. As per the estimates of RBI data, the share of services in GDP reached 54.3% in the years 2020-21. While industry remained at 29% and agriculture dropped to 16% in the same year. It will be clear from the table below.

- Experiencing structural change

Table 2.1.4 India's Sectoral Share in GDP Between 2014-2021

Sectors	2014-15 (%)	2018-19 (%)	2019-20(%)	2020-21(%)
Agriculture	16.5	14.8	14.6	16.4
Industry	31.1	31.2	29.6	29.2
Services	52.4	54.0	55.6	54.3

Source: Economic Survey 2022-23

India's GDP growth rate has averaged between 6% and 7% in the last 10 years. In 2022, the growth rate was 8.7%, the highest in the last decade. However, in 2021, the growth rate was – 6.6%, the lowest in the last decade. Despite these fluctuations, India's GDP growth rate has been relatively stable in recent years. India is now the world's fifth-largest economy, surpassing the United Kingdom. India is now on track to become the third-largest economy by 2029, by the estimates of the Economic Survey 2022-23.

- Fluctuating GDP growth

2.1.2.3 India's GDP Growth Prospects 2022-23

The World Bank had lowered its 2022-23 real GDP growth projection for India to 7.5 percent from 8 percent due to inflationary and supply chain challenges and geopolitical risks because of the conflict in Ukraine. This is the second time that the World Bank has revised its GDP growth projection for India in 2022-23. In April, it had reduced the projection from 8.7 percent to 8 percent. Rating agency S&P (Standard and Poor's) and the International Monetary Fund were among the

* Revised GDP growth projection

agencies that had recently lowered their 2022-23 projection for India. At 7.5 percent, the World Bank's projection is still slightly more optimistic than the Reserve Bank of India's projection of 7.2 percent. In view of this, authorities need to implement comprehensive reform programs to enhance the fundamental drivers of economic growth once the crisis subsides. Policies to rebuild both in the short and long term involve strengthening health services and putting in place targeted stimulus measures to help revive growth, including support for the private sector and getting money directly to people, firms, and essential services.

Summarised Overview

India is one of the top five economies in the world in terms of nominal GDP. India's sectoral composition of GDP is set to change significantly in the future, influenced by various factors such as technological innovations, government policies, demographic changes, and changing global economic trends. The agricultural sector is likely to undergo modernisation and technology adoption to enhance productivity and sustainability. Government schemes and investments in irrigation, mechanisation, and agri-infrastructure aim to reduce reliance on monsoons and increase farm incomes. Moreover, promoting agriculture exports and agro-processing industries can increase the sector's share of GDP. The industrial sector is set for diversification, with a renewed emphasis on value-added manufacturing, advanced technologies, and research and development. The services sector is expected to retain its dominant role in India's GDP composition. Industries like IT and IT-enabled services, finance, healthcare, and tourism are likely to witness continued growth.

The structural change evident in India's present experience is an increasing share of the industry and service sectors' contribution to GDP, while the share of the agriculture sector's contribution declines. Country-wise data shows that in the first stage, there is an increase in the share of both the service and industrial sectors. However, when economies move to high-income status, the share of the industry falls compared to the service sector. The World Bank lowered India's GDP growth projection for 2022-23 to 7.5%, citing inflation, supply chain challenges, and geopolitical risks. This is the second time the bank has revised its projection and is still slightly more optimistic than the RBI's 7.2% forecast. In light of this, authorities need to implement reforms to strengthen health services and revive growth.

Assignments

1. Conduct a discussion on the historical trends in India's sectoral composition of GDP over the past three decades
2. Make an assessment of the future outlook for India's sectoral composition of GDP in the next decade
3. Analyse the impact of the COVID-19 pandemic on India's sectoral composition of GDP.

Suggested Reading

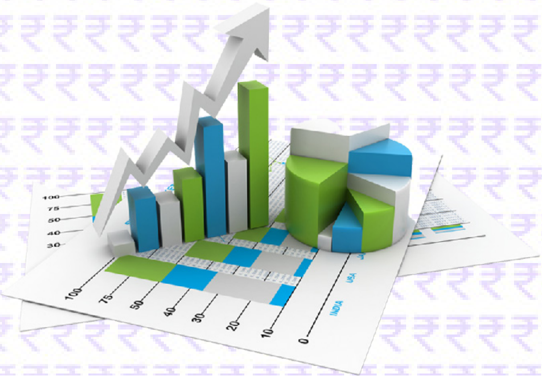
1. B A Prakash (ed) (2012) *The Indian Economy Since 1991: Economic Reforms and Performance*, Pearson, New Delhi
2. Prof. Anil D Chaudhari, *Indian Economy Issues and Problems,* Cyber Tech Publications, New Delhi.
3. Jitin Dhawan (2007), *The Changing Face of Indian Economy,* Atlantic Publishers and Distributors Ltd.
4. Brahmananda P R and V.A Panchamukhi (Ed) (2001) *Development Experience in Indian Economy*, Interstate Perspectives, Bookwell, New Delhi

Reference

1. Puri V.K, Misra S.K, Garg Bharat (2022) *India Economy and its Development Experience*, Himalaya Publishing House
2. Kapila Uma (ed) (2016) *Indian Economy Since Independence: A Comprehensive and Critical Analysis of India's Economy 1947-2016*, Academic Foundation, New Delhi
3. Jalan, B. (1992), *The Indian Economy – Problems and Prospects*, Viking, New Delhi
4. Government of India, *Economic Survey* 2022-23, Ministry of Finance, New Delhi

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 2
Advancements in Indian Agriculture

Learning Outcomes

After completing this unit, learner will be able to:

- assess the impact of land reform measures on agriculture
- understand the effects of the Green Revolution
- examine the impact of Globalisation on Indian agriculture
- understand the Government support systems in agriculture

Background

India's agricultural legacy goes back to ancient civilisations, where traditional farming practices were common. The introduction of the Green Revolution in the 1960s marked a turning point in India's agricultural sector. The adoption of high-yielding varieties of crops, along with increased usage of modern farming techniques, significantly increased agricultural production. This phase brought the country closer to self-sufficiency in food production and reduced the problem of food shortage. In response to the challenges related to land ownership and unequal distribution, the government-initiated land reforms to ensure fair land distribution, aiming to improve the conditions of small and marginal farmers. The establishment of agricultural cooperatives and the National Bank for Agriculture and Rural Development (NABARD) further enabled access to credit and agricultural inputs for farmers. Over the years, there has been a change in crop patterns to address regional demands and increase export potential.

With the introduction of the World Trade Organization (WTO) in 1995, Indian agriculture faced both opportunities and challenges. On the one hand, it reduced trade barriers and increased export opportunities, which have benefited certain sectors like horticulture and floriculture. However, it also exposed Indian farmers to greater competition from global players, putting pressure on domestic prices and profitability. In response to this, the Indian government implemented various agricultural support policies like Minimum

Support Price (MSP), Public Distribution System (PDS), National Food Security Act (NFSA), and Agricultural Produce Marketing Committees (APMCs) etc. These policies aimed to ensure food security, provide safety nets for farmers, and facilitate efficient marketing of agricultural produce.

Keywords

Agriculture, Land reforms, Green Revolution, WTO, MSP, Crop insurance, Subsidies, PDS

Discussion

2.2.1 Agricultural Development in India

- Declining share to GDP

The Indian economy relies heavily on agriculture for providing jobs and livelihoods, even though its contribution to the country's GDP (Gross Domestic Product) has decreased over time. Agriculture is the most crucial sector for reducing poverty and creating employment opportunities in India. The proportion of agriculture in national income has fallen from 56.5 percent in 1950-51 to 39.6 percent in 1980-81, 26.3 percent in 2001-02, and further declined to 13.9 percent of the GDP at 2004-05 prices in 2013-14. As per the new series of national income data released by the Central Statistics Office (CSO), at 2011-12 prices, the share of agriculture in gross value added as per the first advance estimates of national income in 2021-22 is 18.8 percent (17 June 2022).

GDP and Gross Value Added (GVA) are the two main ways to determine the economic performance of a nation. India adopted the United Nations System of National Accounts (SNA) of 2008 in 2015. According to the SNA, GVA is the difference between the value of output and the value of intermediate consumption and shows the value added by an individual producer, industry, or sector to the growth of the economy.

The agriculture sector has shown strong growth in the last two years. The sector, which employs the majority of the workforce, accounted for a significant 18.8 percent (2021-22) of Gross Value Added (GVA) of the country, growing by 3.6 percent in

• Strong workforce participation

2020-21 and 3.9 percent in 2021-22. Growth in allied sectors such as livestock, dairy, and fisheries has been the main factor behind the overall growth in the sector. Agriculture (including animal husbandry, forestry, and fishing) is essential for meeting the nutritional needs of India and also remains the largest sector of India's economy as an employment source. According to the Fifth Annual Employment-Unemployment Survey of the Ministry of Labour and Employment, 45.7 percent of India's workforce in 2014-15 was engaged in agriculture.

• Enhanced contribution of allied sectors

The livestock sector has expanded at a Compound Annual Growth Rate (CAGR) of 8.15 percent over the last five years ending 2019- 20. As shown by the latest Statistical Analysis System (SAS), the sector has been a consistent source of income for different groups of agricultural households, making up about 15 percent of their average monthly income. This enhancement in the contribution of allied sectors is consistent with the recommendations of the Ashok Dalwai Committee, also known as 'The Committee on Doubling Farmers' Income (DFI) which has advised a greater focus on allied sectors to increase farmers' income. The agriculture and allied sectors achieved a positive growth rate of 3.6 percent in 2020-21. As mentioned in the Economic Survey 2022-23, this was enabled by a good monsoon and various government actions to increase credit availability, boost investments, create market facilities, support infrastructure development in the agriculture sector, and providing quality inputs to the sector. The below table shows the performance of agriculture and allied sectors during the last five years.

Table 2.2.1 Growth of Agriculture and Allied Sectors

Years	Growth rate (%)
2016-17	6.8
2017-18	6.6
2018-19	2.6
2019-20	4.3
2020-21	3.6
2021-22	3.9

Source : Economic Survey 2021-22

• Expansion of livestock and fisheries

The agriculture and allied sectors include crops, livestock, forestry and logging, and fishing and aquaculture. It has been noticed that livestock and fisheries have been showing strong growth and have contributed to the sector's performance. For example, in 2018-19 the growth in agriculture was supported by the performance of livestock and fisheries, even though the growth of GVA for crops was -1.6 percent. This is clear from the table below.

Table 2.2.2 Growth of GVA of Agriculture and Allied Sectors

Year	2016-17	2017-18	2018-19	2019-20
Crops	5.3	5.4	-1.6	4
Livestock	10	7.9	8.5	7
Forestry and Logging	5.5	5.4	7.9	0.3
Fishing & Aquaculture	10.4	15.2	9	1

Source: Economic Survey 2021-22

• Growth of allied sectors compared to the crop sector

A trend in the percentage share of agriculture and allied sectors in the total GVA of the economy at current prices for the last ten years is shown in the table below. The share of the sector in the total GVA of the economy has a long-term trend of around 18 percent. The share of the agriculture and allied sectors in total GVA, however, increased to 20.2 percent in 2020-21 and 18.8 percent in 2021-22. Higher growth in allied sectors than crop sectors has clear implications in terms of the rising importance of the former in total agricultural GVA compared to the latter. It can be seen that the share of livestock and fishing and aquaculture in total agricultural GVA has been increasing during the period. Acknowledging the growing importance of allied sectors, the Committee on Doubling Farmers' Income (DFI, 2018) regards dairying, livestock, poultry, fisheries, and horticulture as drivers of high growth and has suggested a focused policy with a corresponding support system.

Table 2.2.3 Percentage Share of GVA of Agriculture and Allied Sectors to Total GVA

Year	Share to total GVA
2012-13	18.2
2013-14	18.6
2014-15	18.2
2015-16	17.7
2016-17	18
2017-18	18.3
2018-19	17.6
2019-20	18.4
2020-21	20.2
2021-22	18.8

Source: Economic Survey 2021-22

2.2.1.1 Investment in Agriculture and Allied Sectors

- Low rate of investments in the sector

The development of a sector depends on how much investment is put into it. The ratio of Gross Capital Formation (GCF) to Gross Value Added (GVA) in the sector of agriculture and its related activities has not been consistent over time, as shown in the below table. The main reason for the variation in the GCF of the sector is the instability of private investment in agriculture and allied activities. As shown in the below table, public investment has stayed between 2-3 percent throughout the years, but private investment fluctuated a lot, and the total GCF of agriculture has followed its changes. It is important to have a clear and specific strategy to ensure more public and private money is spent in the sector since the growth rate of agriculture depends on how much capital is invested in it. More affordable institutional loans for farmers and more involvement of private companies, which currently spend only 2 to 3 percent of their money in agriculture, may help to increase private spending in the sector. Private companies need to be encouraged by providing a suitable policy framework and more public spending along the whole agricultural value chain.

Table 2.2.4 Share of Investments in Agriculture and Allied Sectors Relative to Its GVA

Year	Public Investment	Private Investment	Total
2011-12	2.4	15.9	18.2
2012-13	2.4	14.1	16.5
2013-14	2.1	15.6	17.7
2014-15	2.3	14.7	17.0
2015-16	2.6	12.1	14.7
2016-17	2.8	12.8	15.5
2017-18	2.5	12.3	14.8
2018-19	2.9	13.1	15.6
2019-20	2.7	14.3	15.9

Source: Economic Survey 2021-22

The contribution of agriculture to GDP has fallen fast in the recent past. This is because the average growth rate of total GDP was 8.62 percent from 2004-05 to 2010-11, while the growth rate of GDP from agriculture was only 3.46 percent in the same period. The agriculture sector, however, is still vital as it provides employment for about 54.6 percent of the population in the country, according to the 2011 Census. This sector also provides food, feed, and industrial inputs for a large part of the population. Therefore, the development of Indian agriculture can be seen as a necessary condition for 'growth for all'. More recently, the rural sector (including agriculture) is being viewed as a potential source of domestic demand, a recognition that is even influencing the marketing strategies of business people who want to expand the demand for goods and services.

- Agricultural development is synonymous with universal growth

Agriculture has a significant role in poverty reduction and rural development, as more than 45 percent of the workforce still relies on agriculture for their income. Agriculture is the resource base for many agro-based industries. Therefore, it would be more appropriate to see agriculture not only as farming but as a complete value chain, which includes farming, wholesaling, warehousing (including logistics), processing, and retailing. Also, the fact that an average Indian spends more than 50 percent of his monthly spending on food

- Growing agricultural GDP reduced poverty shows the importance of agriculture. These factors together determine the importance of agriculture in general and food in particular. It is also an important element of 'inclusiveness' since the global experience of growth and poverty reduction shows that GDP growth from agriculture is at least twice effective in reducing poverty compared to GDP growth from other sectors.

2.2.2 Land Reforms

- Adoption of Institutional changes

It is important to understand the impact of institutional changes on Indian agricultural growth. The agricultural sector stood backward at the time of independence due to various policies followed by foreign rulers. Because of this, the first decade of planning (1951-1961) was focused on institutional and agrarian reforms. In an agrarian economy like India with great shortages and unequal distribution of land, along with a large number of below-poverty line (BPL) rural people, there are strong economic and political reasons for land reform. Therefore, it was given high priority on the policy agenda at the time of independence. In the years after independence, India passed a significant amount of land reform laws.

Objectives of Land Reforms in India

1. to remove impediments to agricultural production as raised by the character of agrarian structures in rural areas.
2. to reduce or eliminate the exploitation of landless and small cultivators through measures of land redistribution.

2.2.2.1 Components or Measures of Land Reforms

- Initiating agrarian reforms

The Agrarian Reform Committee, headed by J.C. Kumarappa, was formed by the Indian National Congress after India gained independence. The committee was formed to examine the existing agricultural conditions in India. The committee's report, which came into existence in 1949, influenced the development of agrarian reform policy in subsequent years. The committee suggested that the state and the farmer should have a direct relationship and that the farmer should own the land with certain conditions, while all intermediaries should be eliminated. The term land reform means reforms made in the system of land ownership. The measures will be discussed under the following headings:

Abolition of Intermediaries

The landreform policies aimed to abolish intermediaries, who were rent collectors from peasents during British era. In the 1950s, all states in India enacted legislation to abolish intermediary tenures, following the recommendation of the Kumarappa Committee. However, the nature and effects of this legislation varied from state to state. In West Bengal and Jammu and Kashmir, the legislation abolished intermediary tenures and simultaneously imposed ceilings on land holdings. In other states, intermediaries were allowed to retain possession of lands under their personal cultivation without limit, as the ceiling was passed only in the 1960s. This gave intermediaries enough time to make legal or illegal transfers of land. In some states, the law only applied to tenant interests and not to agricultural holdings. As a result, many large intermediaries continued to exist even after the formal abolition of zamindari. Despite these limitations, it is estimated that the legal abolition of intermediaries between 1950 and 1960 brought nearly 20 million cultivators in the country into direct contact with the government.

- Direct contact between the Government and Peasants

Tenancy Reforms

Right after the country got its independence, the main focus was on ending the intermediaries. But some changes were also made to the existing laws on renting land, with the aim of protecting the rights of the tillers of the land. The poor quality of land records, the existence of verbal agreements, a lack of rent receipts, and various illegal provisions of the rent were used by the landowners to evict all kinds of renters. Therefore, to prevent such a trend, it became essential for the state governments to make new laws or modify the existing laws and provide enough safeguards against unlawful eviction and ensure the stability of tenure for the renters.

- Unfair renting practices

Tenancy reforms in India followed a distinct pattern. Firstly, several states, including Andhra Pradesh, Karnataka, Madhya Pradesh, and Uttar Pradesh, banned leasing out of agricultural land except by certain disabled categories of landowners. This was done in order to vest the ownership of land with the actual tillers. However, concealed tenancy continued to exist in all these states. Secondly, the state of Kerala banned agricultural tenancy altogether without any exception. Thirdly, states like Punjab, Haryana, and Gujarat did not ban tenancy as such. However, tenants, after continuous possession of land for

- Abandoned agricultural tenancy

certain specified years, acquired the right to purchase the land they cultivated. However, in all these states, leasing out by both large and small farmers continued till the mid-1960s. Fourth, states like West Bengal, Orissa, Tamil Nadu, and Andhra Pradesh did not ban leasing out of agricultural land.

Ceiling on land holding

- Small farms enhance productivity

The ceiling on land holding refers to fixing the size of land that any individual may hold. The aim of this land reform measure is to achieve economic growth with social justice. India's planners and policymakers have acknowledged that large-scale farming in India is not only inefficient but also unfair beyond a certain point. Small farms tend to enhance the economic productivity of resources and improve social equity by creating employment and distributing income more fairly. Therefore, large farms cannot be regarded as more efficient in a country where unemployment and underemployment are widespread.

- Ceiling on land increased the status of farmers

The Indian National Congress, in Nagpur Resolution, 1959, decided that all states should enact laws to limit the size of landholdings by the end of 1959. As a result, all the state governments except those in the northeastern region introduced a ceiling on holdings in the 1960s. The Nagpur Resolution had a significant effect as various states quickly passed ceiling legislation. Some of the outcomes of the Resolutions on Land Reforms were the Gujarat Agricultural Land Ceiling Act, 1960, the Madhya Pradesh Ceiling on Agricultural Holding Act, 1960, the Orissa Land Reforms Act, 1969, the Kerala Land Reform Act, 1963, etc. However, since the ceiling law was not passed at the same time as the abolition of zamindari, many landlords were used to transfer their land in the name of their family and relatives. This reduced the surplus land that could be available for redistribution under the ceiling laws.

Consolidation of holdings

- Consolidated land holdings improved productivity

Consolidation of holdings is the process of merging and redistributing fragmented land plots into larger, more compact blocks. This is done to make it easier for farmers to manage their land and improve productivity. The trend of subdivision and fragmentation of landholding increased due to population pressure and limited opportunities in the non-agricultural sector. This makes it difficult for farmers to manage their land, improve productivity and supervise different plots. In the years following independence, most Indian states enacted laws to consolidate landholdings. The success of these laws varied in different states. In Punjab and Haryana, consolidation was compulsory, while in other states it was voluntary, requiring the consent of a majority of landowners.

The consolidation act aimed to (i) prevent the division of land below a certain size; (ii) set a minimum size for land transfers; (iii) enable the exchange of holdings for consolidation purposes; (iv) allocate land for common use; (v) establish a method for compensating those who received holdings with a lower market value in exchange; and (vi) create an administrative system for implementing consolidation schemes. Consolidation of holdings did not achieve much success, except in Punjab, Haryana, and western Uttar Pradesh.

- Goals of land consolidation

2.2.2.2 Arguments in Favour of Land Reforms

- The most favourable argument for land reform is equity. In a country with limited land and a large section of BPL rural people, the case for ensuring access to some minimum amount of land for everyone seems strong.
- Also, small farms tend to be more efficient than large farms. This inverse relationship between farm size and productivity is widely reported. Another piece of empirical evidence is that plots of land that are cultivated by their owners tend to be more efficient than those under a share cropping tenancy.
- The middlemen were eliminated within a few years after Independence, and the real cultivators, accounting for about 40 percent of the farmed area, became owners. This gave a major motivation for investment and the development of agriculture in large parts of the country.

- Brings equity and productivity

2.2.2.3 Critical Evaluation of Land Reforms in India

Land reforms aimed to improve the socioeconomic status of farmers by redistributing land from the rich to the poor. In India, land reforms were implemented to address the large disparities in land ownership and to empower farmers. Land reforms are generally associated with a reduction in rural poverty, with the most significant effects attributed to tenancy reforms. The increased security of tenure for tenants, which removed the fear of arbitrary eviction, allowed them to

- Declined poverty among tillers of the land invest more capital and adopt new technologies. This led to improved returns, incomes and a decline in poverty rates. But the distribution of surplus land had a less significant impact, as only 2 percent of operated land was distributed. So, the results of land reforms have been mixed, with some observers judging them to be a limited success. Let us discuss the impact of land reforms in India below:

Impact on Landlessness

- Land redistribution was not effective

Land reform has had little impact on reducing rural landlessness. According to the draft land reform policy, using NSSO data for 2003-04, noted that one-third of rural farmers are landless. Twenty percent of households hold less than one hectare of land. Sixty percent of the country's population has rights over only 5 percent of the country's land. While 10% of the population has control over 55% of the land. This suggests that land reform has not been effective in redistributing land to the landless and near-landless.

Problems associated with the abolition of intermediaries

- The removal of intermediaries was not effective

Landlords in rural India had a lot of feudal influence and power, which made the land reform of "removing middlemen" only partly effective. They used their political connections to resist these reforms. Landlords register their own land under different relative's names to avoid the ceiling and moving tenants around different plots of land so that they would not get the rights of occupancy. For instance, the land reform allowed landlords to take back land for personal cultivation. By moving the tenants to different plots, farmers were not able to attain consolidated land for cultivation, and landlords exploited such gaps to their advantage.

Problems associated with the Tenancy reforms

- Incomplete records related to land tenure

The tenancy reform included rent control, land tenure security, and ownership rights transfers. Not every state passed the rent control legislation, and even where it was passed, the rent was very high. The landowners had a lot of social, economic, and political power in rural areas, and they could charge much more rent from farmers than the rent set by the law. Many landowners forced their tenants to surrender their tenancies voluntarily. In this way, they avoided the tenancy laws because no law can protect the tenants if they give up their rights willingly. Laws related to land tenure security can only work effectively if accurate and current land records are available.

In many states, there were no records of tenancy, or they were incomplete or outdated.

Problems in the Consolidation of Holdings

- Consolidation did not produce positive results

The government's efforts to consolidate land also failed to produce positive results. There was a connection between village leaders, land record officers and politicians. The wealthy farmers grabbed fertile land and lands near highways. The poor farmers did not know about such things and were left with the choice of buying land without irrigation. Agriculture cooperatives also failed. Cooperative farming was also advocated to solve the problem of the fragmentation of holdings under the Reform Act. However, wealthy farmers formed cooperatives and took all the benefits provided to the cooperatives by the government.

2.2.3 Green Revolution

- Require sustenance for the increasing population

Land reform measures implemented during the 1950s were not sufficient to improve the position of the agriculture sector in India. So, it became necessary to adopt technological changes in agriculture to achieve self-sufficiency in food grains. Data from the Indian Ministry of Agriculture for 2004 depicts that between 1951 and 1966, food grain production rose at a rate of 2.8% per annum. But this was not sufficient to provide food security to the growing Indian population. India's population was increasing by more than 2 percent per year during that time. Then the country began to depend on the import of food grains to feed its growing population.

- Reliance on external suppliers for food

India signed a Public Law 480 (P.L. 480) agreement with the USA in 1956 to receive food grains, mostly in the form of wheat. After two wars with China in 1962 and Pakistan in 1965, the country needed to spend a large amount to meet war expenses. Hence, the government sacrificed rural investment. As a result, foreign dependency on food grains increased. This situation was followed by two consecutive wars in 1965 and 1966, which further worsened the food crisis. Food grain production declined by 19 percent, according to data for the Ministry of Agriculture in 2004. In order to avoid massive starvation, food grain imports, mainly wheat, increased to ten million tonnes along with the 12 million domestic production in 1966-67. Against the backdrop of the Cold War, food aid from the US was abruptly stopped for 48 hours. Then the Indian government realised the risk of dependency on foreign sources for food security. It resulted in the need for self-sufficiency in food grain production. Dr. M. S. Swaminathan is considered as the father of Green revolution in India.

2.2.3.1 Phases of Green Revolution

Phase First (1966-1972)

C. Subramaniam, the minister of agriculture at the time adopted a new agricultural strategy to boost grain production and ended the dependence on PL.480. This policy was also accompanied by remunerative support prices for farmers. In January 1965, the Agricultural Price Commission was set up to provide a Minimum Support Price (MSP). To monitor the export and import of agricultural commodities, FCI was also established in the same year. Following these initiatives, India took a strong step by allowing the introduction of new High Yielding Varieties of (HYV) wheat from Mexico. The new variety of seeds had the capacity to increase wheat production and increase the supply of food grains. In 1966, the Indian government imported 18000 tonnes of HYV wheat seeds that could be distributed in the highly irrigated areas of Punjab, Haryana, and UP. The agriculture policy was supported by public investments in irrigation, fertilizers, power, and credit. The result of this government experience was unexpected, leading to a veritable "Green Revolution".

- Use of HYV seeds

The amount of food grain production increased from 79 million tonnes in 1966-67 to 105 million tonnes in 1971-72. India's food grain imports declined or reached nearly zero in the same year, as per the estimates of the Ministry of Agriculture, 2003. Achievements in food grain production cannot be possible without adequate incentives for farmers. The availability of inputs including canal water, power, fertilisers, and credit at subsidised rates helped the farmers to produce output at less cost. This in turn led to increased production of grains. Thus, with the adoption of modern input and technologies, agricultural production increased and it 'trickled down' to the poor. As a result, rural poverty declined during the first phase. Rural poverty in India was 64% in 1967; it declined to 56% in 1973.

- Subsidies for agricultural inputs

Second Phase (1973-1980)

The role of the state in key areas of economic management was expanded by Prime Minister Indira Gandhi after the nationalisation of banks in 1969. To protect farmers from price fluctuations that were created by private wholesale traders, the government attempted to take over the wholesale trade of wheat in 1973-74, but it failed and was soon given up. The procurement of wheat was affected by the limited availability of wheat caused by droughts in several states in 1972-73. The foodgrain output fell by 7.7 percent as a result of two successive droughts in 1972-73, and India had to rely on foodgrain imports from the US, averaging about 4 million tonnes per year between 1973 and 1976, as per the estimate of the Food and Agriculture Organization Corporate Statistical Database (FAOSTAT), 2004.

- Government intervention in wholesale wheat trade

The government increased fertilizer subsidies in order to prevent farmers from raising the price of fertilizers, which were going to rise after the oil shock of 1973. The retention price was introduced for urea, the main fertiliser used in Indian agriculture. Other input subsidies also became more significant in the state budget during the 1970s. In this period, groundwater irrigation also became more prevalent, with its share going up from 0.55 percent to 19.5 percent between 1960 and 1975 due to private investment by farmers in tube wells using the income from the previous surge in foodgrain output. Consequently, power subsidies for water pumping increased sharply, reaching 44 percent of the total input subsidy at the beginning of the 1980s.

- Increased fertilizer subsidy

In this phase, the country faced an extension of HYV technology from wheat to rice. This led to the spread of the Green Revolution to new areas, which marked a new phase in the expansion of internal production. The production of food grains increased by 3.1% and yields of foodgrains showed a remarkable growth of 2.5% from 1972-73 to 1979-80. As a result, rural poverty declined from roughly 56% to 50% in the same year, as per the estimate of the Ministry of Agriculture in India in 2004**.**

- Spread of HYV to new areas

The Third Phase (1981-1990)

India changed its status as a food self-sufficient country in the 1980s. The production of rice increased from 37 million tonnes in 1964 to 63.8 million tonnes in 1986. The production of wheat increased from 12 million tonnes to 47 million tonnes in the same period. This trend was followed by a boom in food grain production of 25.4 million tonnes, which was the first ever in the country. This helped the country meet next year's (1987) worst drought without any loss of life. This

- Rise in foodgrain production

phase witnessed the spread of HYV technology to eastern parts of the country, like Bihar and West Bengal. In Bihar, rice production grew at a rate of 3.7 percent, and in West Bengal, it was 5.0 percent.

- Declined Yields in other parts except Bengal and Bihar

But in other parts of the country, the effect of the Green Revolution lost its energy by 1985, after the adoption of new seed varieties. Yields of wheat and rice had grown by 3.5% and 4.5% per annum between 1967-68 and 1984-85 which slowed down to 2.3% and 2.4% per annum between 1984-85 and 1999-2000 as per the estimates of International Food Policy Research Institute (IFPRI), 2004. However, Input subsidies continued to grow by 7.2 % of agricultural GDP in 1991, which was 4.4% in 1980.

- Regulation and restrictions

During the period of the Green Revolution, Indian agriculture faced a lot of regulation and restrictions. The sector had to deal with licenses, entry barriers, price controls, and limits on the private trade of farm products. The sector also faced challenges from trade barriers such as tariffs and quotas on agricultural exports and imports. The primary sector became less profitable compared to industrial sector due to the high level of protection enjoyed by the industrial sector. Agriculture faced a net tax because of the overvalued currency, which discouraged agricultural exports. The objectives behind this framework were (i) to provide cheap food for consumers, (ii) to shield farmers' incomes from price changes, and (iii) to maintain the balance of payments by relying on domestic food production.

2.2.3.2 Growth of Agriculture after Economic Reforms, 1991

- Improved economic growth during 1991

Since 1991, India has followed a series of macroeconomic structural reforms in the fields of industry, exchange rate, foreign trade, and investments. As a result, the economy attained a higher growth rate of 6.5% between 1991-92 and 1996-97 compared to 5.2% in the 1980s. The economy became more liberalised, and it was reflected in FDI (Foreign Direct Investment) inflows and in the ratio of trade to GDP.

Even though these reforms were initiated in non-farm activities, their impact was also reflected in farm activities in two important ways. First, high economic growth and rising per capita income increased the demand for food. According to the estimate of World Bank data for 2004, India's per capita income rose to 4.5% per annum in 1991-93 against 3.6% per annum in the 1980s. This led to a diverse need for food, including non-food grains such as fruits and vegetables, meat, and dairy products. Second, the domestic terms of trade between agricultural and industrial prices improved as a result of lowering industrial protection in 1991. Then the terms of trade between agriculture and industrial prices rose from 0.9 to 1.2 between 1991 and 2000. The favourable terms of trade in agriculture resulted in high profitability in this sector and attracted more private investments. The private investments in agriculture are greater than the public investments in this sector. These were directed towards the production of milk (the White Revolution), poultry, eggs, fish, and horticulture produce. It resulted in the remarkable growth of the output of these commodities during the 1990s compared to previous decades.

- Increased production of non-food grains

2.2.3.3 Deceleration in Agriculture Growth

Many recent studies have pointed out that agricultural production grew much slower in the 1990s. The growth of agricultural GDP dropped from more than 3.5 percent per year between 1981-82 and 1996-97 to only around 2 percent between 1997-98 and 2004-05. This slowdown, which was most severe in areas dependent on rainfall, affected almost all the states and most of the major sub-sectors, even those like horticulture, livestock, and fisheries that were expected to grow fast. As a result, the growth of agricultural GDP has fallen short of the 4 percent target in the Ninth, Tenth, and Eleventh Plans. The next five-year plan (2012-17) targeted a growth rate of 4% for the agriculture and allied sectors. As per the estimates of the CSO (Central Statistical Organization), 2016, the growth in agriculture, forestry, and fishing is estimated at 1.1 percent in 2015-16.

- Fall in the share of agriculture to GDP

2.2.3.4 Major Factors Affecting Growth Potentials

Lack of Long-Term Policy Perspective

There was a lack of long-term strategy for agricultural development. Since 2000, the government has come out with a national agricultural policy. During the planning period, the government also gave more importance to industry relative to agriculture. Some policies that were followed in agriculture led to the backwardness of agriculture. First, the policies followed by India did not provide sufficient incentives for farmers. Indian farmers received lower income than international prices. Second, agricultural policies gave little focus on the export of agricultural products; more than that, policies favoured increasing domestic production. Third, policies neglect the factors other than price like water, infrastructure, research, and development, etc. which are more important determinants of agriculture production in India. These failures of agricultural policies affected the faster growth of agriculture after economic reforms.

- No proper policy for agricultural developments

Investment in Agriculture

Traditional growth theories tell us that the growth of a sector depends on the investments or capital-output ratio in that sector. From an investment perspective, agriculture did not receive much attention in the 1980s and 1990s, as the investment share in agriculture GDP remained between 8 and 12 percent. The growth potential of this sector was limited with a capital-output ratio of around 4:1 in agriculture during the plan period. The 4:1 capital-output ratio means that by investing four units of capital, we can get one unit of output. The agriculture GDP growth rate could not exceed 2.5 to 3 percent after 1991. Meanwhile, public investment in agriculture dropped from more than 4 percent of agriculture's GDP to 2 percent. The real public investment in agriculture showed a consistent decline from the Sixth to the Tenth Five Year Plan. This trend changed only in the Tenth Plan (2002-2007) and the Eleventh Plan.

- Low capital output ratio in agriculture

Soil Degradation and Over-Exploitation of Groundwater

Soil degradation and groundwater depletion are other major factors that constrain the growth of the sector. Officially, around 40 to 50 percent of India's total geographical area is degraded. The irrigation potential in the country is 85 million hectares. Even if the irrigation potential is fully utilised, nearly 45 percent of the net cultivated area will rely on rainfall. Since India's current agricultural development strategy is mainly focused on irrigated areas, crop yields in many irrigated areas stagnate. There is an increasing awareness that agricultural production cannot be increased beyond a certain point after economic reforms.

- Land degradation is a concern

2.2.3.5 White Revolution

The intensive Cattle Development Programme was launched in India in the year 1964-65, which offered a package of enhanced animal husbandry to cattle owners to boost the white revolution in the country. Subsequently, the National Dairy Development Board initiated a new programme called "Operation Flood" to accelerate the pace of the white revolution in the country and to make India self-sufficient in milk production. The goal of Operation Flood, which began in 1970, was to establish a national network of milk. It was a rural development programme launched by the National Dairy Development Board of India (NDDB). Anand Milk Union Limited (AMUL) a cooperation based in Gujarat, was the driving force behind the success of the Operation Flood programme. India is now the world's leading producer of milk. Dr. Varghese Kurien is regarded as the father of the white revolution in India.

- Establishment of national network for milk

Different Phases of White Revolution

Phase I began in 1970 and continued for ten years, that is, until 1980. Certain objectives were set in the initial stages of the phase. One such objective was the enhancement of the marketing strategy of milk in urban cities to achieve the goals. Phase II continued for five years, from 1981 to 1985. In this phase, the number of milk sheds rose from 18 to 136, milk outlets were extended to about 290 urban markets. The sale of milk rose by several million liters a day due to the direct marketing of milk by the cooperatives. All of the improvements in production were solely because of the dairy farms set up under Operation Flood. Phase III continued for almost 10 years, that is 1985-1996. This phase enabled the diary cooperatives to grow and gave a final touch to the programme. It also strengthens the infrastructure required to collect and market the increasing volume of milk. Towards the end of the White Revolution, or Operation Flood, 73,930 dairy cooperatives were set up that linked more than 3.5 crore dairy farmer members. At present, due to the white revolution, there are several hundred Corporations in India that are working very effectively. Hence, the revolution is the cause of prosperity of many Indian villages.

- Increased milk production

2.2.3.6 Yellow revolution

- Increased production of oil seeds

India's agriculture was greatly influenced by the Yellow Revolution. It focused on nine oilseeds: mustard, groundnuts, sesame, seed, safflower, soybean, sunflower linseed, niger, and castor. The aim of the revolution was to become self-sufficient in producing these items. The revolution started in 1986 and ended in 1987. Sam Pitroda is considered the father of the yellow revolution. It was successful in increasing the production of edible oilseeds in India. The production of edible oilseeds doubled in 10 years. The oil output doubled in a decade from 12 million tonnes to 24 million tonnes, which was a positive result of the yellow revolution.

Revolutions in the Indian Economy	
Revolution	**Area**
Green Revolution	Agriculture (Food Production)
Yellow Revolution	Oilseeds production
White Revolution	Milk
Blue Revolution	Fish
Pink Revolution	Shrimp/ Onion
Brown Revolution	Leather/ Massaley
Red Revolution	Meat/Tomato
Golden Revolution	Fruits/Apple
Grey Revolution	Fertilizers
Silver Revolution	Eggs

2.2.4 Globalisation and Indian Agriculture

The new economic policy of 1991 that ushered in economic reforms mainly included three components. First, correction of the exchange rate; second, reduction in industrial tariffs; and third, de-licensing of a large number of industries. Agriculture was never a part of this policy, but it has influenced the country's agriculture sector. India achieved remarkable progress in agriculture in the late 1960s and 1970s, which drove the Green

Revolution (wheat) and other revolutions. However, the trade and marketing policies that prevailed during that time were unfavourable and oppressive to the farmers. The country's overvalued exchange rate reduced the global competitiveness of its agriculture sector, while the extremely high tariffs on industrial goods discriminated against the farm sector. Some studies estimated the degree of anti-agriculture bias in India over a long period and found that it was about 20-30 percent of the value of agricultural output on average. This meant that agriculture was effectively taxed due to the distorted exchange rate and the excessive protection of industry.

- Unfavourable trade policies

The overvalued exchange rate was corrected by first devaluing it and then letting it float in the market, and the industrial tariffs were gradually lowered. These two reforms reduced the long-standing bias against agriculture in the system. This gave agriculture an immediate boost, but to fully benefit from these macroeconomic reforms, the trade regime of the sector needed to be reformed as well, as it was very restrictive. Many agricultural commodities, especially food, faced strict export and import controls. The government was reluctant to reform these controls, as they had a historic mindset of food insecurity and poverty, and they remembered the country's tragic experiences during famines and droughts. These reforms happened slowly and cautiously over a long period, and they were often inconsistent and unpredictable, swinging between a free and controlled trading regime.

- Protective measures to avoid poverty

2.2.4.1 Impact of Globalisation on Indian Agriculture

Impact on India's Agricultural Trade

According to the estimate of the Directorate General of Commercial Intelligence and Statistics (DGCIS), GoI, India's agriculture exports increased their share in global agriculture exports from less than 1 percent in 1990-91 to 2.6 percent by 2013-14. In the same period, agricultural trade rose from less than 5 percent of agricultural GDP (AGDP) to almost 20 percent. In the recent years of Financial Year (FY) 2015 and FY 2016, there was some decline in trade due to two reasons: low domestic supplies because of two successive droughts in 2014 and 2015 and falling global prices affecting India's global competitiveness. However, the country's agricultural trade was still at 17.6 percent of its AGDP in FY 2016. India, in contrast to its overall trade account for all commodities, is a

- Growing share towards global trade

net exporter of agriculture to the rest of the world. In FY 2014, Indian agriculture exports exceeded $42 billion, while imports were about $16 billion, resulting in a net trade surplus of about $26 billion. This is the largest trade surplus that Indian agriculture trade has ever achieved.

Terms of Trade for Indian Agriculture

- Support to farmers

The price index between the agriculture and manufacturing sectors has shown a steady upward trend. Price index shows how price of goods and services changes overtime. The agriculture price index reached a low of eighty-nine in 1993-94. However, it has improved since then, reaching 157 by 2014-15. A major part of this improvement started from 2004-05 onwards, when the UPA government decided to reduce the gap between high global agriculture prices and low domestic prices. One of the ways to do this was to increase the minimum support prices (MSPs) of wheat and rice, along with several other agricultural commodities, especially since 2007. That year coincided with the launch of the National Food Security Mission (NFSM).

- Strategy to align domestic and global prices

Therefore, on the one hand, the government launched a mission under NFSM to increase domestic foodgrain production by 20 MMT in the next five years, and this required an aggressive increase in MSP. On the other hand, the global food crisis of 2007-08 increased the gap between domestic and global prices. As a result, to align domestic and global prices and to encourage producers to produce more, the government increased MSPs strategically to catch up with world prices over a three to four-year period. Some economic crisis in 2007-2011 delayed the process, but over a medium to long long run period, the two prices seem to have converged. But the increasing trend in MSP was followed by a rising country's fiscal deficit, from 4% of GDP in 2007-08 to 8 % in 2008 and 2009.

Private Investment in Agriculture

- Increased private investment in the primary sector

Two things influence capital formation in agriculture by the private sector (mainly farmers): (1) relative prices between agriculture and industry, (2) public sector investments in agriculture. The share of private investments in total investments in agriculture, which was almost half in the early 1980s, had increased to almost 85 percent by 2013-14, making public investments' share very small (only 15 percent). Due to this trend of increasing private investments, total investments in agriculture as a share of AGDP remained around 10-12 percent by 2013-14.

2.2.4.2 Performance of Agriculture Gross Domestic Product (AGDP)

- Agriculture growth coincides with poverty reduction

All these factors have had a mixed impact on AGDP growth. India's agricultural GDP grew by 41 percent per annum during the Eleventh Five Year Plan (2007-2011), up from about 2.5 percent per annum during the previous ten years (1998-2007). This period of growth in agriculture coincides with the period that saw the fastest rate of poverty reduction in the country. During the period 2004-05 to 2011-12, poverty in India reduced at a rate three times faster than during 1993-94 to 2004-05. This growth period was also exactly the time when relative prices moved in favour of agriculture.

- Variations in AGDP

However, it is noteworthy that this growth happened despite the fact that about 53 percent of India's gross cropped area is still rainfed, which often causes higher uncertainty depending on monsoon rains. A quantitative analysis of the factors that account for the historical variations in the country's AGDP reveals interesting results. For the period between 1996-97 and 2014-15, more than 91 percent of the variations in AGDP were accounted for by three factors, such as relative prices with a one-year lag, monsoon rainfall index, and a trend variable capturing the long-term improvements in technology. The impact of relative prices was the largest and statistically quite significant.

2.2.5 World Trade Organisation (WTO) and Indian Agriculture

- Agriculture as livelihood

The globalisation of agriculture under the World Trade Organisation (WTO) has always been an issue of concern for India and many other developing countries in the world. In India, the agriculture sector employs nearly half of the total labour force and accounts for about 15% of the GDP. However, most of the farmers are small-scale and self-sufficient, and they often face difficulties in getting funds, markets, technologies, and information that are necessary to adapt their products to the international trade standards under the WTO. Moreover, the WTO's AoA has some unfair and unequal provisions that challenge India's policies to support its farmers and limit its policy options for ensuring food security.

After the Second World War, the Bretton Woods initiative aimed to rebuild the global institutions for finance, trade, and macroeconomic stability. This led to the establishment of the World Trade Organisation (WTO) in Geneva, Switzerland, in January 1995. The WTO implemented a liberalised trade regime based on the Marrakesh Agreement, which was signed in 1994 at the end of the Eighth Uruguay Round of negotiations that started in 1982. India was among the 136 countries that agreed to change the entire structure of international trade. Most of the WTO members are developing countries and they represent less than 30 percent of global trade. The WTO is an international organisation that sets the rules for trade among nations. It focuses on how businesses that produce, export, and import goods and services operate.

- Trading organisation

Objectives of WTO

1. Improve the standard of living of people in the member countries
2. Ensure full employment and a broad increase in effective demand.
3. To enlarge production and trade of goods and services.
4. Ensure optimum utilisation of world resources.
5. Accept the concept of sustainable development.
6. Protect the environment.

2.2.5.1 WTO's Agreement on Agriculture (AoA)

The Agreement on Agriculture, which started on 1 January 1995, aims to create a fair and market-based system for agricultural trade. The Agreement acknowledges that this goal requires a long-term process of reform that began with the Uruguay round reform programme. The reform process involves specific commitments to lower support and protection in the areas of domestic support, export subsidies, and market access. The Agreement also considers non-trade concerns, such as food security and environmental protection, and gives special and differential treatment for developing countries, including better access for their agricultural products that have high export potential.

- Promotion of agricultural trade

India has a comparative advantage in producing many agricultural commodities because of its varied climate, but it has a low share in the merchandise trade (-) 7.3% in exports and 4.7% in imports in 2019. However, India's share in global agricultural exports has grown from 0.85% in 1990 to 2.37% in 2019. At the same time, India's share in the global imports of agricultural commodities has also risen from 0.39% to 1.91%. The Indian government has a goal to double agricultural exports to US $ 60 billion and to double farmers' income by 2022-23. To reach these goals, several policy actions have been taken. These actions, however, have to be consistent with the country's commitments to the AOA.

- Slight growth in agriculture export

India has been dealing with many issues related to domestic support, market access, export subsidies, and food security at the WTO. The AoA has some unequal provisions that have allowed the developed countries to keep giving huge agricultural subsidies without violating their commitments to the AoA. They have used their Agreement Measurement of Support (AMS) entitlement to provide high levels of trade-distorting support for specific products, resulting in the overproduction of agricultural commodities and lowering their global prices, which in a way reduces farm incomes in developing countries. And it also causes related issues with the increase in cheap imports in the domestic markets of developing countries. Farmers in developing countries are small and self-sufficient, and hence they are highly exposed to the fluctuations in global prices and import surges of agricultural commodities.

- Special considerations for developed nations

2.2.5.2 Domestic Support to Agriculture

The AoA classifies the domestic support measures according to how they affect production, trade, and prices. They are grouped into three categories: Amber, Green, and Blue. The Green Box subsidies are considered non-trade distorting or minimally trade-distorting. They are the least controversial form of support and do not have any limitations or reduction commitments. Examples of Green Box measures include direct payments to farmers that are not linked to production levels, investments in infrastructure, research, and development, and income support for resource-poor farmers. The Blue Box subsidies are designed to minimise trade distortions while still providing financial support to farmers. These subsidies are subjected to certain conditions to ensure they do not significantly distort production or trade. They are tied to specific production-limiting programmes or practices. Examples of Blue Box measures include payments that are contingent on reducing acreage or production, voluntary

- Agricultural subsidy boxes to promote trade production limits, and mandatory set-aside programmes. The Amber Box subsidies are the most trade-distorting category of support. These subsidies can directly influence production and trade, potentially leading to market distortions and unfair competition. Examples of Amber Box measures include price support programmes, input subsidies, and direct income support tied to production levels.

Table 2.2.6 Domestic Support Measures Covered Under AoA

Box	Feature	Coverage	Limits
Green box	No or at most minimal trade-distorting	General services, direct payments, domestic food aid, payment for natural disasters, public stockholding for food security, etc.	Members have no prescribed limit
Blue box	Minimal trade distorting	Payments that are directly linked to a programme that limits production based on a fixed amount of land and output; or that are based on 85% or less of the previous production level; or that are based on a fixed number of animals	Members have no prescribed limit
Amber box	Most trade-distorting	Payments to cover the gap between market and target prices, Minimum Support prices (MPS), and other financial support	Members have strict limit

2.2.5.3 Market Access

- Tax or tariff reduction

The AoA required the transformation of non-tariff barriers on farm products, such as import quotas, selective import permits, variable import taxes, and export limits into customs duties using the method of 'tariffication'. These customs duties that were adopted through the tariffication method were to be considered as the highest level of applicable tariff or 'bound tariffs' and these had to be lowered over time. The members can change their non-tariff barriers into customs duties that would offer farm commodities with a similar level of protection as the non-tariff barriers using the formula specified in AoA. The developing countries also had another option of selecting a 'ceiling binding' approach that simply states the 'bound tariffs' without using the given formula.

- Export-led growth in agriculture

The AoA has led to increased market access for Indian agricultural products in the global marketplace. With the reduction of tariff and non-tariff barriers, Indian farmers have been able to expand their exports to other countries. This has benefited sectors like spices, tea, basmati rice, and marine products, where India has a comparative advantage. As a result, Indian agriculture has experienced export-led growth, contributing to foreign exchange earnings and overall economic development. However, India has a lack of policy space to increase tariffs on the products like onion, milk, soybean oil, maize, and apple to safeguard its domestic producers in case their imports rise. Due to a shortage of policy space, imports can replace local products, putting the livelihood security of domestic producers at risk.

2.2.5.4 Issues Related to Export Subsidies

- Trade distorting

Most countries acknowledge that export subsidies have a negative impact on farm trade, in terms of price distortions and instability in the global market. Before the Uruguay Round, the farm export subsidies had only very limited rules under Article XVI of the GATT 1947. As a result, the members widely used export subsidies, and most of the developing countries faced the risk of their domestic markets being taken over by low-cost imports from the developed countries.

The agricultural agreement bans export subsidies on agricultural products unless the subsidies are mentioned in members' lists of commitments. Wherever they are mentioned, the agreement requires WTO members to reduce both the amount of money they spend on export subsidies and the quantities of export that receive subsidies. Taking an average of 1986-90 as the base level, developed countries agreed to reduce the value of export subsidies by 36 percent over six years starting in 1985, which was 24 percent over ten years for developing countries. In addition, developed countries also agreed to lower the subsidised exports by 21 percent over six years, which was 14 percent over 10 years for developing countries. The less developed countries do not have to make any reductions. During the six year implementation period, developing countries are permitted under certain conditions to use subsidies to lower the costs of marketing and transporting. The agreement includes an understanding that certain actions available under subsidies agreements will not be applied with respect to green box policies, domestic support, and export subsidies maintained in accordance with commitments. The agreement has established a committee that will monitor the implementation of commitments and follow-up decisions.

- Adverse effect on developing countries

This clearly implies that there exist imbalances in the provisions of the AoA of the WTO. Therefore, India and other developing countries should persist in asking for eliminating imbalances in the AoA, especially the AMS entitlements which enable developed countries to offer high levels of trade-distorting support under the Amber box provisions. Most of its advantages are taken by the developed countries.

- Imbalances in the provision of AoA

2.2.6 Support System in Agriculture

To improve the living standard and well-being of farmers, the government needs to implement effective policies and programmes. The agriculture sector is one of the key areas that require the government's support and intervention. A large proportion of the Indian population relies on farming and related activities as their main source of income. Government schemes for farmers enable them to manage and optimise their agriculture sector, which is a vital part of the economy's GDP. Therefore, the government gives special attention to this sector. When the Indian economy faced a severe setback by registering a negative growth of almost 24 % in the first quarter of the financial year 2020-21 due to the lockdown, agriculture was the only sector that showed a positive growth of 3.4 %. Let's discuss the main support systems in agriculture.

- Government support to agriculture

2.2.7 Crop Insurance

Crop insurance is a risk management method that protects farmers from financial losses incurred due to adverse weather events, pests, diseases, and other unforeseen circumstances that affect crop production. It helps stabilise farmers' income and provides them with the confidence to invest in agricultural activities without fear of total loss. The concept of crop insurance has gained prominence over the years as climate change and other uncertainties pose significant challenges to agriculture.

- Risk aversion

Importance of Crop Insurance

1. Risk Mitigation: Crop insurance reduces the vulnerability of farmers to the unpredictable nature of weather and markets. By providing a safety net, it encourages them to adopt modern technologies and best practices.
2. Financial Security: For small and marginal farmers, crop insurance acts as a financial cushion during times of crop failure. It prevents them from falling into a debt trap and reduces the need for distressed sales of assets.
3. Investment stimulus: With the assurance of insurance coverage, farmers are more likely to invest in better seeds, fertilizer, irrigation, and other inputs. It will lead to increased agricultural productivity.
4. Food Security: Crop insurance ensures food security. Food production is not severely hampered by natural disasters, contributing to overall food security in the country.

- Crop insurance increases agricultural productivity

Types of Crop Insurance Schemes

There are several types of crop insurance schemes in India. The first is weather-based insurance. It provides insurance coverage for weather-related risks like drought, excess rainfall, frost, and temperature variations. Secondly, crop-yield insurance, which compensates farmers for losses incurred due to a drop in actual crop yield compared to the expected yield. The third is area-based insurance. In this scheme, the insurance is based on predefined areas and compensates farmers in that area for yield losses. And finally, revenue-based insurance. It considers both yield and price fluctuations to determine compensation, offering more comprehensive coverage.

- Prevent farmers from taking risks involved in agriculture

Crop Insurance in India

India has implemented several crop insurance schemes to safeguard farmer's interests. Some prominent schemes include:

1. ***Pradhan Mantri Fasal Bima Yojana (PMFBY):*** It is a flagship crop insurance scheme launched by the Government of India in 2016. Aimed at providing comprehensive insurance coverage to farmers against various agricultural risks. The PMFBY has emerged as a crucial step towards safeguarding farmers' livelihoods and promoting agricultural sustainability. It benefits

- Insurance coverage for farmers

farmers in different ways. By providing a financial safety net, it protects farmers from the uncertainties of weather and pest-related risks. With the assurance of insurance coverage, farmers are more likely to invest in high-quality seeds, fertilizers, and modern farming techniques. PMFBY significantly reduces the burden of debt on farmers, particularly small and marginal farmers by compensating for crop losses. It prevents distress sales and ensures a stable income source for farming households.

- Protect farmers from crop failure due to adverse weather

2. ***Weather-Based Crop Insurance Scheme (WBCIS)***: The Weather-Based Crop Insurance Scheme is a specialized crop insurance scheme designed to provide financial assistance to farmers when their crops are adversely affected by specific weather events. Unlike traditional crop insurance that relies on individual yield assessments, WBCIS utilises weather-based triggers to determine compensation. This allows for a more efficient and objective claims process, benefiting both farmers and insurers. By providing a reliable insurance mechanism, WBCIS encourages farmers to adopt better risk management practices. It promotes the use of improved agricultural techniques and encourages the adoption of climate-resilient crops.

- Assessment of crop failures with modern technology

3. ***Modified National Agricultural Insurance Scheme (MNAIS)***: The MNAIS is a specialized crop insurance scheme introduced by the Government of India to provide comprehensive coverage to farmers and protect them from agricultural risks. It offers coverage for all stages of the crop cycle, starting from the sowing period to post-harvest losses. It adopts an "area approach" to insurance, where entire regions or specific areas are considered as a unit for assessment and compensation. This approach reduces administrative complexities and enables faster claim settlements. It employs actuarial premium rates as opposed to a fixed premium following other traditional crop insurance schemes. The premium is calculated based on historical yield data, crop-specific risks, and the sum insured, through this ensuring a fair and realistic premium amount for farmers. It leverages modern technologies, such as remote sensing, satellite imagery, and weather data, for accurate assessment of crop losses. This technology integration helps in quicker and more precise claim settlement and minimising the chance of disputes.

2.2.8 Minimum Support Price System

The Minimum Support Price (MSP) system in India is a crucial agriculture policy implemented by the government to safeguard the interests of farmers and ensure food security in the nation. Introduced in the 1960s, The MSP mechanism has played a pivotal role in stabilising agricultural income, providing safety to farmers, and encouraging increased production of essential crops. The government fixes the MSP for various crops based on the recommendations of the Commission for Agricultural Costs and Prices (CACP). MSP was announced before sowing. Factors such as input costs, market trends, demand-supply dynamics, and farmers' interests are taken into consideration while determining the MSP. The MSP system covers a wide range of agricultural commodities, including cereals, (such as wheat, rice, and maize), pulses, oilseeds, and cotton. These crops are considered vital for the country's food security and agricultural sustainability.

- To safeguard farmer's interests

Objectives of MSP

1. Provide income security to farmers by ensuring that they receive a fair and remunerative price for their produce. The assurance of a minimum support price protects farmers from market risks and ensures that their efforts are adequately rewarded.
2. MSP helps stabilise agriculture prices by setting a floor price in the market. It prevents a sharp decline in prices during times of surplus production.
3. To incentivise farmers to produce essential crops and encourage investment in agriculture. This in turn contributes to food security and reduces dependence on imports.

In addition to MSP, other measures to stabilise agricultural prices are:

Procurement Price

The government of India announced the Procurement Price of wheat in 1966-67, slightly higher than the minimum support price. The Procurement Price was announced before harvesting as it could encourage farmers to sell more produce. It can be defined as the price at which the government or its designated agencies purchase agricultural produce directly from farmers.

• Fair income to farmers

This mechanism is an essential part of India's agricultural policy, aiming to ensure a fair income for farmers and maintain stability in agricultural markets. The primary purpose of procurement price is to offer a minimum guaranteed price to farmers for their crops. The Indian government typically announces procurement prices for a range of essential crops, including wheat, rice, pulses, oilseeds, cotton, and more. Various government agencies, such as the Food Corporation of India (FCI), the National Agricultural Cooperative Marketing Federation of India (NAFED), and state-level agencies, are responsible for procuring agricultural produce at the announced procurement price.

Issue Price

• Subsidised price for grains

This is the price that the government pays to buy foodgrains from the Food Corporation of India (FCI) or the price that the FCI charges for its foodgrains. The FCI has been incurring huge losses as food subsidies. The food grains that are bought are moved to the FCI's warehouses across the country, which are part of the buffer stock. From there, they go to the sale points-to the Targeted Public Distribution System (TPDS) or Open Market Sale. The transportation, storage, the expense of running the FCI, losses during carriage, etc., increase the price of the foodgrains (these extra costs added to the MSP are called the "economic cost of foodgrains"). To make the foodgrains affordable for the consumers, the issue prices for foodgrains are set lower than the total cost of procurement and distribution, and the difference becomes the 'food subsidy'.

Buffer Stock Management

• To address supply shortages and to stabilise the price

The buffer stock is a reserve of surplus agricultural produce procured from farmers at the minimum support price or procurement price. These stocks are managed and maintained by various government agencies to address situations of supply shortages, stabilise prices, and meet emergency requirements. Adequate storage facilities are essential for buffer stock management. The procured commodities are stored in various warehouses and storage facilities across the country. These facilities ensure the preservation of the produce and protect it from spoilage, pests, and other damage. The buffer stock is released into a market period of shortages or high demand to stabilise prices. During such periods, the government sells the commodities through various channels, like the Public Distribution System (PDS). When market prices surge due to a supply deficit, the government intervenes by releasing the buffer stock, which helps to maintain price stability. The government utilises the buffer stock to ensure that vulnerable sections of the population have access to food grains at affordable prices.

2.2.8.1 Challenges in the MSP system

- MSP may lead the market distortions

While MSP has been successful in achieving its primary goals of supporting farmers and stabilizing prices, there are also criticisms and challenges associated with its implementation. The cost of procurement and maintaining buffer stocks places a significant fiscal burden on the government. MSP can lead to market distortions, as procurement by the government may affect private traders and create inefficiencies in price determination. The focus of certain crops under MSP like rice and wheat, may lead to regional imbalances in agricultural production. Insufficient procurement and storage infrastructure can hinder the effective implementation of MSP, particularly in remote or underdeveloped regions.

2.2.9 Subsidies

- Incentives to farmers for production

Agriculture subsidies are the financial assistance provided by governments to agricultural producers to stabilise and strengthen their income, promote food production, and safeguard the well-being of rural communities. Subsidies incentivise farmers to produce more and also ensure a consistent and affordable food supply for the population. Agriculture is a significant employer in many rural areas. Subsidies help to sustain these communities by encouraging agricultural activities. While controversial at times due to their potential economic and environmental impacts, agricultural subsidies remain a significant tool in addressing global food challenges.

2.2.9.1 Types of agricultural subsidies

- Fertilizer Subsidies: The government subsidised fertilizers, such as urea, DAP, and potash, to ensure their availability at responsible prices. These subsidies help farmers to maintain soil fertility and boost crop yield.
- Seed Subsidies: Seeds are vital for crop production. The government provides subsidies for high-quality seeds to encourage their adoption and enhance crop performance.
- Pesticide Subsidies: To combat pests and diseases effectively, the government offers subsidies on pesticides. It is

for safeguarding crops and improving overall farm productivity.

- Credit Subsidies: Agricultural credit is vital for farmers to invest in inputs, equipment, and technology. The government offers credit subsidies to farmers to avail low-interest loans through various agricultural financing institutions. These subsidies ensure farmers have access to affordable credit and can invest in modern farming practices.

- Machinery Subsidies: Farm machinery aims to improve farm mechanisation and reduce labour dependency. Government financial assistance helps farmers purchase agricultural machines such as tractors, harvesters, and threshers.

2.2.10 Public Distribution System (PDS)

- Ensuring food security

PDS in India is a significant government initiative aimed at ensuring food security and poverty alleviation for its vast and diverse population. As one of the largest welfare programmes in the world, the PDS plays a pivotal role in providing subsidised food grains, and essential commodities to millions of economically vulnerable households across the country. The PDS was established in India in the 1960s and has since evolved into a crucial tool for social welfare. In June 1992, Revamped Public Distribution System (RPDS), introduced with the goal of strengthening the PDS. It also aimed to improve its reach in remote and inaccessible areas where a significant number of the poor lives. At the state level, the food grains were distributed through RPDS areas at 50 paise below the central issue price for up to 20 kilograms per card.

- More focus towards poor

In June 1997, the government of India launched the Targeted Public Distribution System (TPDS) with a focus on the poor. The state identified the poor according to the state-wise poverty estimates of the Planning Commission for 1993-94, which were based on the methodology of the "Expert Group on the estimation of proportion and number of poor" led by Prof. Lakdawala. The states or Union territories received food grains allocations based on their average consumption in the past. However, in 2000, with the aim of reducing poverty among the poorest segment of the Below the Poverty Line population, a scheme called Antyodaya Anna Yojana (AAY) was launched. It initially provided food grains at a highly subsidised rate of Rs. 2 per kg for wheat and Rs. 3 per kg for rice, later expanding its coverage.

Functioning of PDS

- In India the central and state governments share responsibilities to provide foodgrains to beneficiaries through the PDS.
- The central government procures food grains at an MSP from farmers and sells them to states at central issue price.
- Central government is responsible for transporting food grains at godowns of each state and states redistribute it to beneficiaries through Fair Price Shops (FPS) or ration shops, from where beneficiaries buy food grains at subsidised prices.
- The Food Corporation of India (FCI) is the nodal agency for distributing central shares to different states.

2.2.10.1 Recent developments in PDS

- Reduction in corruption and leakage

Adoption of Technology: One of the major recent developments in India's PDS is the adoption of technology to modernise the distribution process. Several states have introduced electronic point of Scale (e-POS) machines to replace traditional paper-based ration cards. With the help of biometric authentication, beneficiaries can now access their entitled rations with greater ease and accuracy. This has not only reduced the chances of corruption and leakage but also improved transparency in the system.

- Electronic means of cash transfer

Direct Benefit Transfer: The government has been gradually moving towards Direct Benefit Transfer (DBT) in the PDS to transfer subsidies directly into the bank accounts of beneficiaries. This approach ensures that the intended beneficiaries receive the subsidies without any intermediaries. DBT has been successfully implemented in various pilot projects across states, and its expansion is aimed at reducing inefficacies in the supply chain and enhancing the overall effectiveness of the PDS.

- Ensuring nutrition among poor

Fortification of Ration: To address the issue of malnutrition among vulnerable sections of the population, the government has undertaken initiatives to fortify the food grains distributed through the PDS. Fortification involves adding essential micronutrients like iron, folic acid, and vitamin B12 to staples like wheat and rice. This step is aimed at improving the nutritional value of the ration and promoting better health outcomes among the beneficiaries.

2.2.11 NFSA, 2013

- Eradicating hunger and malnutrition

The National Food Security Act (NFSA) of 2013 was introduced by the government of India with the primary objective of ensuring food security for all its citizens. This ambitious social welfare programme represents a significant step towards eradicating hunger and malnutrition in the country. By entitling eligible beneficiaries to subsidised food grains, the NFSA aims to uplift the most vulnerable sections of society and provide them with access to adequate and nutritious food. The act lays the foundation for a comprehensive and effective food security system by establishing clear entitlements and targeted benefits for deserving populations. NFSA represents a significant advancement over the TPDS that existed prior to its implementation. While the TPDS was the primary mechanism for food distribution in the country, it had several limitations that the NFSA sought to address and overcome. Broader coverage and entitlements, maternity benefits, use of technology, and aadhaar integration are some of the key ways in which the NFSA advanced over the TPDS.

Table 2.2.6 Facts about NFSA as per the latest estimates of the Union Budget (2022)

Number of Beneficiaries under NFSA	81.35 crores (As of 13 th July 2022)
Central Allocation under NFSA	43.94 lakh metric Tonnes
State Allocation under NFSA	32.99 lakh metric Tonnes
Total distribution	25. 31 lakh metric Tonnes

2.2.11.1 Salient Features of NFSA, 2013

- The NFSA legally entitles up to 75% of the rural population and 50% of the urban population to receive subsidised food grains through the TPDS.
- The Act identifies priority households and AAY households who are eligible for special benefits under the TPDS. The eligible households are entitled to receive a specific quantity of food grains at a subsidised price.
- The Act recognises the need to provide nutritional support to pregnant women, lactating mothers, children between the ages of 6 months and 14 years, and malnourished children.

- NFSA stipulates uniform prices for food grains throughout the country.
- The NFSA emphasises the use of Aadhar-based biometric authentication to ensure targeted delivery of food subsidies and prevent leakages.
- The act included the provision of transparency and accountability in the implementation of TPDS. It establishes a redressal mechanism for complaints and grievances related to the distribution of food grains.

2.2.12 Agricultural Produce Market Committee (APMC)

- Regulation of agriculture marketing

The Agricultural Produce Market Committee (APMC) is a system established by State Governments to regulate the marketing of agricultural produce and livestock. The APMC operates through a network of market yards, where farmers can sell their produce to traders and wholesalers. It was created to protect farmers from exploitation by intermediaries and to ensure that they receive fair prices for their produce. It also regulates agricultural trading practices, which helps to improve market efficiency and protect the interest of producers and sellers.

Model APMC Act of 2003

In 2003, the government of India drafted a model Agricultural Produce Market Committee (APMC) Act to initiate reforms in the agricultural market. The act is designed to provide an alternative market channel besides APMC, private wholesale markets, direct buying, and an agreement between buyers and sellers. The market committees under APMC are aimed at:

- The marketing transactions and pricing system of the market area are clear and fair.
- Offering farmers extension services that are driven by market demand.
- Making sure that farmers receive payment for their produce on the day of sale.
- Encouraging agricultural processing that will enhance the worth of the produce.
- Announcing the date and availability of agricultural produce in the market.
- Encouraging and creating Public Private Partnerships (PPP) in these markets.

Summarised Overview

The agricultural sector has been the pillar of India's economy, employing a vast population and contributing significantly to the country's GDP. The unit discusses major aspects such as land reforms, the Green Revolution, the impact of globalization on Indian agriculture, and the support systems crucial for the existence of the sector. After becoming independent in 1947, the government recognized the need to overcome the widespread land inequality and uplift the position of farmers. Land reforms were implemented to abolish landlordism and redistribute land to landless and marginal farmers. This aimed to provide the cultivators with increased access to resources and improve overall agricultural productivity.

A significant turning point in Indian agriculture was the Green Revolution of the 1960s. These transformative practices led to a substantial increase in production, mainly in wheat and rice production. Green Revolution played a pivotal role in reducing food shortages and hunger in the country. While the Agreement on Agriculture within the WTO seeks to establish a fair and market-oriented agricultural trade system, its implementation has exposed farmers to increased international competition and price volatility. To improve the lives of farmers and ensure national food security, the Indian government introduced a range of support systems for the agricultural sector. These included crop insurance schemes to protect farmers from adverse weather and other crises, the MSP system to protect agricultural prices, and the PDS to provide essential food supplies to the nation. Additionally, the APMCs were established to regulate the markets for agricultural produce and livestock.

Assignments

1. Analyse the impact of Covid 19 pandemic on agriculture development in India.
2. Conduct a study on agricultural subsidies provided by the governments in India and compare it with other nations.
3. Examine the agricultural growth trends in India with other developed economies.
4. Examine impact of WTO on Indian Agriculture.

Suggested Reading

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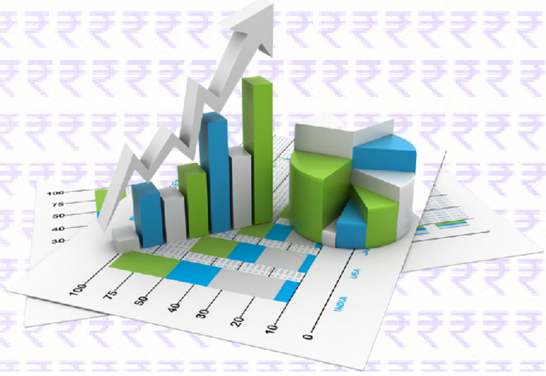
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 3
Industrial Development in India

Learning Outcomes

After completing this unit, learner will be able to:

- assess industrial growth trends in India
- understand industrial policies since 1991
- identify the importance of MSMEs
- examine the working and benefits of PPP

Background

India had a well developed cottage industry in ancient times, with skilled artisans making textiles, handicrafts, metalwork, and other goods. The country's trade links with the Roman Empire and other regions enabled economic prosperity. However, the British East India Company's arrival in the 17th century changed everything. British policies focused on the export of raw materials from India and the import of finished goods, causing the decline of indigenous industries and hampering economic growth. After India became independent in 1947, the government started a path of economic development. The First Five-Year Plan (1951-1956) established the basis for industrial growth, with a focus on public sector enterprises in key industries such as steel, power, and heavy machinery. The plan intended to lower dependency on imports and attain self-sufficiency.

Between the 1950s and 1980s, India adopted a mixed economy model with significant government intervention and control. The industrial policy of 1956 and the subsequent Industrial Policy Resolution of 1956 introduced the License Raj, wherein businesses needed government permits to set up or expand industries. While this led to the development of some key industries, it also hold back private enterprise, resulted in bureaucratic red tape, and inefficiencies. India's economic liberalisation, which started in 1991, marked a change in industrial development. The government abolished the License Raj, relaxed restrictions on foreign investment, and promoted private-sector participation. These reforms aimed to boost competition, increase efficiency, and connect India to the global economy. As a result, various sectors, such as information technology, services, and automotive, experienced rapid growth and drew foreign investments.

Keywords

Industry, Micro Small and Medium Enterprise, Public Private Partnership, Monopolies Restricted Trade Practices

Discussion

2.3.1 Industrial Development in India

- Stagnated industrial pattern

Before India started its planning process in 1950, its industrial sector faced many challenges and limitations. Most of the industries produced consumer goods rather than capital goods, which led to an imbalance in industrial development. The ratio of consumer goods to capital goods was 62:38 in 1953. Moreover, the industrial sector lacked adequate infrastructure and government support, which hamper its growth and efficiency. Exporting industrial goods to other countries had been against the interests of the country at that time. Additionally, the ownership of industries was highly concentrated in a few hands, creating inequality and monopolies. Finally, there was a shortage of technical and managerial skills among the industrial workers and entrepreneurs, which affected the quality and innovation of the products.

- Industry promotion policies

In this situation, the national agreement was that the only way to achieve economic freedom and self-reliance was to speed up the industrialisation process, especially the development of industrial infrastructure. The organised ideas about the direction of industrial development in India can be found in the Statement of Industrial Policy, 1945; the Industrial Policy Resolution of 1948; the Industries (Development and Regulation) Act, 1951; the First and Second Five Year Plan documents; and the Industrial Policy Resolution of 1956.

- Restriction of private participation

The First Five-Year Plan mentioned that the goal of industrial planning was to fill the gaps in the production of key industrial items and to start development that would enable the continuous growth of such basic production. The need and potential for the development of India's industries were considered to be so large that it was essential for the public sector to develop those industries in which private enterprise is unable or unwilling to invest the resources required and to bear the risk involved. The idea was that the rest of the field could be left open for private enterprise.

The Industrial Policy Resolution of 1948 specified a small number of industries to be exclusive for production by the public sector. The production of arms and ammunition, the production and control of atomic energy, and the ownership and management of railways were to be the only responsibilities of the central government. However, coal, iron and steel, aircraft manufacturing, ship-building, manufacture of telegraph and wireless equipment (except radios), and minerals were exclusive to production by central or state government enterprises. In addition to industries reserved for the public sector by the 1948 policy, the industrial policy of 1956 added a number of additional industries exclusive to the public sector. Ideas concerning the public sector evolved during the 1950s. The original ideas were focused on the use of public sector investment in industries that the private sector would find hard to invest in. By 1956, this had changed towards a clear preference for state ownership of industries that were called capturing the 'dominant positions of the economy'. The Second Five Year Plan and later plans have been increasingly focused on the allocation of public resources and much less on indications and policies to guide the whole economy in desired directions.

- Industries reserved under the public sector

2.3.1.1 Industrial Control Regime

The system of industrial licensing has its roots in a combination of ideas resulting from the needs and demands of a war situation, nationalistic ambitions, and the socialist tendencies of some of the founding fathers of the country. The leaders of the private sector at the time were also in favour of strong governmental intervention. The industrial licensing system has functioned in the country with the simultaneous function of other schemes of governmental allocations and controls, such as 1. Five-Year Plan documents, 2. Import and export controls, 3. Control of capital issues, 4. Control of foreign exchange, 5. Transport controls, including allocation of raw materials, 6. Price controls, and 7. Allocations of credit. Though the original intention of licensing was to use its power on selected industries, later it was used to control almost all industries.

- Industrial licensing

Performance of the Industrial Licensing System

Setting up an industry requires central government approval at almost all steps, including the recent industrial and trade policy reforms. The first step for the entrepreneur to invest in the project was to obtain provisional approval from the

Ministry of Industry, which resulted in getting a LoI (Letter of Intent). This LoI allowed the entrepreneur to finalise other aspects of establishing the project. For the import of capital goods, the entrepreneur had to obtain a special import license from the Ministry of Commerce. If there was any need for a foreign technology collaboration agreement, the producer had to obtain approval from the Ministry of Industry. In order to raise funds for projects, he needs separate approval from the Ministry of Finance. After finalising everything and getting the firm ready for production, the entrepreneur still had to obtain an 'Industrial Licence' from the Ministry of Industry. Besides these approvals, the firms under the MRTP (Monopolies and Restrictive Trade Practices) Act of 1969 had to get separate MRTP clearances from the Department of Company Affairs. Also, 836 items were reserved for SSI (small-scale industries) to encourage their growth. Since 1956, some industries have been reserved for public sector production only. Since 1977, industries have not been allowed to be located in the biggest 20-30 cities. In 1988, this restriction was expanded to cover municipal areas of all towns and cities and specific areas around the 21 largest cities.

- Control of industries through licensing

This system has been unsuitable for investments in the industry and its development since early 1960. Government appointed committees like the Swaminathan Committee of 1964, the Mahalanobis Committee of 1969, the Hazari Report of 1967, the Dutt Committee of 1969, etc. All these committees suggested that the licensing mechanism was not able to channel investments in the desired directions. But there seems to have been a continuing inability of the government to bring any substantive changes to the industrial licensing system.

- Committees opposed industrial licensing

The lack of growth in industrial production from the mid-1960s to the late 1970s prompted some serious new reflections. By the end of the 1970s and the early 1980s, there was a growing consensus that the Indian industries were facing a slowdown in industrial growth due to low productivity, high costs, low quality of production, and outdated technology. Three significant committees were established in the early 1980s: the Abid Hussain Committee on trade policy, the Narasimham Committee on the shift from physical to fiscal controls, and the Sengupta Committee on the public sector. These committees clearly recommended a relaxation of trade policy, the replacement of physical and quantitative controls by

- Low-level industrial production

fiscal and other methods of macroeconomic management, the encouragement of more public sector independence in business and operating decisions, and the necessity for measures for improving productivity, efficiency and modernisation.

The outcome of such reflections was that there was some advancement in the process of deregulation during the 1980s. Two types of delicensing activity occurred. First, 32 groups of industries were delicensed without any investment limit. Second, in 1988, all industries were freed from licensing except for a specified list of 26 industries. This freedom from licensing was, however, subject to investment and location restrictions. As has often been done in the past, this announcement also contained further limitations, which reduced considerably the effectiveness of the exemption from licensing that was provided in this announcement. On the trade policy front, the key change was increasing the access of exporters to inputs at international prices. However, it seems that tariff protection for the industry increased considerably during the 1980s relative to previous decades. While the industrial licensing system underwent some changes in terms of threshold levels and types of products, it remained an essential part of government policy until the end of the 1980s.

- Domestic deregulation

2.3.2 Industrial Policies Since 1991

The reform on the industrial policy front, however, happened with a sharp worsening in the fiscal accounts of the government. As the Government of India's policies became increasingly expansionary to support growing levels of current government expenditures on sharply rising interest payments, defence, and subsidies, the gross fiscal deficit of the government increased from 6.2 percent of GDP in 1980-81 to 8.3 percent by 1990-1991. The reorientation of industrial and trade policies induced a better productivity response and resulted in considerably higher industrial growth in the 1980s, but the worsening fiscal position and growing macro- economic imbalances presented a serious challenge to the sustainability of the higher growth of the 1980s. The Gulf War of 1990 provided the trigger, which exposed the underlying economic crisis to the force.

- Growing fiscal deficit

The country's response to the crisis was two-fold-more domestic deregulation, foreign competition and trying to attain macroeconomic balance. The policies represented a more radical departure from the past by opening up the economy to foreign trade and foreign investment. The 10 years from

- Opening of the economy to foreign competition

1991 to 2001, therefore, marked a significant transition for the Indian economy from a policy regime with very high rates of protection and quantitative restrictions to moderate rates of protection and removal of quantitative restrictions. The degree of tariff protection, however, was still higher than in most developing economies.

2.3.2.1 New Industrial Policy, 1991

- Liberalised control over industries

Since 1991, India has undergone a significant transformation in its approach to industrial policies. Prior to 1991, the country followed a heavily regulated and protectionist economic model, which limited foreign investments and hold back the growth of private enterprises. However, in response to the balance of payments crisis in 1991, the Indian government initiated a series of economic reforms aimed at the economy, integrating it into the global market. One of the most notable changes was the License Raj, a complex system of bureaucratic control that required businesses to obtain numerous permits and licenses to operate. This move led to a substantial reduction in red tape and bureaucracy, thereby fostering a more business-friendly environment and encouraging private sector participation.

The salient features of the New Industrial Policy are discussed below:

1. Abolition of industrial licensing

- Delicensing of industries

An evaluation of the industrial licensing system reveals that the operational controls largely favoured the rich industrialists having strong lobbying power. The pre-1991 licensing system also failed to reduce regional imbalances. The earlier system also led to delays in investment decisions, governmental interference, corruption, etc. To remove this weakness the new industrial policy abolished industrial licensing except for 18 industries, (coal, petroleum, sugar, cigarettes, leather, newsprint, electronics, etc.). Later on, many of these industries were also delicensed. Presently, compulsory licensing is required only for five industries viz. alcohol, cigarettes, certain chemicals, electronic aerospace and defence equipment, and industrial explosives.

2. Public Sector Policy (Disinvestment)

The public sector was considered to be the commanding height of the Indian economy from the initiation of planning. The 1956 industrial resolution marked seventeen industries solely for the public sector. In 1991, it was restricted to eight

- Reduced the number of industries reserved under government

industries. The industries reserved for the public sector in the 1991 industrial policy were (1) arms and ammunition, (2) automatic energy, (3) coal, (4) minerals, (5) mining of iron ore, manganese, sulphur, gold, and diamonds (6) mining of copper, lead, etc (7) minerals associated with atomic energy (8) rail transport. Presently, only atomic energy sector has been reserved exclusively for the public sector.

- Sale of loss-making industries to the private sector

The new industrial policy announced the disinvestment policy; accordingly a part of government shareholding in the public sector enterprises would be sold to the private sector. Between 1991-92 and 2011-12, the government raised over Rs. 1,13,650 crores through disinvestment. The new industrial policy indicates the government's intention to allow a greater degree of private participation in important areas of the economy.

3. MRTP Act

- Removal of unfair trade practices

Under the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 all firms with assets above 100 crores (since 1985) were classified as MRTP firms. Such firms were earlier permitted to enter only in selected industries. The new industrial policy of 1991 removed the MRTP Act and also the limit of the assets. The earlier MRTP firms were now considered equal to other industries. The need for government approval for such firms was also removed. The amended MRTP Act gave more importance to the prevention and control of monopolistic and unfair trade practices in order to protect domestic consumers.

4. Foreign Investment and Technology

- Allowed more FDIs in India

The industrial policy of 1991 removed all restrictions on foreign investment and also the entry of foreign investment. FDI (Foreign Direct Investment) was permitted up to 100 percent in certain sectors of the economy. FDI was prohibited in retail trading, atomic energy, lottery business, and gambling and betting. The new industrial policy also emphasises the need for foreign investment regarding technology agreements by Indian firms. Industries having export potential, like entertainment, electronics, food processing, and service sector were given automatic approval under the new industrial policy.

The industrial policy also removed restrictions regarding industrial location and mandatory convertibility. Under the former mandatory convertibility policy, financial institutions converted loans into equity. The new industrial policy removed this, giving more freedom to private firms. Under

- Give freedom to private firms

the New Industrial Policy, more emphasis was also given to the promotion of non-colluding industries like electronics, computer software, printing, etc. Thus, the new industrial policy was in tune with macroeconomic structural adjustments or economic liberalisation.

2.3.2.2 Critical Evaluation of New Industrial Policy, 1991

The New Industrial Policy of 1991, also known as the "Economic Liberalisation" Policy, aimed to open up the Indian economy to the global market and attract foreign investments. While it brought several positive changes and growth opportunities for the Indian economy, it also faced some drawbacks and challenges. Some of the main challenges of the New Industrial Policy, 1991 are:

Unemployment

- Increased competition from foreign goods

The policy led to an increase in competition, which resulted in the closure of many small-scale industries and traditional businesses. With the aim of integrating India into the global economy, the government reduced import barriers and tariffs. While this encouraged greater access to foreign products. It also exposed domestic industries to stiff competition from cheaper imports. Local industries that were unable to compete effectively faced downsizing or closure, leading to unemployment. As a response to increased competition, some industries opted to adopt capital-intensive technologies over labour-intensive ones to improve efficiency and cut costs. This shift towards mechanisation reduced the demand for labour, leading to unemployment in certain sectors.

Dependency on Foreign Capital

- Capital Inflow

To attract foreign investments, India had to rely heavily on foreign capital inflows. This reliance made the economy vulnerable to sudden capital inflow during times of global uncertainty. The policy introduced measures to encourage Foreign Direct Investment (FDI) in various sectors of the economy. This included allowing higher levels of foreign investors to be attracted to invest in India, leading to a greater dependency on foreign capital to finance domestic projects and businesses. Liberalisation of trade policies allowed easier access to foreign goods and technologies. While this brought benefits in terms of improved technology and customer choices, it also increased the import dependence of the Indian economy. To finance these imports, India needed foreign capital to bridge the trade deficit.

Income Inequality

- Increased inequalities in income

The policy's benefit was not evenly distributed, leading to an increase in income inequality. With policy liberalisation, certain sectors experienced rapid growth and generated employment opportunities for skilled workers, leading to an increase in wages in those sectors. However, these opportunities were not equally distributed across all segments of society. Many people in the informal sector or low-skilled workers did not benefit from the growth in the same way, resulting in income disparities. The rich got richer while the poor struggled to reap the benefits of economic growth.

2.3.2.3 Industrial Growth Trend During Post-Reform Period (After 1991)

- Industrial slowdown

The post-reform phase of the industry can be divided into two phases: from 1991-92 to 2000-01 and 2001-02 onwards. The crisis in the early 1990s prompted a policy response that included extensive reforms in industrial regulation, foreign trade, exchange rates and payments, capital markets, the banking sector, and fiscal consolidation. These reforms, implemented between 1991 and 1994, boosted GDP growth to more than 7 percent annually and industry sector growth to more than 9 percent. However, the reform momentum slowed down in the mid-1990s and fiscal balances deteriorated afterward, leading to a loss of investment and export dynamism and a slowdown in growth after 1997. Agriculture also suffered from significant slowdowns and fluctuations from year to year. Industry growth also declined and became less volatile.

- Fluctuating growth rate

From 2001-02 to 2010-11, the industrial sector grew at an annual rate of 7.8 percent, the services sector at 9.4 percent, and the GDP at 7.9 percent. The annual growth rate of per capita GDP increased significantly by 2.5 percent to 6.2 percent. The period from 2003-04 to 2007-08 was remarkable for achieving an average annual growth rate of 8.7 percent in GDP and 10.3 percent in industry. In 2006-07, the GDP and industry grew at an impressive rate of 9.6 percent and 12.7 percent, respectively. However, due to the economic crisis in developed countries, the GDP growth rate in 2008-09 fell to 6.7 percent but recovered in the next two years. The first decade of the new millennium witnessed the most impressive growth performance.

- Balanced economic activities

The Indian economy depends largely on industry, which made up 31 percent of GDP, on average from 2012 to 2021. It provides jobs for over 12.1 crore people, according to economic survey 2022-23. The relevance of the sector can be identified through its connection with other sectors, which help to boost economic growth and employment. India's industrial growth helps to accommodate domestic demand and reduce dependence on imports. This helps to improve trade and current account balances. Industrial growth in a country has a multiplier effect, which means, with industrial development, more employment would be created. Some industries,such as textiles and construction have high employment elasticities. Similarly, industrial growth in India stimulates growth in service sectors such as banking, insurance, and logistics.

Table 2.3.1 Growth and Share of Industrial Components (in percent)

Industrial Components	Growth in Percent (in 2023)	Share in Total GDP (in 2023)
Mining and quarrying	2.6	2.3
Manufacturing	3.0	17.3
Electricity, gas, water supply, and other utility services	7.9	2.3
Construction	7.3	8.1
Total share	4.5	30

Source: Economic Survey 2022-23

Industrial income in a country is possible through increased industrial production. In India, the growth of industrial income has contributed a high percentage to overall GDP growth. During the second half of the financial year 2023, the manufacturing sector alone will contribute more than half of the total industrial income. The construction sector occupies the second position in total GDP share, followed by mining, quarrying, and other utility services. In the second half of 2023, the total industrial growth is 4.5% as per the economic survey 2022-23.

- Higher growth percentage to overall GDP growth

Though the industrial sector contributes a significant share to India's GDP, its growth is moderate when compared to the service sector. It is mainly due to infrastructure bottlenecks, regulatory delays, lack of transparency, and high cost and non-availability of commercial bank credit. Boosting the share of manufacturing in the Indian economy has been a long-standing goal of Indian policymakers. The national manufacturing policy (NMP) was enacted in 2011 by the Manmohan Singh government, which aimed to create 100 million jobs in total and increase the share of manufacturing to 25 percent of GDP. The Modi government gave it a sense of urgency by launching the "Make in India" initiative. This target was later revised to 2025. However, despite the attention that the "Make in India" campaign received both domestically and internationally, the share of manufacturing value added to GDP was only 13.6 percent in 2019, the third lowest share since 1960. In fact, the share has never crossed 18 percent between 1960 and 2019.

- Policy initiatives to promote industrial development

2.3.3 Public-Private Partnership

In recent years, Public Private Partnerships (PPP) have emerged as a dynamic and innovative approach to foster collaboration between the government and private sector in India. This mutually beneficial arrangement brings together the expertise, resources, and efficiencies of both parties to address critical challenges and enhance economic growth. As India strives to overcome infrastructural gaps and improve service quality, PPPs have become a compelling solution that leverages the strengths of both sectors. By promoting better service delivery and sharing risks effectively, PPPs are reshaping the structure of public infrastructure and services. Through this, the country may be able to achieve sustainable development and inclusive growth.

- Improved service delivery

2.3.3.1 Benefits of PPP

Infrastructure Development

PPPs in India have a major advantage in their role in enhancing infrastructure development. The private sector's effectiveness and innovation, along with the government's regulatory framework and funding support, have contributed to the timely completion of various projects. PPPs have changed India's infrastructure face, from highways to airports, power plants to telecommunication networks. It would boost economic growth and increase overall connectivity. The participation of private partners often leads to faster project completion. Private companies are motivated by efficiencies and profitability, which can enable quicker decision-making and streamlined project execution. This is especially helpful in addressing critical infrastructure needs and avoiding bureaucratic delays that can often happen in traditional government-led projects.

- Government support encourages infrastructure

Reduced Fiscal Burden

The government's finances can be strained by the ever-growing list of developmental projects. PPPs offer an effective solution by enabling private investors to share the financial risks and responsibilities of the projects. This sharing of costs not only reduces the fiscal burden on the government but also helps in using the available resources more efficiently. This risk-sharing mechanism helps safeguard public funds and ensures that projects are completed successfully.

- Sharing financial risk

Enhanced Service Delivery

PPPs often lead to better service delivery due to the private sector's focus on efficiency and performance. In sectors like health care and education, PPP models have brought about modernisation and upgraded facilities, making quality services more accessiblee to the general population. This, in turn, contributes to a healthier and better-educated workforce, positively affecting India's human capital and productivity. The power sector in India has also seen a significant transformation through PPPs. Private players have invested in power generation projects, leading to increased capacity and efficiency in electricity generation. Additionally, PPPs have been involved in power distribution, which has resulted in lower power outages and better customer service.

- Advancement in health care and education services

Employment Generation

- Increased demand for workers

PPPs are important contributors to job creation in India. As projects under PPP models grow across sectors, they create demand for skilled and unskilled labour, providing employment opportunities to a large section of the population. This has a direct impact on lowering unemployment rates and poverty levels, thus promote inclusive growth. PPPs often involve large-scale infrastructure projects, such as the building of roads, bridges, airports, ports, and power plants. These projects require a significant workforce, including both skilled and unskilled labour. As a result, PPPs create jobs directly in the construction and development phases, providing employment opportunities to workers involved in the execution of these projects.

Technological Advancement

- Digitalisation

The private sector's investment in PPPs often brings advanced technologies and management practices to various sectors. These technological advancements not only enhance the efficiency of projects but also encourage the adoption of cutting-edge practices across industries. This mixture of technology plays a crucial role in India's journey toward becoming a digital and technology-driven economy. The private sector, particularly multinational corporations, brings advanced technologies and best practices to PPP projects. Through technology transfer and adoption, domestic industries can gain access to advanced technologies, which can significantly improve their productivity and competitiveness.

2.3.3.2 Successful PPP Projects in India

Delhi Metro Rail Corporation (DMRC)

- Model of excellence

The DMRC project is a remarkable example of a successful PPP project that has changed urban transportation in the capital city. Starting in 2002, DMRC involved the Government of India, the Government of New Delhi, and private players, showing how an effective mass transit system could ease traffic congestion and lower carbon emissions. The project's success inspired subsequent PPP-based metro initiatives in other Indian cities, changing the urban landscape and promoting economic growth.

Bangalore International Airport Limited (BIAL)

• Advancing aviation infrastructure

The BIAL project shows how a private consortium can help transform an old airport into a cutting-edge aviation center. BIAL employed sophisticated technology, contemporary terminals, and improved airside facilities to cater to the increasing need for air travel. This PPP initiative has not only enhanced the city's image as a global technology hub but also reinforced the country's position as an aviation leader in the area.

Rajasthan Solar Energy Project

• Greening India's energy sector

The Rajasthan Solar Energy Project reflected India's dedication to renewable energy. The State Government and private investors collaborated to build large solar parks, tapping into the State's plentiful sunlight. Rajasthan became one of India's top solar power generators as a result, advancing its shift to sustainable energy and supporting the country's clean energy objectives.

Mundra Port

• Enabling trade and commerce

A successful PPP project is Mundra Port, which is located in Gujarat, a western state. The government and the Adani Group worked together to construct this port that can operate in any weather and has deep water. Mundra Port has become a key trade center for the nation by providing modern amenities and enhancing access to the inland areas. This strategic infrastructure asset has not only boosted India's foreign trade but also attracted substantial foreign investments.

Chennai Petroleum Corporation Limited (CPCL)

• Refinery upgrade

Chennai Petroleum Corporation Limited undertook a major refinery expansion project in partnership with private players. The upgrade updated the refinery, greatly increasing its processing capacity and improving the quality of petroleum products. This PPP initiative strengthened India's energy security, lowering the country's dependence on petroleum imports and increasing its ability to meet domestic demand.

2.3.4 MSMEs (Micro, Small and Medium Enterprises)

- MSMEs in the expansion of the economy

Over the last few decades, the MSME sector has become a very dynamic and vibrant sector of the Indian economy. The sector has more than 6 crore MSMEs, which are the backbone of the economy and play a vital role in creating jobs and adding to GDP. The sector provides employment to more than 11 crore people and adds about 30 percent to the GDP. It also contributes to half of the country's exports, helping to make India stronger and more self-reliant. The MSME sector has a large share of micro-enterprises, both in terms of active enterprises and employment. The MSMEs produce over 6,000 products, from traditional to high-tech items. The sector also includes the enterprises set up in Khadi and village industries, and the coir sector.

Table 2.3.2 Definition of the MSME Sector (Old and New)

Industries	Old Definition	New Definition
Micro	Investment in Plant and Machinery: Does not exceed 25 lakh	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed 1 crore and turnover does not exceed 5 crores
Small	Investment in Plant and Machinery: More than 25 lakhs but does not exceed 5 crores.	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed 10 crore and turnover does not exceed 50 crores
Medium	Investment in Plant and Machinery: More than 5 crores but does not exceed 10 crores	Investment in Plant and Machinery or Equipment and turnover: The investment in plant and machinery or equipment does not exceed 50 crore and turnover does not exceed 250 crores

Several initiatives have been taken by the government to support and develop MSMEs. The change in the definition of MSMEs implemented w.e.f. July 1, 2020, as part of the Atma Nirbhar Bharat package introduced a composite criterion of investment and annual turnover. The new definition of MSMEs will enable these enterprises to grow and expand. Various government initiatives for its development are the Micro Small Enterprises-Cluster Development Programme (MSE-CDP), the Prime Minister Employment Generation Programme (PMEGP), the Scheme of Fund for Regeneration of Traditional Industries (SFURTI), and enabling IT ecosystems. This enabling environment will encourage competition and avoid dwarfism among MSMEs.

- Government initiatives to increase the strength of MSMEs

The recent measures taken by the Government to enhance the ease of doing business for MSMEs include the launch of the new Udyam Registration Portal in July 2020. The registration process under this is fully online, digital, and paperless and is based on self-declaration. No documents or proof are needed to be uploaded for registration as a micro, small, and medium enterprise. Aadhaar and PAN are needed for registration, and details on investment and turnover of enterprises are taken automatically from relevant government databases. The new registration process has improved the ease of doing business for MSMEs by reducing transaction time and costs.

- Recent measures to promote MSME growth

2.3.4.1 Role of MSMEs in the Indian Economy

1. To Generate Employment

The share of agriculture in employment and GDP declines when countries progress. Small and Micro Enterprises (SMEs) create about 70 percent of net new jobs across the world. MSMEs not only create the highest employment per capita investment, but they also help in preventing rural-urban migration by providing people living in villages and remote areas with a sustainable source of employment. Among the MSMEs in India, the dispersed food products sector creates maximum employment (13.7% of total employment in the MSME sector), followed by non-metallic mineral products (10.9%) and metal products (10.2%). In chemicals and chemical products, machinery parts except electrical parts, wood products, basic metal industries, paper products and printing, hosiery and garments, repair services, and rubber and plastic products, the contribution ranges from 9 percent to 5 percent. In all other industries, the contribution is less than 5 percent.

- Source of income to the population

2. ***Maintain Economic Growth and Increase Exports***

- Export promotion

More than 95 percent of Small-Scale Industries (SSI) exports are non-traditional products. The SSI sector has performed remarkably in the last decade in garments, leather, gems, and jewellery units. The SSI sector dominates in the export of sports goods, ready-made garments, woolen garments and knitwear, plastic products, processed food, and leather products. The major export destinations are the US, Europe, and West Asia. There is huge potential to increase the number of exports from traditional MSMEs because they are handcrafted and, hence, eco-friendly and unique.

- Providing raw materials to large-scale industries

Moreover, while MSMEs are unable to benefit from economies of scale, they are suitable for meeting small order quantities-a bonus in industries such as ready-made garments, home furnishings, etc. MSMEs often act as ancillary industries for LSIs (low-scale industries), providing them with raw materials, vital components and backward linkages. For example, in small MSEs of Malerkotla which produce cycle parts rely heavily on the large cycle manufacturers of Ludhiana. MSEs also promote eco-friendly growth, especially in difficult terrains and the ecologically sensitive areas. In large areas of barren desert land in Barmer and Kutch, in the scattered dhanis of Udaipur, in the hilly hamlets of J&K, Ladakh, Himachal and the North-east, in the tribal hinterlands of central India, they are the only source of livelihood.

3. Inclusive Growth

- Equity in distribution

The MSME sector touches the lives of minorities, SCs and STs, women, and children in villages, urban slums, and backward sections of rich towns and cities. The MSME sector is a major source of employment and income for millions of people in India. For many, it is the only source of livelihood, while for others, it supplements the family income. The sector is not just about providing jobs but also about empowering people to break the cycle of poverty and deprivation. It does this by focusing on people's skills and agency. The Twelfth Plan has listed five objectives for the MSME sector. First, promoting competitiveness and productivity, second making the MSME sector innovative, third enhancing the enabling environment, fourth boosting exports and finally improving managerial processes.

2.3.4.2 Government Policies to Promote MSME Growth

- Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006: The MSMED Act lays down the framework for the classification and registration of MSMEs based on their investment in plant and machinery or equipment.
- Credit Guarantee Fund Scheme (CGS): Launched by the Ministry of Micro, Small, and Medium Enterprises, the CGS aims to provide collateral-free credit facilities to MSMEs.
- Credit Link Capital Subsidy Scheme (CLCSS): The CLCSS offers capital subsidy for the technological upgradation of MSMEs in specific sectors
- Technology Upgradation and Quality Certification (TEQUP) Scheme: This scheme aims to enhance the quality and competitiveness of MSMEs by facilitating their access to modern technology and encouraging them to obtain ISO certifications.
- The CHAMPIONS (Creation and Harmonious Application for Increasing the Output and National Strength): is an IT-based technology system for making small units big by helping and hand holding them.
- Udyog Aadhaar Memorandum (UAM) Registration: It simplifies the registration process for MSMEs by allowing them to self-declare their existence and details. This online registration process reduces bureaucratic red tape and facilitates access to various benefits and schemes.

2.3.4.3 Challenges Faced by the MSME Sector

The sector's growth is influenced by some natural difficulties that it encounters. These include: (i) limited access to credit and formal financing, (ii) obsolete technology and innovation, (iii) demand for skill development and training, (iv) insufficient industrial infrastructure, and (v) marketing and procurement challenges.

Summarised Overview

The industrial sector has played a crucial role in India's economic growth and transformation over the years, making it an essential area of study. The unit begins with a brief historical context, outlining the early stages of industrial development in India and the factors that influenced its growth. It highlights the importance of industrialisation for the country's economic progress and the challenges faced during the initial years. The focus then shifts to the significant policy changes and reforms introduced in the Indian industrial sector since 1991. These reforms aimed to liberalise and modernise the economy, moving away from a centrally planned system to a more market-oriented approach. The chapter deals with key policy measures, such as economic liberalisation, deregulation, and Foreign Direct Investment reforms, and their impact on industrial development.

Public-Private Partnerships also play an important role in fostering industrial development in India. It explains how PPP models enable collaboration between the government and private sector entities to undertake infrastructure projects and encourage investment in various industries. The final section of the unit concentrates on Micro, Small, and Medium Enterprises. These enterprises are essential for promoting inclusive growth, generating employment, and fostering entrepreneurship in India. The chapter discusses the role and challenges of MSMEs in India. Understanding these aspects is essential for comprehending India's industrial trajectory and its relevance in the global economy.

Assignments

1. Discuss on the contributions of the construction and infrastructure sectors to the economic growth of the country.
2. Examine the historical evolution of the industrial development of India and its significance for the country's economic growth.
3. Compare the industrial policies before and after 1991 and indicate theirs differences and their implications on economic growth.

Suggested Reading

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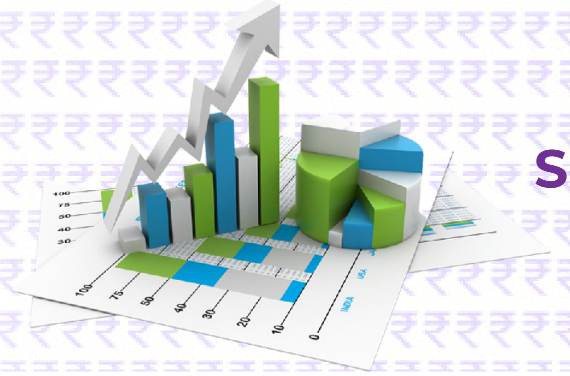
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 4
Service Sector Development in India

Learning Outcomes

After completing this unit, learner will be able to:

- identify the growth of India's service sector
- understand the development of major sub sectors of services
- compare service sector development with other sectors

Background

The service sector in India has a rich and diverse historical background that has evolved over centuries. While agriculture was the dominant economic activity for much of India's history, the service sector's development gained momentum during different periods. During ancient times, the Indian economy was primarily agrarian, with trade and commerce playing a significant role. Ancient India had extensive trade connections with other civilisations, facilitating the exchange of goods and services. Major trade routes like the Silk Road contributed to the growth of the service sector, especially in sectors like trade, transportation, and hospitality. Ancient cities like Harappa and Mohenjo-Daro also acted as centers of trade and commerce. During the medieval period, the rise of various dynasties and kingdoms, such as the Mauryas, Guptas, and Cholas, promote trade and commerce. The emergence of trade guilds and merchant associations further promoted commercial activities, including services like money lending, banking, and trade facilitation.

The arrival of European powers on the Indian subcontinent during the colonial era had a significant impact on the service sector. The British East India Company's establishment led to the development of trading posts, ports, and communication networks. British influence introduced modern concepts of administration, legal systems, and educational institutions, shaping the foundation of modern service sectors like public administration, education, and legal services. After gaining independence in 1947, India adopted a mixed economy model with an emphasis on planned development. The public sector played a dominant role in various services like transportation, communication, banking, and insurance. The government launched various initiatives to build infrastructure and develop key service sectors to support industrial growth and economic development. The year 1991 marked a turning point for the service sector's development as the government opened up several industries to private and foreign investments. The service sector witnessed rapid growth, particularly in information technology (IT), telecommunications, banking, finance, and hospitality.

Keywords

Foriegn Direct Investment, Trade, Transport, Communication, Tourism

Discussion

2.4.1 Service Sector Development in India

- Liberalisation measures improved growth

Since the 1991 crisis of balance of payments, the Indian economy has experienced significant macroeconomic and structural changes. Trade, FDI, and industrial policies have become more open. Many barriers have been removed completely. Measures have been taken to improve macroeconomic management in terms of institutions, legislation, and regulation. The economy's growth potential has increased due to liberalisation, with the compound annual growth rate rising from 5.7 percent in 1990-2004 to 7.5 percent in 2005-16 as per UN National Accounts Statistics. India has been among the fastest-growing economies in the last two decades. The country's external sector has also shown better performance after liberalisation, with a rise in India's share in world trade and FDI flows in the past ten years.

- Dynamic performance of the sector

The service sector played an important role in this improved economic performance during the post-reform period. The growth rate of the economy has been accelerated by services, which have been the most dynamic sector in recent years. Services have also helped India connect with the global economy through trade and capital movements. India has gained global recognition for its remarkable growth and export achievements in services such as Information Technology (IT) and Business Process Outsourcing (BPO). Trade, hotel, transport, communication, financial, real estate, public administration, defence and other services also contribute to the dynamic performance of this sector. Services have also enhanced productivity in other sectors of the economy, thus increasing the economy's overall competitiveness.

2.4.1.1 Growth Trends of the Service Sector

- Service growth exceeding overall GDP growth

The service sector has shown remarkable growth rates in the 1990s and 2000s. The sector's CAGR (Compound Annual Growth Rate) has increased steadily over the decades, from 6.2 percent in the 1980s to 7.3 percent in the 1990s and further to 8.7 percent in the 2001-16 period, surpassing overall GDP growth throughout. On the other hand, agriculture and industry have shown varied performance, with the CAGR in agriculture falling from 3.5 percent in the 1980s and remaining at 2.9 percent in the 1990s and the 2001-16 period while the industry recorded a drop in its CAGR from 7.9 percent in the 1980s to 6.3 percent in the 1990s, rising to 7.5 percent in the 2001-16 period. The below table shows these trends and the relative performance of the service sector. It emphasises the role of services in increasing overall economic growth in India.

Table 2.4.1 CAGR for GDP and its Components for India: 1980s,1990s, and 2000s (%)

Year	Agriculture	Industry	Services	GDP
1980-90	3.48	7.85	6.24	5.85
1991-2000	2.93	6.28	7.33	6.05
2001-16	2.90	7.53	8.71	7.48

Source: http://unstats.un.org/unsd/snaama/resQuery.asp

- Recovery from Covid 19 impact

The service sector suffered a severe impact from the Covid-19 pandemic, especially the contact-intensive services sectors such as tourism, retail trade, hotel, entertainment, and recreation. On the other hand, non-contact services such as information, communication, financial, professional, and business services showed resilience. However, the services sector bounced back quickly in the financial year 2022, growing at 8.4 percent year on year compared to a decline of 7.8 percent in the previous financial year. The recovery was led by growth in trade, hotel, transport, storage, communication, and services related to broadcasting. The growth momentum has persisted in the financial year 2023 as well. According to the First Advance Estimates, GDP in the services sector is projected to grow at 9.1 percent in the financial year 2023, driven by 13.7 percent growth in the contact-intensive services sector.

2.4.1.2 Foreign Direct Investment (FDI) in Services

- Removal of FDI restriction on services

According to UNCTAD's World Investment Report 2022, India ranks seventh among the top 20 host countries that received the most FDI in 2021. India recorded the highest-ever FDI inflows of US$ 84.8 billion in FY22, including US$ 7.1 billion FDI equity inflows in the services sector. The Government has taken various steps to facilitate investment, such as launching the National Single-Window System, a one-stop solution for approvals and clearances required by investors, entrepreneurs, and businesses. The Government has also liberalised investment in various sectors by allowing 100 percent foreign participation in telecommunication services, including all services and infrastructure providers, through the Automatic Route. The FDI limit for insurance companies was increased from 49 to 74 percent, under the Automatic Route. Moreover, the Government has permitted 20 percent foreign investment in Life Insurance Corporation (LIC) under the automatic route.

2.4.2 Major Services: Sub-Sector-Wise Performance

Services Trade

- Expanding the service export

The services sector has also increased its share in India's trade and FDI flows over the past decade, enabling India's integration with the world economy. India's service exports have steadily increased from a mere $2.9 billion in 1980 to $6.7 billion in 1995, rising to $16.7 billion in 2000 and growing more than tenfold to $183.9 billion in 2017. Services imports have also grown significantly, from $2.9 billion in 1980 to $10.2 billion in 1995, rising to $19.2 billion in 2000, and further to $154 billion in 2017. Services exports grew by 27.7% during April- December 2022, as compared to 20.4% in December 2021. India has moved to a slight services trade surplus over the years, which has helped balance India's continous and growing trade deficit in goods.

- Increasing share towards global trade

Fast growth in services trade has resulted in India's increased share of the world services market over the past two decades, reflecting India's growing competitiveness in global services, especially in the post-2000 period. India's share in world services exports has increased from less than 1 percent in the 1980s and 1990s to 1.9 percent in 2002, 2.9 percent in 2010, and 3.44 percent in 2017. Its share in world services imports has similarly risen from 0.7 percent in 1990 to 2.3 percent in 2005 and further to nearly 3 percent in 2017.

Table 2.4.2 India's Share in World Export of Goods and Services

Year	Goods	Services
1980	0.42	0.77
1990	0.52	0.56
2000	0.66	1.09
2005	1.01	1.96
2010	1.55	2.98
2017	1.75	3.44

Source: http://www.unctad.org

- Faster growth of service export than goods

India's service exports have generally grown much faster than its merchandise exports. Moreover, India's share of the world services markets not only surpasses that for goods but has also increased more quickly, especially in the last decade. The above table shows the relatively better performance of service exports compared to merchandise exports, with services export growth reaching its peak during the boom period before the global financial crisis.

IT-BPO Services

India's computer and information services sector has been vital for its global economic integration and its position as a global service provider. It has also stimulated the growth of the service sector in India. The IT-BPO (Information Technology-Business Process Outsourcing) services industry has grown from 6 percent of GDP or $70 billion in 2009 to nearly 8 percent of GDP, or $152.6 billion, in 2016-17. The industry association, NASSCOM, aims to reach $350 billion in revenue by 2025. The IT-BPO sector has also generated a lot of employment opportunities. It is the biggest private sector employer, with 3.7 million direct jobs and many more indirect jobs. The BPO segment alone employed 1.15 million people in 2017. The IT-BPO industry created 3.7 million jobs from 2001 to 2017 and added another 600,000 jobs in the 2014-16 period, as per the estimate of NASSCOM (2017). The sector has grown due to the contribution of different types of companies using various delivery models, such as foreign companies' captive subsidiaries and offshore development centers as well as Indian companies of different sizes. In 2016-17, India had 52 percent of the global IT services market and 38 percent of the global BPO sourcing market.

- Expansion of computer and information services

Tourism Industry

The survey observed that tourism has become a key driver of a strong recovery in contact-intensive activity as travel restrictions and health concerns eased. The total aircraft movement in the country grew by 52.9% between April and November 2022 as India resumed all regular international flights at full capacity towards the end of 2021-22. With the pandemic fading, India's tourism sector is also showing signs of revival. India is ranked 10th out of the top 46 countries in the world in the Medical Tourism Index in 2021 released by the Medical Tourism Association. Recent initiatives like the Ayush visa for tourists who wish to visit India for medical treatment, the launch of the National Strategy for Sustainable Tourism & Responsible Traveller Campaign, the introduction of the Swadesh Darshan 2.0 scheme, and Heal in India can help in capturing a larger share of the global medical tourism market, according to an economic survey 2023.

- Expanding tourism sector

Transport

India has various modes of transport by land, water, and air. Most people in India travel by road, which is one of the most crowded and busy transport systems in the world. The Golden Quadrilateral connects the four major cities of India: Delhi in the north, Kolkata in the east, Chennai in the south, and Mumbai in the west. India has the second-largest road network in the world, after the United States, and it carries 8.225 billion passengers and over 980 million tonnes of cargo every year, as of 2015. India also has the fourth largest and second busiest rail network in the world, which carries 8.09

- Improving road and rail transport

billion passengers and 1.20 billion tonnes of freight every year as of 2020.

India's aviation sector is divided into military and civil aviation. According to International Air Transport Association (IATA) data, India is the fastest-growing aviation market in the world. India has a large network of waterways, including rivers, canals, backwaters, and creeks, which ranks ninth in the world. However, waterways are not used much for freight transport in India, as they account for only 0.1 percent of the total inland traffic in India. According to the 2011 census of India, about 21 percent of households own two-wheelers and 4.70 percent of households own cars or vans. The automobile industry in India is growing fast, with an annual production of over 4.6 million vehicles and an annual growth rate of 10.5%. The number of vehicles is expected to increase greatly in the future.

- Expanding air aviation industry

Communication

India's communication industry is one of the fastest-growing sectors in India. The industry's growth is driven by higher revenues from both landline and mobile services. Telecommunication is the communication of messages over long distances. Telecommunication has a significant impact on the global economy and the revenue of the worldwide telecommunications industry. Modern telecommunication systems can transmit large amounts of information over long distances through phone, fax, radio, TV, etc. India ranks fourth in Asia in terms of telecom market size, after China, Japan, and South Korea. E-communication is a system of communication that uses electronic media. E-commerce refers to the electronic transmission of information. Electronic business is a key area for IT system development.

- Growing communication networks

Digital Financial Services

Emerging technologies and innovative solutions are enabling digital financial services that promote financial inclusion, broaden access, and foster the personalisation of products. In recent years, there has been a consistent rise in the number of neo-banking platforms and global investments in the neo-banking segment. Neobanks operate under mainstream finance but provide specific services that are traditionally associated with institutions such as banks, payment providers,

- The popularity of online banking has grown significantly etc. Neobanks operate completely online, with no physical presence except for office space in the offline world. The Union Budget 2022-23 announced 75 Digital Banking Units (DBU) across 75 districts to bring banking solutions to every corner of the country.

- Digital currency promotes financial inclusion

Digital financial services will also benefit from the introduction of CBDC (Central Bank Digital Currency). CBDC in India offers several advantages, such as reducing operational costs involved in physical cash management, promoting financial inclusion, bringing resilience, efficiency, and innovation to the payments system, enhancing innovation in the cross-border payments space, and providing the public with uses that any private virtual currency can offer without the associated risks. As of July 2022, 105 countries are exploring CBDC, covering 95 percent of the global GDP. Many countries have already launched CBDC, while others are in the pilot stage. Digital financial services have also benefited from the digitalisation of documents. The digitalisation of documents provides security, online verification, better accessibility, and fraud reduction, improving the experience for both the customers and the service provider.

Real Estate

- Recover from the worst effects of Covid-19

The real estate sector in India has undergone remarkable growth and change over the last few decades, making it a key factor in the country's economic progress. It has a vital role in creating jobs, attracting investments, and offering housing solutions to the growing population. The real estate market was one of the sectors worst affected by the Covid-19 pandemic, with people showing less interest in buying properties. But with the relaxation of restrictions, there was a rise in interest in the residential housing sector, especially in the affordable and ready-to-move segment. The hybrid work mode with the benefits of working from anywhere motivated first-time home buyers to shift from the traditional metros, and this created a pent-up demand in the residential real estate markets of Tier II and III cities. Improvement in affordability in response to measures taken by the government during the pandemic, such as lower interest rates, reduction in circle rates, and a cut in stamp duties transactionson of sale/purchase of immovable property, the extension of the Real Estate Regulation Act (RERA) also played a significant role in the post-pandemic recovery of Real Estate sector.

Public Administration and Defence

Public administration and Defence came under the services provided by the general government's administrative departments, such as the Central and State governments, Union Territories, and various local bodies like Municipal Corporations, Housing Boards, Cantonment Boards, Improvement Trusts, District and Local Boards and Panchayati Raj institutions. It also covers the public services offered by quasi-government bodies. These services consist of the state organs that handle tax collection, other fiscal services, debt interest and servicing, defence services, administrative services such as external affairs, police, jails, pensions, social and community services such as social security, welfare and relief for natural disasters and economic services such as agriculture, animal husbandry, industries, and community development.

- Services provided by the government

This sector also includes the management of various funds, such as the Central Road Fund, Famine Relief Fund, and Labour Welfare Fund. The activities of the RBI's Issue Department and EPFO (Employees Provident Fund Organisation) are similar to those of administrative departments, so they are also part of this sector. However, economic services such as irrigation, forestry, etc., are classified under their respective industry groups. For example, irrigation systems are under 'agriculture', government construction activity is under 'construction', and education and medical and health services are under 'other services' industry groups. The commercial enterprises run by the government, such as railways, ports and communication, overseas communication services, forests, road transport, power projects, distilleries, television and radio broadcasting, milk supply schemes, and manufacturing industries, including defence manufacturing establishments and government printing presses, are classified under the appropriate industry groups.

- Interlinkages among sectors

Other Services

Education: The government's total spending on education shows the significance of education in the government's overall strategy. The government's education investment as a percentage of total expenditure rose from 7.92 percent in 1952 to 15.7 percent in 2014. Education expenditure as a percentage of GDP reflects the total amount of money invested in the

- Increased education expenditure

country's educational development. Its proportion increased from 0.64 to 4.13 between 1952 and 2014.

- Expansion of the health sector

Health: The healthcare industry's current contribution is more than US$ 110 billion, and it is projected to reach US$280 billion by 2020. The health sector accounted for 10.6% of the total employment in various industries during 2021-22. This sector is expanding at a CAGR of 16%, and the total public and private expenditure on healthcare is 4% of GDP. The government has initiated various schemes, such as Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (ABPM-JAY) to provide financial risk protection against huge health and medical expenditure.

Summarised Overview

The significance of the service sector in modern India, especially after the economic reforms of 1991, is emphasised in this unit. It discussed the development of the service sector in India, with a focus on key areas including trade, tourism, transport, communication, financial services, real estate, public administration, defense, and other services. The service sector's growth in India has been pivotal in shaping the country's economic growth and transforming it into a services-led economy.

In recent years, India's economic growth has increasingly been driven by the service sector, which has become a vital component of the country's GDP. Services, such as information technology, business, tourism, healthcare, education, and professional services, have played a pivotal role in sustaining economic growth and generating employment opportunities. The service sector's development has been influenced by historical, political, and economic factors, contributing significantly to India's economic growth and global prominence.

Assignments

1. Identify the evolution of the service sector in India and its significance in the country's economic growth.
2. Analyse the impact of economic reforms on the growth of the service sector in India.
3. Compare the contributions of various service industries, such as transport, communication, tourism, trade, financial, real estate, public administrations, and defence and other services to India's economic development.

Suggested Reading

1. B A Prakash (ed) (2012) *The Indian Economy Since 1991: Economic Reforms and Performance*, Pearson, New Delhi.
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2. Puri V.K, Misra S.K, Garg Bharat (2022), *India Economy its Development Experience*, Himalaya Publishing House
3. *Economic Survey*, Government of India, 2022-23

Space for Learner Engagement for Objective Questions

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MASTER OF ARTS ECONOMICS

Era of Economic Reforms

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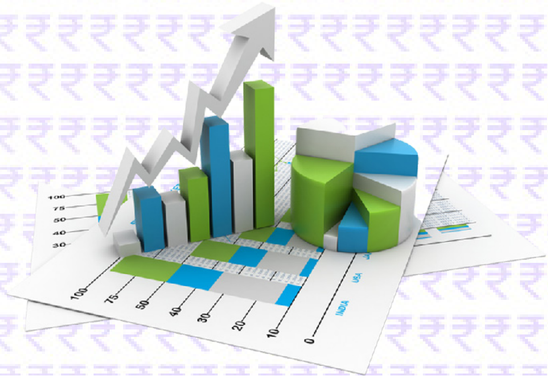

UNIT 1
First Wave of Liberalisation and Stabilisation Policies

Learning Outcomes

After completing this unit, learner will be able to:

- analyse the first wave of liberalisation in 1980's
- understand the structural adjustment and stabilisation policies in India
- distinguish the causes of the economic crisis of 1991
- evaluate the significance of policy reforms and their implications

Background

Post-independence, India's economic development was characterised by a planned economy with a focus on import substitution and self-sufficiency. Through five-year plans and strict control of diverse industries, the government was instrumental in guiding economic activity. During the 1970s, India experienced two oil shocks that led to soaring energy prices and had a significant negative impact on the country's balance of payments. However, during 1980s, the country encountered a number of economic difficulties like, a stagnating industrial sector, rising fiscal deficit, low GDP growth, and a high inflation rate. This made the Indian economy worse, which necessitated a re-evaluation of its economic strategies. Indira Gandhi and Rajiv Gandhi did make some attempts at economic reform during their tenures as Prime Ministers, but the major wave of economic reforms began in 1991, after their tenures.

The major goals of the first round of economic reforms were to reduce government interference in the economy and promote market-oriented policies. As part of stabilising the economy, the government implemented a number of reforms in the country, which included easing industrial licensing, giving greater autonomy to the private sector and promoting foreign investment in the nation. Due to various actions taken by the government to address these issues, increased competition has begun in the country. As a result, efficiency in the agricultural, industrial, and service sectors started to improve.

Things were different in the 1990s. A Balance of Payments crisis that occurred in 1990 had a significant impact on the Indian economy. The economy was also experiencing a severe international debt crisis, and the government had extremely low foreign exchange reserves in 1990. The increase in international crude oil prices brought on by the Gulf War made the nation's economic system even worse. The government sought assistance from the International Monetary Fund (IMF) to solve the country's escalating economic crisis, and accordingly, a series of economic reforms was introduced in the country known as the Structural Adjustment Programme (SAP). In this unit, we will discuss in detail about the first wave of economic reforms, the Structural Adjustment Programme and economic reforms of 1991.

Keywords

Liberalisation, Structural Adjustment Programme, Economic reforms, Stabilisation Policy

Discussion

3.1.1 First Wave of Liberalisation in 1980's

- Socialistic pattern with central planning

Following independence, India aimed to create a socialistic pattern of society. In a socialistic structure, the Centralised Planning Machinery was in charge of planning, and the public investment decisions were made by them. The government took decisions regarding investment in basic and heavy industries and made market interventions through a variety of regulatory actions and controls. At the time of Independence, our government was of the view that rapid economic development could be made in the economy through market intervention, public investment, and planning. But even though the government had a vision of a socialist society, it did not completely disregard the contributions of the private sector.

Through the Industrial Policy Resolution of 1948, a mixed economic policy framework was adopted in India. The mixed economic framework combined the aspects of both capitalism and socialism. In order to further the nation's development and strategic objectives, the government built large public sector companies that had a considerable impact on the economy. State-owned enterprises were established to govern industries like steel, coal, petroleum, banking, and infrastructure. At the same time, the private sector was permitted to coexist and take part in a variety of economic activities. The private sector played a vital role in industries like textiles, consumer goods, and small-scale manufacturing. Although the private sector was permitted to coexist and take part in a range of economic activities, the government imposed stringent controls and regulations on the private sector to prevent exploitation and monopolistic tactics. Thus, the mixed economic policy is characterised by rigorous government control, industrial licensing and other protectionist measures. High inflation, large fiscal deficits, and an overburdened public sector were the result of these protectionist measures. India's economic development had therefore stalled by the late 1970s.

- Coexistence of public and private sector

The initial waves of liberalisation in India began under these conditions. The government intended to implement a number of economic reforms as part of this. A persistent issue in the country was the licence raj system. Licence raj in Inida was a time when the government had too many rules that made it difficult for indutries to grow. The system required industries to get licences for many different activities, and this bureaucratic process slowed down economic development. In order to overcome this issue, the government reduced the number of industries that required licensing. Industrial licensing was replaced with industrial registration. Until recently, import permits were necessary in order to import goods from other nations. Import licensing and import tariffs were liberalised as part of the first wave of liberalisation. Until the 1980s, only the government had the exclusive right to import particular goods from abroad. This requirement had been removed, and as a result of changes, government imports decreased from 67% to 27% of overall imports between the years 1980–1981 and 1986–1987. Additionally, actions were taken to attract FDI (Foreign Direct Investment) to India. A handful of industries had been made open to FDI.

- Removing license and tariff barriers

As part of financial sector reforms, interest rates were deregulated. Hence, commercial banks were free to set their own interest rates. Reforms were introduced in the capital market as well. In the capital market, long term securities were traded, and it was a venue for trading financial instruments like bonds, stocks, etc. The nation's capital market grew stronger as a result of capital market reform measures. The government also introduced tax reforms by reducing tax rates. As part of the reform, excise duties levied at numerous levels

- More freedom for financial sector

were changed into a modified value added tax (MODVAT), allowing manufacturers to deduct excise taxes paid on domestically manufactured inputs. Except for tobacco, textiles, and petroleum goods, all manufacturing subsectors were covered by MODVAT by the year 1990.

Even though the government made vigorous attempts to initiate the reforms in the 1980s, a lot of challenges and criticisms arose. The benefits of the liberalisation policies were not evenly distributed. As these reforms were introduced for the first time in the country, due to competition, certain industries faced a series of challenges. Power shortages and transportation bottlenecks added problems to the infrastructure sector. Rapid industrialisation and urbanisation as part of the reforms led to environmental degradation. Even though liberalisation brought in new investment opportunities, the first wave of reforms resulted in structural changes and job displacement in certain traditional industries. Increased unemployment and underemployment resulted from this, especially in labour intensive industries that suffered from import competition. Although liberalisation attempted to strengthen the private sector, the public sector's inefficiencies and lack of competitiveness persisted. Numerous public sector industries still had issues with management, productivity, and financial performance.

- Social and economic challenges

3.1.2 Economic Crisis of 1991

The economic crisis of 1991 was caused by the macroeconomic imbalances that existed in India during the 1980s. Numerous factors, like the huge current account deficit, increasing inflation, and the fiscal imbalance in the economy, led to the crisis. The expanding imports over exports, the widening gap between the government's total revenue and total expenditure, the Gulf Crisis in the late 1990s and the nation's declining credit rating, all contributed to the economy's deteriorating condition. The factors responsible for the emergence of 1991 economic crisis are discussed below.

- Addressing Macro economic imbalances

In 1981–1982, the Central government's gross fiscal deficit was 5.1% of GDP and the government had the choice to borrow money in order to make up the shortfall between total receipts and total expenditures. As a result, the Central government's internal debt expanded substantially from 33.3% of GDP at the end of 1980–81 to 49.7% of GDP at the end of 1990–91. The Government's interest payments accounted for 2% of

- Widening Fiscal deficit

GDP and 10% of Central Government expenditure in 1980–81. But by 1990–91, it had risen to 3.8% of GDP and 22% of total Government spending.

The Balance of Payments situation deteriorated in the 1990s. In 1980–81, the Current Account Deficit was $2.1 billion, and by 1990–91, it had grown to $9.7 billion. External borrowing was used to pay for the balance of payments shortfall. Due to this, India's external debt rose from 12% of GDP at the end of 1980–81 to 23% of GDP at the end of 1990–91. However, by the end of June 1991, foreign exchange reserves had declined to the point where they were insufficient to cover imports for even 10 days. The economy's growing inflationary pressure was another reason for concern. The wholesale price index, which was 6.7% in the second half of the 1980s, surged to 10.3% in 1990–1991. The major price rise happened for food related items. The assassination of Prime Minister Rajiv Gandhi in June 1991 led to political instability in the country. Thus, there was a long pending need for economic reforms in the country. The new government, led by Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh, introduced a series of economic reforms in the country. As part of the reforms, a set of instruments and strategies were adopted in July 1991. The new policy initiatives aimed to redefine the roles of the State and the market to increase the productivity and efficiency of India's economic system.

- Internal and external economic issues

3.1.3 Structural Adjustment Policy (SAP) and Stabilisation Policies

As you learned from the previous topic, the economic crisis of 1991 was brought on by a number of factors. High inflation rates reduced the purchasing power of the average person and contributed to economic instability. India's foreign exchange reserves were low, and the country's import bill exceeding its export earnings, causing a balance of payments crisis. The national debt was increasing as a result of the expanding fiscal deficit, which was mostly brought on by excessive government expenditure and subsidies. Losses were being incurred by State owned industries, and the public sector was suffering from inefficiencies and over employment. In order to address the crisis, the Congress government, which took office in 1991 under the leadership of P.V. Narasimha Rao as Prime Minister and Dr. Manmohan Singh as Finance Minister, carried out the new economic reforms in India based on the advice of the International Monetary Fund.

- Looming crisis

The International Monetary Fund (IMF) is a global financial organisation that was founded in 1944 with the main objectives of fostering international monetary cooperation, stable exchange rates, fair trade, and economic development among its member nations. The International Monetary Fund's (IMF) Structural Adjustment Policy is a set of economic changes and policy requirements that the IMF imposes on its member nations that are going through financial crisis or are looking for financial assistance. These measures are meant to solve the underlying economic issues and bring stability and growth back to the economy of the borrowing nation. As per the advice of the IMF, the Indian government implemented a series of economic reforms to address India's economic problems. These reforms included trade barrier removal, economic liberalisation, promotion of foreign investment, and private sector participation.

- India's reform backed by IMF

Early in the 1990s, during the economic reform phase, the government implemented policy changes, namely, stabilisation and structural adjustment policies. The 1991 economic reforms or New Economic Policy, also known as Structural Adjustment Policies, set the stage for a more market oriented and internationally integrated Indian economy. Structural Adjustment Policies in India are a group of economic changes introduced with an emphasis on reorganising and liberalising different economic sectors. The government implemented this strategy with the intention of boosting competition in Indian industry, promoting foreign investment, and integrating the Indian economy with the world economy.

- Economic integration

The primary government initiatives for Structural Adjustment Policy (SAP), like deregulation, privatisation, trade liberalisation, financial sector reforms, and industrial policy changes are discussed below.

1. **Deregulation:** It is the process of removing government restrictions in various industries. Deregulation initiatives have been started by the government as part of the SAP to lessen red tapism and bureaucratic control over the industry and to promote market-oriented reforms. The restrictions requiring mandatory licencing were lowered for a number of industries through liberalisation measures.

- Removing restrictions

2. **Privatisation:** Privatisation refers to the transfer of ownership, management, and control from the public sector to the private sector. In India, privatisation was adopted

in the form of disinvestment of the government's equity in public sector undertakings and opening up hitherto reserved areas for the participation of private enterprises.

- Partial privatisation for economic growth

The government has never attempted 100% transfer of governmental ownership to the private sector. Privatisation in India is aimed at improving the inflow of Foreign Direct Investment (FDI) or investment in sectors that require technological advancements, thereby directly providing a boost to the economy. Disinvestment is the denationalisation or a transfer of ownership from the government to the private sector.

- Brings competition

3. **Trade Liberalisation:** As part of trade liberalisation in India, import tariffs were lowered and export restrictions were lifted. Trade liberalisation encourages free trade, which enables nations to trade goods without regulatory burdens or associated costs. This nominal regulation lowers costs for countries that trade with other countries and may ultimately lead to lower consumer prices because imports are subject to lower taxes and competition is anticipated to expand. Due to increased foreign competition exchange brought on by trade liberalisation, domestic businesses are encouraged to produce goods more efficiently and at a lower cost. To increase the competitiveness of Indian products on the international market, export-oriented sectors have been fostered.

- Strengthening Banking system

4. **Financial sector reforms:** Financial sector reforms were introduced in order to strengthen banking institutions, promote market-oriented financial practises and to encourage foreign investment in the banking sector. The major reforms initiated by the Government include interest rate liberalisation, capital market reforms, and the establishment of regulatory organisations like the Security and Exchange Board of India (SEBI).

- Market driven decision making

5. **Industrial Policy Changes:** Another reform was initiated in the industrial sector, by which Industrial policies were updated and a new industrial policy was created in order to encourage effectiveness, competency, and innovation in the manufacturing sector. The government's main goal was to stimulate domestic and foreign investment, technological transfer, and market-driven decision making in place of the formerly centrally controlled and protected environment. In order to increase competition in the economy, the role of the public sector was reduced and thereby encouraged

private participation in a variety of industries. The government started a disinvestment policy to sell state-owned businesses in a strategic way. This made it possible for businesses in the private sector to surpass those in the public sector.

3.1.4 Stabilisation Policy

- Internal stability

To deal with the immediate macroeconomic problems, the stabilisation policies were designed as part of the reforms. The development of the nation comes from a healthy economy. Stabilising the fiscal deficit, Balance of Payment, and inflation were the main objectives of the stabilisation policy. The government had started a number of initiatives to stabilise the economy. One of these initiatives was fiscal consolidation by the government. By reducing expenditure and raising revenue, the government intended to control the fiscal deficit. The government also started to rationalise subsidies, manage public spending, and enhance tax administration in order to lower the fiscal deficit and keep it within the allowed range. As you are aware, the Reserve Bank of India is the authority to put into effect the monetary policy measures. The nation can achieve economic stability by reducing inflation and maintaining currency stability. The RBI implements these monetary policy measures by managing liquidity, varying interest rates, and by controlling the money supply.

- External Stability

Measures were adopted by the government to liberalise the exchange rate regime. As part of the reform, the government switched from fixed exchange rate component to a managed float exchange rate system. In a managed float exchange rate system, the value of the rupee is set by market forces. By promoting exports, easing import regulations, and attracting foreign capital inflows, the government intended to improve the external sector's Balance of Payments condition through its economic stabilisation programme. Trade restrictions were eliminated, export-import processes were streamlined, and a favourable climate for foreign direct investment was created. Government measures for structural adjustment and stability significantly contributed to the transformation of the Indian economy. Due to these actions, the Indian economy saw an increase in Foreign Direct Investment (FDI), as well as a significant boost in trade and commerce and overall economic efficiency in the country, all of which contributed to the nation's continued economic stability.

Summarised Overview

A set of economic reforms initiated in India in the 1980s is known as the first wave of economic liberalisation. As part of the first wave of liberalisation, import licensing and import tariffs were liberalised, actions were taken to attract FDI (Foreign Direct Investment) to India, financial sector reforms were introduced, interest rates were deregulated, capital market reforms and tax reforms were also made. The economic crisis of 1991 happened due to various factors, like the huge current account deficit, increasing inflation, and the fiscal imbalance in the economy. New policy initiatives, like Structural adjustment and stabilisation policies, were taken by the government to address the economic crisis of 1991.

The primary initiatives of the government as part of Structural Adjustment Policy (SAP) were deregulation, privatisation, trade liberalisation, financial sector reforms, and bringing changes in industrial policy. The Stabilisation Policy aimed at stabilising the fiscal deficit, Balance of Payment, and inflation in the economy. The Structural Adjustment Policy and stabilisation policy significantly contributed to the transformation of the Indian economy. Through the new economic reforms, the government aimed to redefine the role of the state and the market to increase the productivity and efficiency of India's economic system.

Assignments

1. Assess the impact of the first wave of Liberalisation in India during the 1980s.
2. Explain the causes, consequences, and lessons learned from India's economic policy with respect to economic crisis of 1991.
3. Explain the objectives and outcomes of the Structural Adjustment Programme (SAP) in India.
4. Assess the impact of privatisation and disinvestment in Indian Public Sector Undertakings during the 1980s.
5. Write a note on the role of Foreign Direct Investment (FDI) in India's economic growth, post 1991 reforms.

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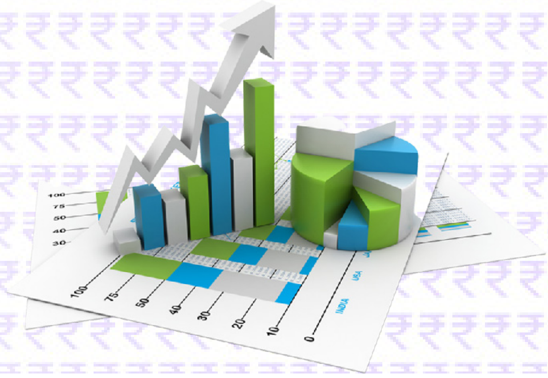

UNIT 2
Industrial Sector Reforms

Learning Outcomes

After completing this unit, learner will be able to:

- understand industrial sector reforms in India
- know about Liberalisation, Privatisation, Globalisation
- familiarise themselves with Foreign Direct Investment and its effect on Indian economy
- identify the disinvestment policy of Government of India

Background

During the 1980s, India experimented with partial economic liberalisation, but the fundamental structure of a closed economy persisted. The economic history of India has been characterised by diverse phases of development, stagnation, and occasional disturbances. By the early 1990s, the nation found itself struggling with a deep rooted economic crisis, activated by a balance of payments crisis and huge fiscal deficits. The mounting fiscal deficit, soaring inflation, and foreign exchange crisis reached a tipping point in 1991, pushing the nation to the edge of an unprecedented economic crisis. India's diminishing foreign exchange reserves left it unable to meet international obligations, making it an uncertain moment for the nation's economic stability. The Indian government launched a series of reforms known as the New Economic Policy or economic liberalisation in the early 1990s to overcome these problems and unlock India's economic potential. These changes attempted to open up the economy, promote private sector involvement, attract foreign investment, and restructure the public sector.

The Liberalisation, Privatisation and Globalisation (LPG) reforms emerged as the solution to India's economic problems, guided by the vision of integrating the country with the global economy and unleashing its immense growth potential. LPG reforms were designed to dismantle the License Raj - a complex system of permits and regulations that stagnated economic growth in the country. The goal of Privatisation was to give the private sector ownership and control over state owned enterprises. The goal was to increase efficiency, productivity, and competitiveness in these industries by exposing them to managerial know-how and market discipline.

Foreign direct investment (FDI) is the term used to describe investments made in the domestic economy by foreign firms. A key component of the reforms was encouraging FDI because it not only brought in finance but also technology, managerial expertise, and access to global markets. Disinvestment includes selling all or a portion of the government's ownership stakes in companies operating in the public sector. This strategy aimed to lessen the financial strain on the government, boost Public Sector Undertakings efficiency, and increase growth prospects for the private sector.

Initially faced with resistance and distrust, the reforms eventually produced fruitful outcomes. India's economy grew rapidly, the amount of foreign investment rose, and the private sector started to contribute more significantly to the country's economic progress. These changes helped to make India's economy more competitive and integrated with the rest of the world. It is important to highlight that industrial sector reforms are ongoing in India, and the policy makers of the country continue to modify their policies in response to both domestic and international economic problems.

In this unit, we will go deeper into the different aspects of India's liberalisation, privatisation, globalisation, FDI, and disinvestment policies, as well as their effects, difficulties, and potential outcomes for the industrial sector.

Keywords

Industrial Reforms, Liberalisation, Privatisation, Globalisation, Foreign Direct Investment

Discussion

3.2.1 Industrial Sector Reforms

- New Industrial Policy

On July 24, 1991, the Indian government unveiled its new industrial policy in an effort to rescue its struggling industries. The goals of the New Industrial Policy (NEP) of 1991 were to build on the progress already made in the industrial sector, correct the weaknesses or distortions that occurred in the industrial sector, maintain sustained growth in productivity, create opportunities for well-paying employment, and achieve international competitiveness. In order to accomplish these goals, the government unveiled a number of policies, including de-licensing of the industries, Public Sector Policy, MRTP Act and Foreign Investment and Technology.

a. Industrial Licencing

- Compulsory licensing liberalised

In order to increase economic competition in the industrial sector, the 1991 Industrial Policy abolished industrial licencing (belonging to Schedules B and C as per Industrial Policy Resolution, 1956) for all sectors of the economy, with the exception of 18 industries. Schedule B industries were those that the government planned to gradually own and operate. The state aimed to create new enterprises in these industries, with private enterprises playing a supporting role. On the other hand, Schedule C included all other industries where the government allowed the private sector to take the lead in development. Private enterprises were encouraged to take the initiative and drive the growth of these industries.

- Items enlisted for compulsory licencing

Coal and lignite, petroleum (other than crude) and its distillation products, distillation and brewing of alcoholic beverages, sugar, animal fats and oils, cigars and cigarettes, asbestos and asbestos-based products, plywood and other wood-based products, raw hides and skins and leather, tanned or dressed fur skins, motor vehicles, paper and newsprint, electronic aerospace and defence equipment, industrial explosives, and hazardous chemicals, drugs and pharmaceuticals, entertainment electronics and white goods (domestic refrigerators, washing machines, air conditioners etc) were the 18 industries that require industrial licencing. In the subsequent years, the number of items enlisted for compulsory licensing has been reduced and as of now, only five industries require licenses. They are industrial explosives, alcohol, tobacco, dangerous chemicals, electronics aerospace and defence equipment.

b. Public Sector Policy

- Decrease in the number of public sector industries

The New Industrial Policy of 1991 reduced the number of industries earmarked for the public sector to eight. They are: 1) arms and ammunition 2) atomic energy 3) lignite and coal 4) Mineral oils 5) mining for iron ore, manganese ore, chrome ore, gypsum, sulphur, gold, and diamond, 6) mining for copper, lead, zinc, tin, molybdenum, and tungsten, 7) the minerals listed in the schedule to the atomic energy (control of production and use order) in 1953 and 8) rail transportation. In the years that followed, a number of public sector undertakings were removed from the reserved list. Only two industrial sectors are currently set aside for the public sector. They are atomic energy and railway operations (with the exception of particular works/projects including Public Private Partnership (PPP) based suburban corridor projects, high-speed train projects, dedicated freight lines and mass rapid transit systems).

- Distressed industries

In accordance with the policy, the sick industries in the public sector will seek guidance on rehabilitation and reconstruction from the Board for Industrial and Financial Reconstruction. The word 'sick industries' is used in India to describe industrial units or businesses that are experiencing severe operational and financial challenges, which have caused a sharp fall in their output, productivity, and profitability. These failing industries frequently struggle to satisfy their working capital needs and are unable to make enough money to cover their debt commitments and operating expenses. The remaining industries in the public sector will have more managerial freedom.

- Reducing the ownership stake

In addition, the government declared its plan to offer a part of its shares in public sector companies to the general public, workers, mutual funds, and financial institutions through disinvestment. Disinvestment refers to the process of selling off assets, equity, or ownership holdings held by the government or a firm to another business. This tactical choice entails decreasing or entirely liquidating the ownership stake in a specific company or asset. Disinvestment can take many different forms, including the sale of stock in a public company to private investors, the sale of company assets, or even the withdrawal of investments in other businesses. Disinvestment in the context of the government often refers to the selling of its equity stakes in Public Sector Enterprises (PSEs) or state-owned businesses.

- Fiscal relief and efficiency

Disinvestment's main goals are to lessen the government's financial burden, increase efficiency and competitiveness in the disinvested entities, and unleash the value of government run industries. The Department of Investment and Public Asset Management (DIPAM) is a separate division under the Union Finance Ministry that handles disinvestment-related operations. As part of its disinvestment policy, the government raised Rs 5,33,687 crore between 1991–1992 and March 2020, falling short of its target of Rs 11,12,725 crore. In the Union Budget of 2023–2024, the government set a disinvestment objective of Rs 51,000 crore. This disinvestment target is at its lowest level in seven years.

c. MRTP limit eliminated

- Brings competition

The Monopolies and Restrictive Trade Practices Act (MRTP Act) was introduced in 1969. The main purpose of the MRTP Act in terms of competition law and consumer protection is to prevent monopolies, restrictive trade practices, and unfair business practices that limit competition in trade and industry. The Act aims to protect consumer interests from such practices. Those companies with assets of Rs. 25 crore or more were required to obtain approval from the Indian government; these businesses were known as Monopolistic and Restrictive Trade Practices (MRTP) companies. Earlier, the MRTP restriction was a maximum of Rs. 25 crore. Later, the ceiling was relaxed to Rs. 50 crore in 1980, then to Rs. 100 crore in 1985. Such huge enterprises needed separate permits for any investment projects in addition to control through industrial licensing. The government believed that this was negatively affecting many significant companies' ability to make investment bids. Therefore, the threshold asset restriction for MRTP and dominating undertakings was eliminated under the new industrial strategy. Now, only industries with a market share of over 25% are considered monopolies. These industries can now compete with other businesses without needing the government's previous authorisation to invest in delicensed industries. As a result, the MRTP act has been modified. The MRTP Act was replaced in 2002 by the Competition Act. The Competition Commission has begun operating in place of the MRTP Commission.

d. Freer entry to Foreign Investment and Technology

- Flooding of foreign goods

For Indian firms as well as foreign investors, it was necessary to seek particular prior approval from the government for each project when it came to foreign technology agreements. It was stated that this led to unjustified delays and that government interference also made it difficult for businesses to make decisions. The new industrial policy established a special list of high technology and high investment priority industries in order to grant automatic permission for direct foreign investment up to 51% of foreign equity. A wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronics, food processing, and the service sectors with major export potential were among the industries for which automatic approval was given. For many of these industries, the ceiling was subsequently raised from 51% to 74% and ultimately to 100%.

3.2.2 Liberalisation, Privatisation and Globalisation

- Reducing barriers and encouraging private sector

The liberalisation, privatisation and globalisation policies were implemented in India as part of a larger economic reform project that was started at the beginning of the 1990s. As part of liberalisation policies, trade barriers were reduced, foreign investment was promoted, and the complicated system of industrial licencing was dismantled. These modifications were made to encourage innovation, efficiency, and competition in the Indian economy. The privatisation process was started to lessen the government's influence over industries and encourage private sector involvement. A selective sale of shares to private companies was conducted once, State owned corporations were chosen for disinvestment. India's economic, social, and cultural situation has been transformed by the impact of globalisation. India has seen a rise in foreign trade, foreign investment, and technology transfer as a result of open markets and integrating with the global economy. Increased economic growth, job possibilities, and exposure to different ideas have resulted from globalisation.

3.2.2.1 Liberalisation

- Market economy

Liberalisation is the process of reducing the characteristics of a state economy and gaining the characteristics of a market economy. In the case of India, the term 'liberalisation' is used to indicate the direction of economic changes, with the state or the command economy, having less influence and the free market or the capitalistic economy having greater influence. One of the key liberalisation measures put into place in 1991 was that, the government removed the complex system of industrial licencing, which required industries to apply for licence and permissions from the government. Industries and business owners were given more freedom to establish their enterprises. Import duties were lowered and non-tariff obstacles were cut down as part of the trade and tariff reforms.

To draw international capital and technology into the nation, restrictions on foreign direct investment (FDI) were loosened through FDI liberalisation. The government increased the cap on foreign equity participation in a number of industries, leading to foreign capital inflows to India. For most industries, automatic approval systems were granted. The government liberalised interest rates in the financial sector, gave foreign banks more freedom to conduct business, and created new private sector banks. In order to resolve the fiscal deficit and strengthen public finances, the government also implemented fiscal reforms that limited government spending and reduced subsidies. The 1991 liberalisation initiatives set the stage for India's subsequent economic development and transformation. Some of the key reforms introduced as part of the liberalisation policy in India included:

- Reduced trade restrictions

- Abolishing industrial licencing for all industries except for a short list of 18 industries.
- Relaxing restrictions for private companies to enter several core industries, which were previously reserved for the public sector like defence sector, railways, coal mining, civil aviation, banking and finance, insurance, retail etc.
- Deregulation of the banking sector, tax reforms, and reforms in the foreign exchange market.

3.2.2.2 Privatisation

- Transfer of ownership

India embraced privatisation measures as part of the economic reforms of 1991. The Disinvestment programme was one of the government's privatisation strategies. Selling shares of State-Owned Enterprises (SOEs) to private investors is referred to as disinvestment. This made it possible for businesses that were previously under state control to be privately owned and managed. The government also pursued strategic sales of state owned enterprises as part of disinvestment. The goal was to increase efficiency, foster competition, and bring in private knowledge across diverse industries. A Disinvestment Commission is also established by the government to supervise the disinvestment procedure. This commission will be in charge of selecting state-owned businesses (SOEs) for disinvestment, making recommendations for their disinvestment, and managing the entire process.

As part of the privatisation process, some recent initiatives include the Indian government's initiation of the privatisation of Air India, the national carrier. It involved selling a 100% stake in the airline and its subsidiaries. The move aimed to reduce the government's financial burden and enhance the airline's operational efficiency. The privatisation of Bharat Petroleum Corporation Limited (BPCL), a major state-owned oil and gas company, was announced. The government intended to sell its 52.98% stake in BPCL, attracting interest from domestic and international investors. But this was put on hold by the government recently. The government is planning to sell its entire stake in the Shipping Corporation of India, a leading shipping company, as part of its strategic disinvestment policy. The government announced plans for an initial public offering (IPO) of Life Insurance Corporation of India (LIC), the country's largest insurer. The IPO aimed to unlock the value of LIC and allow public participation in the company. In 2022, after making the necessary legal amendments, the Government sold off 3.5% of its shares in the LIC. The IPO got an overwhelming response, and the government earned Rs. 20,557 crore from the sale.

- Selling shares of state-owned companies

The government also promoted the idea of Public Private Partnerships (PPPs), in which the government and business organisations worked together to design and manage infrastructure projects. A wider shift towards deregulation and market-oriented policies was also part of the 1991 reforms. This included lowering the threshold for industrial licences, removing import and export restrictions, streamlining trade processes, and reducing prices and foreign exchange controls. Privatisation and liberalisation have boosted efficiency and foreign investment, sparked economic growth in India, and opened up many sectors to competition.

- Market oriented policies

3.2.2.3 Globalisation

The term globalisation often refers to a rise in economic interdependence among countries. The WTO defines globalisation as "unrestricted cross-border movements of goods and services, capital, and labour force" occurring in all economies worldwide. It simply means that there would not be any distinction between domestic or international goods and services, capital, or labour available to the economies that have ratified the globalisation process. In due course, the world will even out and become a level playing field.

- Increasing connectedness

India's economy, society, and culture have all been significantly impacted by globalisation. Here are a few instances.

- India has become a key location for outsourcing and IT services worldwide. Taking advantage of the trained labour and affordable solutions offered by Indian industries, many global corporations outsource their IT and business processes to these organisations.
- Foreign investment has increased in a number of sectors as a result of globalisation. International businesses are investing in India to benefit from the expanding consumer market and the country's favourable business climate.
- India has grown to be a significant player in the global automobile sector as a result of globalisation.
- In order to serve both the domestic and export markets, several foreign automakers have established production plants in India.
- India and the rest of the world are now able to share more cultural ideas. Bollywood, in particular, has a sizable international fan following. Indian films, music, and dance have become more and more well-liked abroad.

- Instances of global integration

- The retail industry in India has changed as a result of the entry of foreign retail chains and brands.
- Indians now have access to a broad variety of goods and shopping options because of globalisation.
- Indian students now have more possibilities than ever to study abroad and become familiar with the educational systems of other countries. Collaborations between Indian and foreign educational institutes have also resulted from it.
- India's tourism business has benefited from globalisation as more visitors from abroad come to the nation to see its rich cultural history and heritage.
- Indian eating habits have been impacted by globalisation, as evidenced by the substantial presence of international fast food companies like McDonald's, KFC, and Domino's.
- The emergence of e-commerce platforms has revolutionised how Indians purchase by giving them access to a huge variety of goods from around the globe.
- Through social media platforms, globalisation has linked Indians to the rest of the globe and allowed for cultural exchange, networking, and knowledge sharing.

3.2.3 Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) refers to investments made in the Indian economy by foreign entities, people, or businesses. The Department for Promotion of Industry and International Trade (DPIIT), an arm of the Ministry of Commerce and Industry, oversees FDI policies in India. The FDI policy is frequently revised to make conducting business easier and promote foreign investment in a variety of areas. By encouraging knowledge transfer, job creation, and infrastructure development, FDI contributes significantly to India's economic growth and development. A majority of industries are accessible to foreign investment under the automatic method, necessitating no prior government authorisation. However, other industries, like banking, multi-brand retailing, telecommunications, television, and defence, need government clearance.

- Boost economic growth and development

In India, FDI can enter through any two channels, like the automatic route or the government route. Investors who choose the government approved path must obtain authorisation from the Foreign Investment Promotion Board (FIPB). Different FDI limits apply to various industries in India. It will be helpful for the learners to know about the limits of FDI in various sectors in India.

- 74% of FDI is allowed under the automatic route (i.e., without prior government approval) in insurance companies.
- 74% of FDI allowed in private sector banks, with up to 49% under the automatic route and above 49% requiring government approval.
- 74% FDI is allowed in the defence sector under the automatic route for the manufacturing of defence equipment.
- FDI beyond 74% and up to 100% is permitted with government approval.
- FDI in multi-brand retail is allowed up to 51% with government approval.
- FDI in single-brand retail is allowed up to 100%, with up to 49% under the automatic route and beyond 49% requiring government approval.
- 100% FDI is allowed under the automatic route for tele-

- FDI caps

communications services.100% FDI is allowed in the marketplace model of e-commerce (subject to certain conditions).

- 100% FDI allowed under the automatic route in scheduled air transport services and regional air transport services.
- 100% FDI is allowed under the automatic route for greenfield pharmaceutical projects.
- FDI up to 74% is permitted under the automatic route for brownfield pharmaceutical projects (beyond 74% with government approval).
- 100% FDI is allowed under the automatic route in townships, housing, built-up infrastructure, and construction development projects.

- Investment regulatory bodies

For their investments in India, foreign investors must abide by existing rules. The Reserve Bank of India (RBI) is the regulatory body in charge of monitoring FDI reporting and compliance. FDI inflows to India have increased significantly over time. Services, telecommunications, computer software and hardware, construction, the automotive industry, and trading are among the key industries in India seeking FDI. To encourage and safeguard foreign investments, India has partnered with other nations through the signing of Bilateral Investment Promotion and Protection Agreements (BIPAs) and CECAs or Comprehensive Economic Cooperation Agreements. India provides a favourable business environment, yet there are certain challenges associated with FDI. They include difficult regulatory processes, excessive bureaucracy, infrastructural delays, taxation issues, irregular policy changes, etc.

3.2.4 Disinvestment Policy

- Generating income

The Disinvestment policy describes the strategic sale or decrease of government ownership in Public Sector Enterprises and other assets owned by the government. Most often, the government participates in the disinvestment process to maximise the value of its holdings, to encourage efficiency, to enhance corporate governance, to lessen its fiscal burden, and to encourage private investment in vital economic sectors. The primary goal of the government's disinvestment policy is to generate income for the government by selling its equity stakes in PSUs, which can then be used for a variety of welfare and development initiatives. Disinvestment also aims to increase market capitalisation, promote private investment, improve efficiency and productivity, and make the stock market more appealing to investors.

- Disinvestment strategies

The government engages in disinvestment strategies through public offerings, strategic sales, exchange traded funds, offers for sale, and buybacks. Initial Public Offerings (IPOs), which let retail investors participate, are a way for the government to sell shares of public sector companies to the general public. Selling a sizeable percentage of the government's ownership in a public sector enterprise to a strategic buyer, like a private corporation, is known as strategic sales. Exchange Traded Funds (ETFs) comprised of shares of various public sector companies created by the government and sold to investors. Shares of public sector companies are sold through an auction procedure known as 'Offer for Sale' to institutional and individual investors on the stock exchange. Public sector companies may, in some circumstances, buy their own shares back from the government through buybacks.

- Disinvestment challenges

The Ministry of Finance's Department of Investment and Public Asset Management (DIPAM) is in charge of overseeing the disinvestment procedure. Disinvestment has increased the economy's efficiency and competitiveness while generating a sufficient amount of revenue for the government. In addition, the government has had to contend with political factors, regulatory obstacles, employee union opposition, and market volatility while dealing with disinvestment policy. Examples of recently disinvested public sector companies include Container Corporation of India Ltd. (Concor), NMDC Steel Ltd, BEML, HLL Lifecare, and IDBI Bank.

Summarised Overview

The New Industrial Policy (NEP) of 1991 aimed to correct the weaknesses or distortions that occurred in the industrial sector and to maintain sustained growth in productivity. The government unveiled a number of policies, including the Industrial de-licencing, Public Sector Policy, MRTP Act and Foreign Investment and Technology initiatives as part of the NEP. The liberalisation, privatisation and globalisation policies were implemented in India as part of a larger economic reform project that was started at the beginning of the 1990s. As part of liberalisation policies, trade barriers were reduced, foreign investment was promoted, and the complicated system of industrial licencing was dismantled. The Disinvestment Programme was one of the government's privatisation strategies. As a result of globalisation, unrestricted cross border movements of goods and services, capital, and labour force take place in all economies worldwide.

FDI refers to investments made in the Indian economy by foreign entities, people, or businesses. The DPIIT, an arm of the Ministry of Commerce and Industry, oversees FDI policies in India. By encouraging knowledge transfer, job creation, and infrastructure development, FDI contributes significantly to India's economic growth and development. To encourage and safeguard foreign investments, India has partnered with other nations through the signing of BIPAs and CECAs. Disinvestment policy describes the strategic sale or decrease of government ownership in PSEs and other assets owned by the government. DIPAM is in charge of overseeing the disinvestment procedure.

Assignments

1. Analyse the effects of reforms in the industrial sector on the Indian economy as a whole. Has the country's competitiveness, effectiveness, and job creation grown as a result of liberalisation, privatisation, and FDI?
2. Discuss the potential outcomes of the industrial sector reforms in India. What areas need more focus and policy changes to maintain development and progress in a world that is changing so quickly?
3. Examine the justification for privatising some businesses while choosing to disinvest in others.
4. Highlight key sectors and their contributions to the overall economy that have seen considerable FDI inflows.
5. Examine the effects of globalisation on India's industrial sector, both negative and positive. Consider how the country's industries have developed and advanced as a result of its growing integration with the global economy.

Suggested Reading

1. Chakraverti, Sauvik. *The Indian Economy: Policies, Practices, and Heresies*. Harper Collins India, 2021.
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3. Ram Mohan, T.T. *Privatization in India: Challenging Economic Orthodoxy*. Oxford University Press, 2004.

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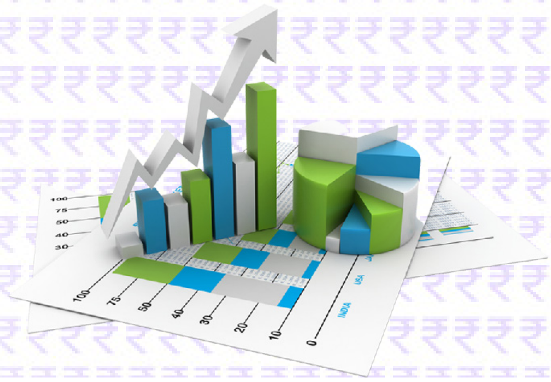
1. Acharya, Shankar. (2014). *India's Pathway through Financial Crisis: Towards Sustainable Growth.* Academic Foundation.
2. Ghosh, Jayati. (Ed.). (2002). *Economic Reforms in India: Retrospect and Prospect.* Oxford University Press.
3. Galab, S., & Oommen, M.A. (Eds.). (2011). *India's Development Experience: Selected Writings of S. Mahendra Dev*. Oxford University Press.
4. Kapila, Uma. (2016). *Indian Economy Since Independence: Persisting Colonial Disruption*. Academic Foundation.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 3
Financial Sector Reforms in India

Learning Outcomes

After completing this unit, learner will be able to:

- understand the financial sector reforms in India
- know about Narasimham committee report on banking sector reforms
- familiarise themselves with reforms in insurance sector
- overview pension and stock market reforms

Background

The banking sector is the backbone of any economy, and India is no exception. Over the years, the Indian government has undertaken significant reforms to strengthen and modernise the banking system, making it more robust, efficient, and inclusive. These reforms have played a crucial role in shaping the banking system, promoting financial stability, and fostering economic growth. Of these reforms, the Narasimham Committee I report of 1991 and the Narasimham Committee II report of 1998 made recommendations for improving the stability and effectiveness of the Indian banking industry. The Ministry of Finance, GoI, announced Mission Indradhanush in 2015 to solve the difficulties faced by public sector banks.

As part of the banking sector reforms, financial inclusion was one of the main priorities of the government. The government's initiative for financial inclusion is supported by JAM Trinity. The direct subsidy for the needy is transferred by using these three ways: Jan Dhan, Aadhaar and Mobile (JAM). Reforms were also introduced in the pension and insurance markets. In order to improve openness, efficiency, and investor protection, India has enacted a number of significant reforms in the Indian Stock Market. The Companies Act of 2013 created the National Company Law Tribunal (NCLT), a quasi-judicial body and it is a crucial part of India's corporate insolvency and bankruptcy structure. The Financial Sector Legislative Reforms Commission (FSLRC) was a significant effort made by the Government of India to update and modernise the legal framework governing the financial sector in the country.

Thus, in this unit, learners will explore the above key financial and banking sector reforms that have been introduced in India, the objectives they aim to achieve, and the impact they have had on the banking industry and the economy as a whole. From nationalisation to liberalisation and from technological advancements to financial inclusion initiatives, these reforms have revolutionised the way banking services are offered and enhanced the sector's resilience to withstand various economic challenges. By the end of this unit, learners will have valuable insights into the efforts made by policymakers to strengthen the banking sector and the role it plays in fostering economic growth and financial well-being in India.

Keywords

Financial Sector, Banking Sector, Mission Indradhanush, FRBM, GST, Bankruptcy, Benami Transactions, Financial Inclusion, JAM, NCLT, FSLRC

Discussion

3.3.1 Financial Sector Reforms in India

- Highly regulated financial sector

After the nationalisation of banks in 1969 and 1980, Government owned banks pre dominated the banking industry in India. At that time, the quality of service was not given enough emphasis, and the financial technology available there was inadequate. Numerous large banks did not adhere to proper risk management procedures. These problems resulted in low profitability and poor asset quality for the banks. Commercial banks in India operated in a highly regulated environment during this time, due to factors such as the administered interest rate structure, quantitative limitations on credit flows, high reserve requirements under the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). Before financial sector liberalisation, the central bank sets multiple interest rates on deposits and loans, as well as high reserve requirements, quantitative credit restrictions, concessional interest rates for certain sectors, cross subsidisation, and limitations on the scope of activities of financial institutions. Thus, in the controlled regime, the financial markets were characterised by entrance barriers, asset control and overpricing, high transaction costs, and restrictions on the flow of money from one market sector to another.

- Initiating reforms

Against this backdrop, comprehensive financial sector reforms were introduced in the middle of 1991 in India. The first attempt at reforming the financial sector was made in 1985, when the Chakravarty Committee Report was published, which examined the operation of the monetary system. Later, the Narasimham Committee was established in response to the Balance of Payments Crisis of 1991 and the macroeconomic adjustment with the goal of developing a diverse and competitive financial sector as part of the broader structural changes.

3.3.2 Banking Sector Reforms in India

- Enhancing stability

India's banking industry has been undergoing major reforms to improve its stability, effectiveness, and inclusion. A number of recapitalisation measures were introduced in order to enhance the capital base of public sector banks. To increase their capacity for lending and to comply with regulatory obligations, these initiatives required the injection of money into financially troubled banks. The goal of recapitalisation was to solve the problem of Non-Performing Assets (NPAs) and enhance credit flow to important economic sectors. To determine the underlying condition of non-performing assets in banks, the Reserve Bank of India (RBI) undertook an asset quality review. This exercise helped in finding hidden stressed assets, which improved provisioning and resulted in a more robust banking system. The Prompt Corrective Action (PCA) framework was put into place by the Reserve Bank of India to intervene in banks that showed indicators of financial crisis. To stop further deterioration and safeguard the interests of depositors, PCA imposed some limitations on these banks.

A further reform that was put into place in 2016 was the Insolvency and Bankruptcy Code, which significantly altered how bankruptcy and insolvency cases were handled in India. The Insolvency and Bankruptcy Code offered a time limited framework for the resolution of stressed assets, fostering a creditor friendly atmosphere and improving recovery rates. Many public sector banks were merged as part of the banking sector reforms. To enhance risk management and corporate governance in banks, the RBI has been tightening its regulatory

• Efficiency enhancement

framework. To stop financial malpractice, the central bank also established strict procedures for the detection and reporting of fraudulent acts. India has been putting the Basel III framework into practice to strengthen risk management and increase the resilience of banks against financial shocks. Higher capital adequacy, liquidity ratios, and leverage limitations for banks are the main goals of these reforms.

• New banking products

The RBI has liberalised the licencing procedure to make it easier to get a bank license. In order to serve particular consumer segments, bank licensing sets criteria for the creation of small finance banks and payment banks. Apart from this, Indian banks have been actively implementing digital technologies to improve customer service and promote financial inclusion. The accessibility of financial services to the general public has substantially increased because of programmes like the Jan Dhan Yojana and the Unified Payments Interface (UPI). In order to boost productivity, governance, and resource allocation in the banking system, the second largest public sector bank in India was created by the merger of Bank of Baroda, Dena Bank, and Vijaya Bank. Now, Bank of Baroda is the second largest public sector bank in India after the State Bank of India (SBI).

3.3.3 Narasimham Committee report on Banking Reforms 1991

• Shaping the reforms

In order to study and make recommendations for reforms to the Indian Banking sector, the Narasimham Committee on Banking Reforms was established in 1991. M. Narasimham, former governor of the RBI, served as the Committee's chairman. The Narasimham Committee, also known as Narasimham Committee I and Narasimham Committee II, submitted two reports and made recommendations for improving the stability and effectiveness of the Indian banking industry. The following are the main recommendations of Narasimham Committee I.

a. **Phasing out interest rate:** In order to enable banks to determine their own interest rates in accordance with market conditions, the committee recommended the phase-out of interest rate controls over time.

b. **Re evaluation of direct credit programme:** The committee proposed that the direct credit programme be re evaluated and expanded to cover weaker groups such as small and marginal farmers, as well as the smaller industrial sector.

c. **Priority sector lending:** It suggested that priority sector financing be set at 10%.

d. **Lowering reserve requirements:** Another suggestion made by the Narasimham Committee was to lower the Statutory Liquidity Ratio (SLR) from the existing 38.5% in 1991 to 25% over a five-year period. It also suggested, gradual lowering of the Cash Reserve Ratio (CRR) from its current 15% level.

e. **Four tier banking structure:** The Committee suggested that the financial organisation be arranged into a four-tier hierarchy. Three to four banks, notably the State Bank of India, have established themselves as potential international figures at the top of the banking structure. The next stage should require 8–10 banks to practice general or universal banking and to have a nationwide network of branches. Local banks should be present in the following level to conduct business in a particular area. Regional banks, such as Regional Rural Banks (RRBs), would be present in the fourth layer to finance agriculture and related businesses.

f. **Setting prudential standards:** The Narasimham Committee advised that banks should follow prudential standards and laws.

g. **Non Performing Assets:** The Committee classified non-performing assets as those that are inactive for longer than 180 days.

h. **Classification of assets:** The banking assets are divided up by the committee into four groups namely; standard, sub-standard, doubtful, and loss assets.

i. **Capital adequacy ratio:** Additionally, it was advised that by March 1993, banks and other financial institutions should have a capital adequacy ratio of at least 4%.

j. **Asset Reconstruction Fund (ARF):** The committee recommended the setting up of an Asset Reconstruction Fund (ARF) to recover loans.

k. **Control over the banking system:** In order to end the dual control of the banking system and make the RBI the principal body in charge of banking system regulation.

l. **Openness of the financial industry:** Giving autonomy to banks and appointing the bank's CEO on the basis of competence and integrity rather than politics were two key recommendations made to improve the openness of the financial industry.

m. **Capital Market:** The Narasimham Committee also advised that banks would be allowed access to the capital market and to offer new capital to the general population.

n. **Uniform treatment:** Public and private sector banks should not be treated differently, and new private sector banks may open as long as they meet the standards for minimum start-up capital and other conditions.

o. **International banks:** The Committee also advocated for the establishment of subsidiaries or branches of international banks in India.

3.3.4 Narasimham Committee Report on Banking Reforms - 1998

- Strengthening prudential norms

The Narasimham Committee II was tasked with reviewing the state of the banking sector's reforms and developing a plan to further strengthen the financial structure, human resource development, capital adequacy standards, and bank mergers. A key recommendation was to strengthen the nation's banking sector so that it could deal with issues like domestic liquidity and exchange rate management. The Committee recommended the creation of small, neighbourhood banks to suit the requirements of the States or clusters within the district and to meet the requirements of local trade, small industry, and agriculture. Moreover, it was advised that banks should work towards bringing down their gross non-performing assets to 3% by 2002. Additionally, the committee recommended the government to increase the capital adequacy standards for banks by 9% in 2000 and by 10% in 2002.

- Improving asset quality

The Narasimaham Committee II also suggested that the banks be given more freedom and autonomy in the recruitment of skilled and specialised manpower from the labour market. The committee also advocated for the adoption of technology and computerisation in the banking system. Additionally, it suggested alterations be made to the Banking Regulation Act, State Bank of India Act, RBI Act, Bank Nationalisation Act, etc. for greater autonomy of banks.

3.3.5 Mission Indradhanush

- Reforms in public sector banks

The Ministry of Finance, Government of India, announced Mission Indradhanush in 2015 to solve the difficulties faced by public sector banks. The new programme sought to reform public sector banks and increase their ability to compete with banks in the private sector. The new mission aimed to improve the credit quality of public sector banks and restore economic development by eliminating political interference in those institutions. Mission Indradhanush encompasses several components proposed by the P. J. Nayak Committee on Banking Reforms. There are seven components for Mission Indradhanush, which aims to address the challenges faced by public sector banks.

Table 3.3.1 Components of Mission Indradhanush

Sl No:	Components	Details
1.	Appointments	Following an open and merit-based hiring procedure, it split the roles of chairman and managing director, with a non-executive chairman appointed to maintain checks and balances.
2.	Bank Board Bureau	Eminent professionals and officials who work in the new wing are in charge of creating growth strategies and selecting full-time directors and nonexecutive chairmanships of public sector banks.
3.	Capitalisation	A sufficient capital infusion is required. Debt-ridden banks need to get a cumulative capital infusion of Rs. 25,000 crore in order to maintain a safe buffer over Basel III norms.
4.	De Stressing the Public Sector Banks	Addressing stagnant projects and rising non-performing assets, facilitating policy decisions, reorganising current loans, establishing Debt Recovery Tribunals, and supporting asset reconstruction.
5.	Empowerment	Encouraging banks to take independent decisions in line with commercial interests, putting in place efficient grievance redressal mechanisms, and providing flexibility in employing staff.
6.	Framework of Accountability	Introducing Key Performance Indicators (KPIs) will help public sector banks evaluate their performance and will streamline their fraud-detection procedures.
7.	Governance Reforms	Decisions were taken regarding improving risk management, digitising processes, and promoting financial inclusion, beginning with the 'Gyan Sangam' retreat of chiefs of public sector financial institutions.

- Strengthens banking system

These seven components work together to improve the governance of public sector banks, operational effectiveness, capitalisation, and accountability, ensuring their capacity to compete and support the expansion of the banking industry and the economy.

3.3.6 Financial Inclusion

- Access to formal financial system

Financial inclusion refers to the accessibility and availability of financial services to all people, particularly those that are typically underserved or generally excluded by the former financial system. In simple words, financial inclusion means the accessibility of financial services and the equality of opportunity to access them. It is the procedure by which people and companies can obtain timely, appropriate, and cost-effective financial products and services like banking, loans, equity, and insurance. Targeting those who are underbanked, and unbanked, financial inclusion initiatives usually aim to provide them with sustainable financial services. About 78% of Indians over the age of 15 had a bank account in 2021.This is an impressive achievement, and it suggests a move towards financial inclusion of marginalised groups within the country, like women, the unemployed, the less educated, and the poor. Financial inclusion is understood to go beyond simply opening a bank account; it is possible for banked individuals to be excluded from financial services.

- Empowering rural population

Since 1950s, the Indian government has been working on expanding access to financial services. The government took the initiative to promote financial inclusion by nationalising banks, opening bank branches in rural areas, creating Regional Rural Banks (RRBs) to serve the needs of the rural economy, and other measures. RBI established the Khan Commission in 2004 with the purpose of investigating and making recommendations on India's financial inclusion. Based on the commission's recommendations, the RBI continues its work to create new banking products, draft new rules, and promote financial inclusion. The first village in India where all households had access to financial services was Mangalam in Puducherry. Financial inclusion is, however hampered by illiteracy, low income, and a lack of bank branches in rural areas.

The Reserve Bank of India has launched a number of initiatives to increase financial inclusion. The financial barrier for the poor is eliminated by allowing the opening of No Frills Accounts

(NFAs), also known as Basic Savings Bank Deposit Accounts (BSBDAs), with zero or low balance requirements. In August 2005, the Know Your Customer (KYC) criteria for opening bank accounts were reduced for small accounts, removing a barrier to banking related documentation. The Business Correspondents (BC) model was introduced in January 2006, by which RBI allowed banks to use intermediates in the banking process. Through the direct delivery of other financial services and the facilitation of transactions by intermediaries, this strategy enables banks to serve underserved areas. Fintech, or the expansion of financial technology, has been proposed as a viable way to achieve financial inclusion by providing banking services to those who are normally unserved in rural and distant locations. The Pradhan Mantri Jan Dhan Yojana policy was launched by the government in 2014 with the goal of granting banking access to everyone through the creation of basic bank accounts.

- Providing means to participate in the banking system

3.3.7 JAM Trinity

Jan Dhan, Aadhaar, and Mobile are referred to as JAM Trinity. The direct subsidy for the needy is transferred by using these three ways of Jan Dhan, Aadhaar and Mobile (JAM).The government's initiative for financial inclusion is supported by JAM Trinity. The JAM trinity is crucial in India because it has the potential to revolutionise the delivery of welfare payments and subsidies to the general public. Millions of unbanked and under banked people have been brought into the official banking system as part of the Jan Dhan Yojana. By granting people access to a bank account, the government assures that all societal sectors, particularly the weaker ones, have access to financial services, including insurance, credit, and savings. The integration of Aadhaar with welfare programmes enables targeted welfare delivery. The elimination of duplicate and fraudulent beneficiaries and the reduction of system leakages are two benefits of integrating Aadhaar with welfare programmes. Through the use of biometric authentication, Aadhaar ensures that benefits are delivered directly to the intended recipients, cutting out middlemen and reducing corruption.

- Facilitate direct transfer

The present subsidy programmes, such as the Public Distribution System (PDS) and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), are more expensive to the government and also significantly increase corruption as there are many intermediaries before the actual

• Targeted delivery

benefit reaches the poor. The JAM trinity facilitates Direct Benefit Transfers (DBT) to beneficiaries bank accounts and it is cost effective. The mobile component of JAM trinity has played a crucial role in boosting digital payments and cashless transactions. In turn, this encourages the development of a digital economy, lessens the need for currency, and improves the formalisation of financial transactions. Overall, the JAM trinity has a significant impact on how social welfare programmes are carried out in India. It improves the delivery of subsidies and benefits while promoting financial inclusion, accountability, and transparency.

3.3.8 Major Reforms in Insurance

• Liberalise and modernise insurance sector

R.N. Malhotra, a former finance secretary and RBI governor, was chosen in 1993 to assess the Indian insurance market and make recommendations for its future course. In 1994, the Malhotra Committee submitted its final report to the Government of India. Major recommendations of the committee are follows:

- Establishment of a separate regulatory agency to oversee the insurance industry was one of the major recommendations made by the Malhotra Committee.
- The Committee recommended that the government's ownership of the insurance industry be reduced to 50%.
- The committee insisted that the government take over the holdings of General Insurance Company (GIC) and its subsidiaries so that they can act as independent corporations.

• Restructuring insurance companies

- Another suggestion is that a private company should have a paid up capital of Rs. 1 billion before entering the insurance sector.
- Life insurance and general insurance should never be handled by the same company.
- International companies are able to enter the insurance market only by partnering with Indian enterprises.
- Another suggestion is to lower the required percentage of LIC fund investments in government securities from 75% to 50%.
- Computerisation of activities was advised.

The Insurance Regulatory and Development Authority of India (IRDA) Bill was passed in December 1999, which marked the beginning of the insurance sector reforms. The Malhotra Committee's recommendations served as the foundation for the adoption of the IRDA Act in 1999. Since becoming a statutory organisation in April 2000, the IRDA has been creating rules and registering private insurance businesses. After the IRDA was established, significant insurance sector reforms were started in India. Protecting the interests of insurance policyholders and launching various policy initiatives to support the insurance industry's continuous growth are two of IRDA's key objectives. The expansion and depth of insurance in India are projected to increase with the opening up of the insurance market. As a result, public sector enterprises may also undergo restructuring and revitalisation.

- Regulatory body for insurance sector

The insurance industry in India has undergone a number of reforms to encourage expansion, improve transparency, and safeguard the interests of policyholders. The important reforms in the insurance sector are discussed below:

a. **Increased FDI limit:** In 2015, the Indian government raised the FDI ceiling for the insurance industry from 26% to 49%, enabling foreign investors to own a larger percentage of insurance firms. This action was taken in an effort to increase the industry's access to money, technology, and knowledge.

b. **Pradhan Mantri Fasal Bima Yojana (PMFBY):** This programme introduced in 2016, offers farmers crop insurance at discounted premium rates. In the event that bad weather, pests, or illnesses attack a farmer's crops, it tries to safeguard them from yield losses and stabilise their income.

c. **The Insurance Laws (Amendment) Act, 2015**: By raising the FDI cap and implementing steps to strengthen corporate governance, defend the interests of policyholders, and improve the regulatory environment, this amendment aims to significantly alter the insurance industry.

d. **Micro Insurance Laws:** IRDAI introduced laws for micro insurance products, making it simpler for insurance companies to provide low income people and those living in rural regions with simple, affordable insurance coverage.

e. **Health Insurance Reforms:** The Indian government has been concentrating on boosting the population's access to and availability of health insurance. Plans like Ayushman Bharat were introduced to offer underprivileged groups of society health insurance.

f. **Digital Initiatives:** The insurance industry has been utilising digital technologies to enhance client satisfaction, provide online policy buying and servicing, and speedy claims settlement procedures.

g. **Solvency Margin Norms:** To safeguard insurance companies financial stability and capacity to fulfil their responsibilities to policyholders, IRDAI has re evaluated the solvency margin standards for them on a regular basis.

- Fostering insurance industry

In the upcoming ten years, India is anticipated to have one of the fastest expanding insurance markets. According to Insurance Regulatory and Development Authority of India annual report March 2022 data, there are 67 insurers in India, including 24 life insurers, 26 general insurers, 5 stand alone health insurers, and 12 re-insurers. By 2027, the Indian insurance market is anticipated to grow by $200 billion. These changes sought to advance the insurance industry's expansion, broaden the use of insurance, and safeguard policyholder interests.

3.3.9 Pension Sector Reforms

- Contributory pension

To address the problems caused by an ageing population and to improve the security of its citizens' retirement, the Indian government enacted a number of important reforms in the pension sector. The National Pension System (NPS), a contributing retirement savings programme that includes both the organised and unorganised sectors, was introduced by the government in 2004. It enables people to make monthly contributions during their working years towards their retirement savings. All assets held for the benefit of NPS subscribers are registered in the name of NPS Trust, which is the legal owner of all such assets.

- Regular retirement income

In order to provide pensions to workers in the unorganised sector, the Atal Pension Yojana was introduced in 2015. By providing a limited term of government co-contribution to individuals who enrol in the programme, it encourages people to save for their retirement. Based on contributions and the age at which an individual begins contributing, the pension amount is determined. The Employee Provident Fund (EPF) reforms are yet another reform. EPF is a required retirement savings programme for workers in the organised sector. The government has recently taken steps to promote transparency and simplify EPF regulations. Online tools have been implemented to facilitate easy access to EPF accounts and speedy claim processing.

- Awareness for participation

In the unorganised sector, where many workers lack access to official retirement benefits, the government has been working to increase the coverage of pension plans through programmes like Atal Pension Yojana. Incentives and awareness efforts also have been launched to promote participation in pension plans. The government has launched digital measures to increase the effectiveness and accessibility of pension services. These include the digitisation of pension records, mobile applications for convenient access to information about pensions, and online registration and monitoring of pension programmes.

- Strong and well regulated pension market

The government has taken initiatives to standardise the pension disbursement procedure in order to guarantee timely and effective pension payments. As a result, there are now fewer delays and the payment method is more transparent. The continuity of pension contributions is maintained as a result of measures adopted to make the transfer of pension accounts between employers easier. To inform the public about the value of retirement planning and the advantages of pension plans, the government has organised financial literacy programmes in collaboration with a number of financial firms. These programmes are designed to raise people's knowledge and involve them in pension plans. The pension industry in India is still developing, as attempts are made to improve and broaden the scope of pension plans. During the retirement years, the government's priority is to provide financial security and wellbeing to its citizens.

3.3.10 Stock Market Reforms

- Strengthening stock market

In order to improve openness, efficiency, and investor protection, India has enacted a number of significant reforms in the Indian stock market. In 1996, the Indian government implemented dematerialised trading system. India switched from a system where shares were stored physically as certificates to a dematerialised one where shares were held electronically. As a result, transactions became faster and more secure, with less paperwork and fraud risk. The National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) also underwent reforms. The developments of the NSE and

BSE, as well as their ongoing progress, have been essential to modernising India's stock markets. The development of electronic trading platforms increased the trading process's efficiency and transparency.

- Enhance transparency

In 1995, India switched from an open outcry trading system to a screen-based one. As a result, trading volumes went up, errors went down, and investors had better access to the market. In 1992, the Securities and Exchange Board of India (SEBI) was founded as the country's securities market regulator. It is essential for regulating and monitoring how the stock markets operate, safeguarding the interests of investors, and advancing market integrity. Initial Public Offering (IPO) modifications have been implemented over the years by SEBI with the goal of making the procedure more transparent and investor friendly. Shorter IPO schedules, stronger disclosure standards, and increased due diligence requirements are some of these developments.

- Promote fair practices

Circuit breakers were developed to limit excessive volatility and give the market, time to settle after sudden changes. If stock prices exceed specific pre determined thresholds, these devices temporarily cease trading. To identify and stop market manipulation and guarantee market stability, strong market monitoring and risk management mechanisms have been implemented as part of the reforms. Various corporate governance reforms have been mandated by SEBI in order to increase accountability, transparency, and the protection of the rights of minority shareholders. Guidelines for audit committees, independent directors, and financial information disclosures are a few of these measures. The market for derivatives was widened with the introduction of stock index futures and options, which gave investors more hedging and trading alternatives.

- Align the market with global best practices

In order to attract international investment and increase market liquidity, the government has frequently altered its foreign investment policies. Reforms have been undertaken to encourage foreign direct investment in specific industries and to permit larger foreign portfolio interests. The speed and effectiveness of fund transfers and settlement procedures have increased with the use of Real Time Gross Settlement (RTGS) and Centralised Payments Systems. The continuing reforms of the Indian stock market have their main goals of adhering to international best practices, improving market infrastructure, and protecting investor interests. These reforms have played a significant role in transforming India's stock market into one of the fastest growing and most dynamic in the world.

3.3.11 The National Company Law Tribunal (NCLT)

- Specialised quasi judicial body

The Companies Act of 2013 created the National Company Law Tribunal (NCLT), a quasi judicial body and it is a crucial part of India's corporate insolvency and bankruptcy structure. It was established to coordinate and decide issues involving corporate law, insolvency, liquidation, mergers, and other corporate concerns. The Government of India appoints the judicial and technical members of the NCLT. The technical members are professionals in the fields of law, finance, economics, or accountancy, while the judicial members are often retired judges from the High Courts. All businesses in India, including their holding companies and subsidiaries, are subject to the NCLT's jurisdiction. It addresses disputes originating under the Companies Act as well as issues relating to business restructuring, insolvency resolution, liquidation, and other disputes.

- Handle insolvency laws

One of the significant roles of the NCLT is dealing with corporate insolvency and bankruptcy cases. Under the 2016 Insolvency and Bankruptcy Code (IBC), NCLT hears and decides on applications submitted by creditors or corporate debtors to initiate the insolvency resolution process. As per the requirements of the Corporations Act, the NCLT is in charge of approving or rejecting applications for mergers, amalgamations, and demergers of corporations. Multiple shareholders or depositors may make a claim against a corporation for claimed oppressive conduct or mismanagement, as NCLT is authorised to consider class action lawsuits. The National Company Law Appellate Tribunal (NCLAT) and, in specific circumstances, the Supreme Court of India may hear appeals of NCLT decisions. The NCLT resolves corporate insolvency matters using a time-bound methodology, ensuring that the insolvency resolution process is finished within a predetermined time frame.

- Settle corporate disputes with efficiency

Overall, the NCLT's creation has greatly increased India's ability to handle corporate disputes with greater efficiency and transparency. It has been vital in developing a strong and efficient insolvency and bankruptcy regime in the nation and has played a crucial role in addressing issues relating to insolvency.

3.3.12 The Financial Sector Legislative Reforms Commission (FSLRC)

The Financial Sector Legislative Reforms Commission (FSLRC) was a significant effort made by the Government of India to update and modernise the legal framework governing the financial sector in the country. The commission was established to review and redesign the financial sector laws in India, with the goal of bringing coherence, consistency, and clarity to the regulatory framework. The government established the FSLRC in March 2011 and appointed Justice B. N. Srikrishna to serve as its head. The FSLRC's main goals are:

- Comprehensive frame work for financial sector

- To harmonise, streamline, and rationalise India's various financial sector legislation, which has been enacted over time.
- Modernising, updating, and bringing the regulatory structure in line with global best practices and new market trends.
- For all stakeholders, including consumers, investors, and financial institutions, the FSLRC is also intended improve the accessibility, transparency, and simplicity of the financial laws.
- The FSLRC sought to ensure accountability, to improve the efficiency of financial regulatory agencies, and establish a clear separation between the roles of the regulator and the government.

- Focus on stability, protection and inclusivity

The FSLRC reviewed the rules governing the financial sector in depth and provided its recommendations in March 2013. The Committee recommended a unified financial regulatory body, which would consolidate the responsibilities of existing regulators like the RBI, SEBI, IRDA, and others. The purpose of this action was to enhance coordination and lessen regulatory overlap. The commission recommended establishing a Financial Redress Agency to address complaints and conflicts originating in the financial sector. To deal with the resolution of distressed financial institutions, the FSLRC advocated the creation of a Resolution Corporation. The commission suggested reforms in contract enforcement and consumer protection to safeguard the interests of consumers in the financial sector. The FSLRC also recommended utilising technology to increase the effectiveness of financial services and regulatory operations.

- Comprehensive changes required

The FSLRC's proposals were thorough and ambitious, but there were several difficulties in putting them into practice. A number of the recommendations required changes to current legislation, and some of them necessitated intensive collaboration between numerous parties, including the government, regulatory agencies, and the financial sector. The government had started reforms in accordance with the FSLRC's suggestions and adopted some of the recommendations.

Summarised Overview

Banking Sector Reforms in India have witnessed significant milestones, with key reports like the Narasimham Committee Reports of 1991 and 1998 playing a pivotal role. The 1991 report, led by M. Narasimham, recommended measures to strengthen the banking system, including capital adequacy norms, a reduction of the SLR and CRR, and a phased liberalisation of interest rates. The 1998 report focused on improving the asset quality, risk management, and governance standards of banks. These reforms paved the way for a more robust and competitive banking sector in India.

Mission Indradhanush, launched in 2015, aimed to revamp the public sector banks (PSBs). It focused on capital infusion, the appointment of professional bank boards, de-stressing distressed assets, the empowerment of bank management, and accountability reforms. Financial inclusion became a prime goal, and initiatives like the PMJDY sought to provide access to banking services for the unbanked population. The JAM Trinity furthered this objective, enabling direct benefit transfers and reducing leakages in welfare schemes.

In the insurance sector, major reforms were initiated to enhance penetration and attract private investment. The IRDAI Act of 1999 opened the sector to private players. Pension reforms introduced the NPS, offering a sustainable pension model. The stock market witnessed transformative changes with the introduction of electronic trading, the dematerialisation of shares, and the establishment of the SEBI to regulate the market effectively.

The National Company Law Tribunal (NCLT) and the Insolvency and Bankruptcy Code (IBC) brought significant changes to India’s corporate establishment by streamlining the resolution process for distressed companies. The FSLRC proposed a comprehensive framework for financial sector laws, aiming to modernise and consolidate financial regulations.

Assignments

1. Evaluate the key recommendations of the Narasimham Committee Reports of 1991 and 1998.
2. Compare and contrast the impact of banking sector reforms and insurance sector reforms on India's overall financial stability and economic growth.
3. Discuss the objectives and key recommendations of the FSLRC and its implications for modernising financial regulations in India.
4. Investigate the significance of the NPS in India's pension system. Compare the NPS with traditional pension schemes and discuss its benefits for pensioners and the government.
5. Analyse the progress made by India in achieving financial inclusion, increased investor participation, and a more robust financial system. Identify the challenges that still need to be addressed in ensuring a resilient and inclusive financial sector.

Suggested Reading

1. Ahluwalia, Isher Judge and Little I.M.D : *India's Economic Reforms and Development: Essays for Manmohan Singh*. Oxford India Perennials Series, 2012
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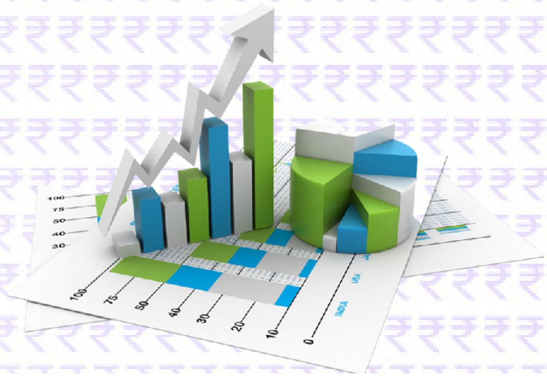
2. Jalan, Bimal. Banking on the Future: *The Fall and Rise of Central Banking*. Penguin Random House India, 2015.
3. Khan, M.Y., & Jain, P.K. *Indian Financial System and Development*. McGraw Hill Education, 2021.
4. Machiraju, H.R. *Indian Financial System: Structure, Functions, and Services*. Pearson India, 2018.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 4
Fiscal and Tax Reforms

Learning Outcomes

After completing this unit, learner will be able to:

- know about FRBM Act
- understand Goods and Service Tax
- acquire knowledge about Insolvency and Bankruptcy Code
- familiarise themselves with Benami Transactions (Prohibition) Act

Background

India has recently undergone a number of significant fiscal and tax reforms that have fundamentally changed the country's economic environment. These reforms, which aimed to improve tax compliance, simplify the tax code, and foster a business friendly climate, have been crucial in advancing the country's economic growth and stability. Major fiscal and tax reforms have been the engine behind India's shift in the dynamic environment of its economic policies. These changes mark a fundamental change in the way that the government approaches taxation, financial management, and corporate laws. Each reform has been thoroughly designed to strengthen India's economic basis and promote a climate favourable to growth, investment, and financial integrity.

Imagine, a tax system that encourages ease of doing business, reduces complexity, and develops the spirit of entrepreneurship. Imagine a legal system that gives struggling businesses new life and gives them a second chance to be successful. The government did this through various fiscal and tax reforms in India. The Fiscal Responsibility and Budget Management (FRBM) Act sought to promote financial responsibility, judicious use of public funds, and competent fiscal management. This measure aimed to preserve a manageable debt path while bringing stability to the economy. India's indirect tax system underwent a change when the Goods and Services Tax (GST) replaced a fragmented structure with a simplified and unified one. The introduction of GST aims to simplify taxation, foster an easy business environment, and establish a common market.

The Insolvency and Bankruptcy Code (IBC), which provided a quick and effective framework for the resolution of troubled enterprises, led to a new age of insolvency proceedings. It restored the confidence of investors and creditors, reviving India's commercial environment. Another significant reform was the lowering of corporate tax rates, which aimed to increase investments, promote industrial development, and improve India's competitiveness internationally. By limiting benami transactions and combating black money, the Benami Transactions (Prohibition) Act aimed to improve financial integrity and transparency.

These significant tax and fiscal reforms put together create a combination of progressive policies that strengthen India's dedication to economic prosperity, inclusive growth, and accountable governance. In this unit, we discuss some of India's most transformative financial reforms.

Keywords

FRBM, GST, Bankruptcy, Corporate Tax, Benami Transactions

Discussion

3.4.1 Fiscal Responsibility and Budget Management (FRBM)

- Reducing fiscal deficit

The Fiscal Responsibility and Budget Management (FRBM) Act, a significant law, aims to promote fiscal discipline and prudence in the country's financial management. It was put into effect in 2003 to address the growing fiscal deficit and to assure that the government would practice sound fiscal management. The FRBM Act's primary goal is to reduce the fiscal deficit and keep the government's overall debt burden under control in order to achieve fiscal stability and sustainability. The Act establishes goals for the government to meet in order to decrease its fiscal deficit, which is the difference between total government spending and total government revenue (exclusive of borrowings) during the course of a financial year. The FRBM Act also focuses on effective debt management by setting limits on the central government's total debt as a percentage of GDP. This is done in order to keep the government's debt under control.

- Ensuring fiscal discipline

The FRBM Act mandates the central government to present a medium term fiscal policy statement to Parliament. The government's fiscal policies and its plan to meet fiscal goals over the next few years are described in this statement. The FRBM Act mandates that the government abide by a number of fiscal policy guidelines, including a cap on the fiscal deficit as a share of GDP. This aims to increase fiscal management's discipline and predictability. The Act contains an 'escape clause' provision that permits the government to depart from its financial goals under specific exceptional conditions, such as times of economic turbulence, worries about national security, or natural disasters. Such discrepancies, though, must be explained and notified to Parliament.

- Evaluation of governments performance

The Fiscal Responsibility and Budget Management Review Committee was created under the FRBM Act to evaluate the government's performance in meeting its financial goals and recommend necessary corrective actions. The Act enables the government to change it in response to shifting economic situations. However, parliamentary permission is required for every alteration. The FRBM Act urges state governments to enact equivalent fiscal responsibility measures at the State level, even though it primarily relates to the central government.

- Targeting Debt to GDP ratio

Under the chairmanship of N.K. Singh, the Fiscal Responsibility and Budget Management Committee was established in 2016 to examine the government's financial performance and offer suggestions for the FRBM Act. Targeting a debt to GDP ratio of 60% with a cap of 40% for the central government and 20% for the states is advised by the committee. The debt-to-GDP ratio is an indicator that examines a nation's overall debt with its GDP. In simple words, it shows the amount of debt a nation has in relation to the size of its GDP. For instance, if a nation's total debt is equal to 65% of its annual economic production, that nation has a debt-to-GDP ratio of 65%. This ratio is crucial since it aids in understanding a nation's financial stability and capacity to handle its debt. A greater debt-to-GDP ratio could mean that the nation has a heavy debt load relative to its level of economic strength, which could pose threats to the economy. A lower ratio, on the other hand, indicates that the nation's debt is more manageable in comparison to its economic production. The committee suggested yearly targets to progressively lower the fiscal and revenue deficits until 2023 in order to reach the desired debt to GDP ratio.

- Deviation from targets allowed

The Committee suggested establishing an independent Fiscal Council with a chairperson and two centre appointed members. The Committee also pointed out that the FRBM Act permits the government to deviate from the targets in the event of a national emergency, a threat to national security, or other extraordinary circumstances that it has been made aware of. In addition, the government may be permitted to deviate from the established targets with the Fiscal Council's approval under the following conditions like: (i) considerations of national security, war, natural disasters, and the collapse of the agricultural sector, which affect output and incomes; (ii) economic structural reforms that have fiscal repercussions; or (iii) a real output growth decline of at least 3% below the average of the previous four quarters. These variations are limited to a maximum of 0.5% of GDP annually.

- Targeting debt

The government set a goal in the Budget 2022 to lower the fiscal deficit to below 4.5% of GDP by 2025–2026. As a result, the budget deficit goal for 2023–2024 is 5.9% of GDP. The FRBM Act has come under fire over the years for being too strict for the potential misuse of the escape clause. Some contend that the act's strict targets may prevent the government from increasing public spending during recessions, which would harm growth prospects.

3.4.2 Goods and Service Tax (GST)

- Single Tax regime

In India, a comprehensive indirect tax known as the Goods and Services Tax (GST) is imposed on the provision of goods and services. On July 1, 2017, GST replaced a number of existing indirect taxes such as excise duty, service tax, value-added tax (VAT), etc. In India, there are two types of GST: Central GST (CGST) and State GST (SGST). Both the central and state governments levy GST on the supply of goods and services within their jurisdiction. An Integrated GST (IGST) is charged on interstate transactions and imports and exports. The central government collects IGST, which is then distributed to the various states. India's GST includes a multi-tiered tax structure with various tax rates for various goods and services. Typically, these taxes have rates of 0%, 5%, 12%, 18%, and 28%. Small firms might choose the Composition Scheme if their annual revenue falls below a specific level. They have fewer compliance requirements and pay tax at a lower rate under this plan.

- Reduced tax burden

Registered businesses can claim input tax credit on the GST paid on purchases. This lessens the overall tax burden and helps prevent cascading taxes (tax on tax). Businesses are exempt from GST registration if their yearly revenue falls below a certain level (often Rs. 20 lakhs for the majority of states). The barrier is lower (10 lakhs) for several states that fall under the special category. The IT backbone of the GST system in India is the GST Network (GSTN). It makes it easier to register, pay taxes, file returns, and carry out other compliance-related tasks online.

- Enhanced revenue

The effect of GST on fiscal federalism is often highlighted by the contribution of the GST Council. The GST Council plays a crucial role in bringing consensus among State Governments on tax rates and revenue distribution. The amount of GST collected has been a key measure of the tax income produced under the GST regime. Since its commencement in July 2017, the monthly GST collection figures have consistently increased. Despite the difficulties caused by the COVID-19 pandemic in FY 2020–2021, the yearly GST revenue exceeded Rs. 1 lakh crore for a number of months. The total gross GST income collected in June 2023 is Rs 1,61,497 crore, of which CGST is Rs 31,013 crore, SGST is Rs 38,292 crore , IGST is Rs 80, 292 crore and cess is Rs 11,900 crore. Since the GST system's establishment, the number of companies registered under it has increased consistently.

- Better compliance

The GST has helped India's revenue base grow by bringing a large number of previously unregistered enterprises into the official tax system. Due to the digital nature of the system, which promotes transparency and accountability, the implementation of GST has also assisted in improving tax compliance. The GST composition scheme allows small businesses to opt for a simpler compliance process and pay taxes at a lower rate. The E-way bill system was created as a result of the GST regime's installation to aid in the efficient transportation of products across the nation. E-way invoices are necessary for the transport of items that cost more than a certain amount. Revenue sharing between the Central and State governments is one of the main features of the GST regime. To maintain fiscal federalism, the GST Council is essential in setting tax rates and allocating tax money between the federal and state governments. Based on prevailing economic conditions and required revenue, the GST Council has periodically reviewed and modified tax rates for a range of goods and services.

3.4.3 Insolvency and Bankruptcy Code (IBC)

- Legal framework

The Government of India passed the Insolvency and Bankruptcy Code (IBC) in 2016 as a key economic reform to address the problem of insolvency and bankruptcy in the nation. It was implemented to speed up the insolvency resolution procedure and offer a well-structured framework for the prompt and effective resolution of distressed businesses and individuals. The IBC establishes resolution and liquidation as the two main methods for handling insolvency matters. The objective is to maximise the value of the distressed company as a going concern rather than liquidating its assets.

- Time bound process

To ensure quicker results, the IBC promotes a time-bound approach to insolvency resolution. After the case is admitted, the 180-day (extendable by 90-day) corporate insolvency resolution process must be finished. The licenced Insolvency Professionals (IPs) are essential to the resolution process. Between creditors, debtors, and the insolvency resolution process, the Insolvency Professionals serve as a mediator. In accordance with the IBC, Committees of Creditors (CoC) may be established to make critical decisions about the resolution process. The CoC comprises financial creditors and has significant decision-making powers.

- Debt resolution and recovery

The IBC established a hierarchy for the distribution of assets during insolvency. Secured creditors are given priority over unsecured creditors, and operational creditors are treated on a par with unsecured creditors. The code gives the government the authority to reach agreements with foreign nations for collaboration in cases of cross border insolvency. Cases involving assets or creditors in different jurisdictions can now be resolved more effectively. For corporate and individual insolvency issues, respectively, the chief adjudicating institutions are the National Company Law Tribunal (NCLT) and the Debt Recovery Tribunal (DRT).

The IBC, which streamlines the resolution process, strengthens creditors' rights, and fosters a more effective and predictable business climate, has significantly changed India's bankruptcy cases. Investor confidence in the Indian economy

- Streamlined mechanism

has risen, and Non-Performing Assets (NPAs) have been less of a burden on banks and other financial institutions. The IBC has, however, encountered difficulties and requires constant improvement to solve different practical and legal issues that have emerged throughout its implementation, much like any significant legislative reform.

- Delays and reduced asset values

At the end of March 2023, 6,571 cases had been admitted under this framework. Of these admitted cases, 4,515 cases have been resolved, while the remaining cases are still undergoing legal processes. Out of the cases that were resolved, a startling 45% were liquidated, with the other cases either being settled, withdrawn, or being appealed. Out of the total acknowledged claims of creditors estimated at Rs 8.98 lakh crore, the entire realisable value in these cases was just Rs 2.86 lakh crore. This amounts to just 31.8 percent. Nearly two-thirds of the cases that are presently undergoing resolution proceedings have gone past the 270-day mark. Additionally, 55% of the cases that are currently being liquidated have been ongoing for longer than two years. Such delays, which go beyond the established deadlines, are regrettable since they cause asset value to decrease even further.

3.4.4 Corporate Tax Rate Reduction

- Stimulate business environment

The corporate tax rate was significantly reduced by the Indian government in September 2019. The Taxation Laws (Amendment) Bill, 2019, reduced the base corporate tax rate for existing industries from 30% to 22%. This resulted in a revenue difference of Rs 1.45 lakh crores. For the new manufacturing companies that were founded after October 1, 2019, but before March 31, 2023, the base corporate tax was lowered from 25% to 15%. This tactical move might make India's corporate tax rates more competitive with those of other Asian countries. India's new corporate tax rates are significantly lower than those in the United States (27%), Japan (30.62%), Brazil (34%), Germany (30%), and Brazil. For new businesses, the tax rate is comparable to Singapore's (17%) rate.

Initially, there were worries that the reduced rates would result in a decrease in the amount of income collected as corporate tax. However, tax receipts have increased significantly over the past two years, by 39% in FY 2022 and 21% in FY 2023, respectively. The expansion of the economy has a direct impact on corporate tax collections, which often fall off when growth is weak. In FY 2020, corporate tax collections fell by 16% as growth slowed significantly as a result of declining demand brought on by reduced bank liquidity. The following year was ruined by COVID -led lockdowns, which resulted in a 17.8% decrease in corporate tax income. But since then, collections have increased. The amount of corporate tax collected between April 2022 and November 2022 was Rs 4.28 lakh crore, up from Rs 3.53 lakh crore during the same period in 2021.

- Increased tax revenue

Despite declining tax incidence, collections are greater in part because larger businesses have experienced rapid earnings growth over the past two years. In FY22, the taxable income of the Nifty 500 companies increased by 38%. In fact, despite the COVID hit in FY21, these companies' profits before taxes increased by 34% as a result of exceptionally high profits from commodity companies. The market share that smaller businesses gave up as a result of the pandemic was also captured by these larger enterprises.

- Gain for large companies

The revival of the Indian economy and the promotion of additional domestic and foreign investment were the main goals of this tax cut. Lower tax rates were intended to encourage businesses to grow, invest in new projects, and increase employment possibilities. One of the main winners of this corporate tax cut was small and start up enterprises. They had more financial freedom and were able to expand and compete on a worldwide basis because of the lower tax burden. Overall, India's corporate tax cut aims to promote economic expansion, draw in investments, and foster an advantageous business environment. It was part of the government's broader initiatives to improve India's economic climate and competitiveness on the international scene.

- Reduced burden for start-ups

3.4.5 Benami Transactions (Prohibition) Act

Benami transactions entail the practice of keeping property in the name of another person while the advantages of the property are enjoyed by someone else. The Benami Transactions (Prohibition) Act, 1988, often known as the Benami Act, is an important piece of law in India intended to stop benami transactions. This Act was passed to address the problem of undeclared assets and black money, to encourage openness in real estate transactions, and to stop money laundering and tax evasion. To guarantee a thorough understanding and appropriate execution of the legislation, the Benami

Transactions (Prohibition) Act defines key terminology relating to benami transactions, such as 'benami property' 'beneficial owner' 'transaction', 'person', and 'property', in detail. The Act's main goal is to make benami transactions illegal. It states that any transaction deemed to be benami is void, and any property involved is subject to government confiscation.

- Aims to curb black money and tax evasion

The Act imposes severe penalties on those who participate in benami transactions. The punishment for both the beneficial owner and the benamidar, or the person in whose name the property is held, can be up to 3 years in prison, or a fine, or both. The Act creates a number of authorities, such as an initiating officer, an approving authority, and an adjudicating authority, to carry out the Act's requirements. The decision to seize benami properties is up to the adjudicating officer. The Act describes how to file a lawsuit against benami transactions. The alleged parties involved in a suspected benami transaction may get notice from an initiating officer who has been appointed by the government. The official is required to document their justifications for considering the transaction as benami before referring the matter to the adjudicating authority. The Appellate Tribunal will be established in accordance with the act to hear appeals against the adjudicating authority's decisions. The Act gives the government, the authority to temporarily attach benami properties in order to stop their disposal during the course of an investigation or legal proceeding.

- Stringent penalties

The Indian government realised in 2016 that the Benami Act needed to be strengthened in order to be more effective in combating black money and tax fraud. As a result, on November 1, 2016, The Benami Transactions (Prohibition) Amendment Act 2016 went into force. Among the notable modifications are, the amendment broadened the concept of benami transactions to cover not just immovable property, but also added movable property like gold, shares, and stocks. The modified Act increased the maximum sentence for violators to seven years in prison and raised the associated fine. The Adjudicating Authority was created by the amendment to handle instances involving benami transactions. The modification called for the creation of the Appellate Tribunal, which would hear appeals from decisions made by the Adjudicating Authority. The high court will hear appeals about Appellate Tribunal orders. Within six months of the complaint's filing date, the special court must finish up the

- Amendments in 2016

trial. The modified Act now includes provisions allowing the central government to designate officers to launch legal action against benami transactions.

- Transparency and accountability

The Benami Transactions (Prohibition) Act is a key piece of Indian legislation designed to tackle the benami transaction threat, which harms the economy and encourages tax evasion. The Act's provisions are intended to increase market transparency for real estate and deter the use of proxies to hold secret assets. The 2016 amendment significantly enhanced it by offering a more effective method for benami transaction participants to be investigated, judged, and punished.

Summarised Overview

Major tax and fiscal reforms in India have been essential in reshaping the economy of the nation. The FRBM Act increased fiscal accountability and transparency by imposing statutory limitations on government borrowing and establishing goals for decreasing fiscal deficits. The introduction of the GST in 2017, which replaced a confusing web of indirect taxes, was another revolutionary shift. The GST simplified the tax code, enhanced company comfort and increased interstate trade. By harmonising state tax rates, doing away with cascading effects, and increasing tax revenue, it produced a single market.

The IBC, which was adopted in 2016, was essential in boosting investment sentiments, bringing improvements to business conditions, and resolving the issue of non-performing assets in the banking industry. Additionally, the government reduced the corporate tax rate significantly in order to boost economic growth and attract international investment. This action was taken to increase India's competitiveness in the world arena and to encourage businesses to increase their operations there.

The Benami Transactions (Prohibition) Act aimed to combat corruption and black money by outlawing benami transactions, in which properties are owned by one person but financed by an additional, unidentified person. The act was designed to boost the government's anticorruption initiatives through curbing tax evasion and promoting openness in real estate transactions.

The FRBM Act, GST, IBC, corporate tax rate reductions, and Benami Transactions (Prohibition) Act, among other significant fiscal and tax reforms, have all helped India's economy grow, made doing business easier, and improved financial governance.

Assignments

1. Evaluate the impact and effectiveness of the FRBM Act in ensuring fiscal discipline and transparency in government finances.
2. Analyse the advantages and challenges of implementing the Goods and GST and its influence on the country's business environment and interstate trade.
3. Examine the key provisions and objectives of the IBC in India. Assess its effectiveness in resolving distressed businesses and reducing the burden of non-performing assets on the banking sector.
4. Discuss the rationale behind the government's decision to reduce corporate tax rates in India. Examine the potential impact of this tax rate reduction on the economy, business investments, and job creation.
5. Examine the implications of the Benami Transactions (Prohibition) Act on curbing corruption and black money in India.

Suggested Reading

1. Machiraju, H.R. *Indian Financial System: Structure, Functions, and Services*. Pearson India, 2018.
2. Reddy, Rammanohar C : *Demonetisation and Black Money,* Orient Blackswan,2017
3. Reddy, Y.V., & Reddy, G.R., *Indian Fiscal Federalism.* Oxford University Press, 2007.

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1. Guptha, R.S. *GST - A Practical Guide*. Bharat Law House, 2019.
2. Kapila, Uma. *Indian Economy: Performance and Policies.* Academic Foundation, 2021.
3. Singh, Ramesh. *Indian Economy: Problems and Prospects*. McGraw Hill Education, 2021.

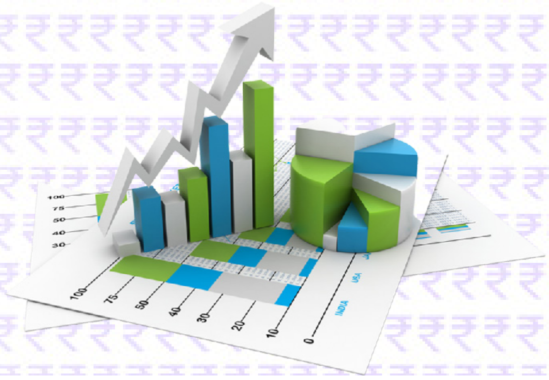
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

MASTER OF ARTS ECONOMICS

External Sector Reforms and Recent Developments

Block 4



UNIT 1
External Sector Reforms

Learning Outcomes

After completing this unit, learner will be able to:

- understand the external sector reforms
- analyse the composition and directions of India's foreign trade
- get awareness of MEIS and SEIS Schemes

Background

In 1991, India experienced a severe economic crisis marked by high inflation, a widening fiscal deficit, and a balance of payment crisis. As a result, the government introduced a series of economic reforms, including liberalisation, privatisation, and globalisation, which aimed to open the Indian economy and promote growth. These macroeconomic reforms led to the introduction of new policies and measures such as financial sector reforms, public sector reforms, and external sector reforms which have played a significant role in shaping India's economic landscape in the decades since the crisis. To overcome the BOP crisis of 1991, and restore the external health of the economy, various forms of structural and stabilisation policies-framed as external sector reforms, were undertaken by the then Finance minister Dr Manmohan Singh. Apart from the external reforms of 1991 various schemes such as MEIS, SEIS, CECA, Act East Policy, and RCEP were introduced by the Government of India over the years to promote exports, boost economic cooperation, strengthen ties with Asia-Pacific countries, and create regional trading blocs for easier trade among member countries. These measures collectively aim to improve India's foreign trade and economic engagement with the world. Thus, it becomes imperative to understand the various trade sector reforms as well as the direction and composition of India's foreign trade over the years.

Keywords

Fiscal Imbalance, Balance of Payment, Inflation, Reforms, Devaluation, FDI

Discussion

4.1.1 Structural Reforms Since 1991

- Indian economic crisis in 1991

In early 1991 a major crisis cropped up in India. The crisis was the worst since India's independence. This crisis was characterised by mounting external debt, shrinking foreign exchange reserves, a rising fiscal deficit, and a devaluation of the Indian Rupee. Since then, the government has followed a policy of macroeconomic stabilisation and has introduced structural reforms.

- Economic imbalance

The crisis of 1991 did not develop suddenly but had accumulated over several years mainly due to the mismanagement of the economy during 1980's which led to macroeconomic imbalance. The widening gap between the revenue and expenditure of the government resulted in a fiscal deficit which was met through borrowing at home. The steadily growing gap between income and expenditure was also witnessed in the current account deficits in Balance of Payments (BOP), which was financed by external borrowing. Accordingly, the crisis was characterised by a balance of payments problem, where the country faced challenges in meeting its international payment obligations, including imports and foreign debt repayment. Thus, the internal imbalance in the fiscal situation and the external imbalance in the BOP were closely related.

- Factors of economic crisis

The roots of the economic crisis of 1991 could be attributed to several factors: -

- The difference between Investment and Savings in private sector
- The difference between income and expenditure in government sector
- The gulf crisis in the late 1990
- Political instability during this period
- India's policy of Import Substitution Industrialisation (ISI) had led to import dependencies for essential goods.

- The government had been heavily borrowing from international markets to fund development projects and meet budgetary needs, resulting in mounting external debt.
- Declining export competitiveness, led to a precarious situation where India's foreign exchange reserves were depleting rapidly.

Now let us discuss the macroeconomic situation of the Indian economy during 1991 focusing on each indicator.

a) Fiscal Imbalance

- Fiscal imbalance in 1980s

Fiscal imbalance was present even in 1980's due to non-developmental expenditure. Various indicators like budget deficit, revenue deficit, and monetised deficit signalled this imbalance, but the complete measure of fiscal imbalance was the gross fiscal deficit, representing the excess of government expenditure over revenue. In 1990-91, these deficits reached alarming levels, with the budgetary deficit at 2.1% of GDP, revenue deficit at 3.3% of GDP, and gross fiscal deficit at 7.8%. To bridge these deficits, the government had to resort to borrowing, which escalated the internal debt from 35% of GDP in 1980-81 to 49.8% in 1990-91. Consequently, interest payments soared, consuming 39.1% of the Central government's total revenue in 1990-91, creating an unsustainable debt servicing situation.

b) Fragile Balance of Payment

- BOP and debt crisis in 1991

India's BOP situation was worse in 1990-91. The current account which was \$2.1 billion in 1980-81, surged to \$9.7 billion by 1990-91. To cover these growing deficits, the country had to borrow from abroad, leading to a rise in external debt from 12% of GDP in 1980-81 to 23% in 1990-91. Moreover, 30 percent of export earnings were used for servicing debt, putting immense strain on the economy. As the crisis deepened, India's foreign exchange reserves dropped to levels insufficient to finance even 10 days of imports. Default in terms of financing imports and debt servicing looked imminent. Therefore, as a last resort government relied on using stocks of gold to obtain foreign exchange and borrowing under special facilities from the IMF. All these led to a recessionary situation, where the economy faced a period of declining growth and rising unemployment.

c) Mounting Inflation

- Policy reforms due to inflation and food strain

The rate of inflation in 1980's which was 6.7 percent per annum in terms of wholesale price index rose to 10.3 percent in 1990-91. Price of food rose despite a good monsoon due to demand - supply imbalance in the economy. In order to tackle inflation the government brought about stabilisation and structural reforms aimed at demand and supply side management of the economy.

- The Crisis activates stabilisation and structural reforms

These combined challenges significantly impacted international confidence in the Indian economy, leading to a decline in the country's credit rating in the global market. Over the years, these persisting issues weakened the economy's resilience to handle any unforeseen shocks, ultimately plunging it into a deep and severe economic crisis. India had to accept the conditions imposed by the World Bank and IMF, which included structural reforms, for securing the much-needed funds and preventing default on loan payments. In response to the precarious economic situation, the government of India, led by Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh implemented a series of economic reforms in June 1991 under two distinct aspects - macroeconomic stabilisation and structural reforms. Structural reforms were undertaken to improve the supply side of the economy. These include external sector reforms, public sector reforms, industrial deregulation, and financial sector reforms. The focus of economic reforms has been on trade and capital flows i.e., external sector reforms. Let us discuss in detail the external sector reforms initiated by the government to overcome the crisis.

4.1.1.1 External Sector Reforms

- Trade liberalisation

The introduction of external sector reforms in 1991 marked a significant turning point in India's economic history. The reforms were part of a comprehensive economic package aimed at addressing a severe balance of payments crisis that the country faced in the late 1980s and early 1990s. Past experiences show that trade along the lines of fewer tariff and non-tariff trade barriers provides incentives for production both for the domestic market and for exports which in turn improves economic growth. Previous import substitution policy has not worked well because of lack of technology, capital, and raw material. From its own experience the country has learnt that such a policy will hamper economic growth and adversely affect balance of payments. Thus, external sector reforms have been introduced giving emphasis on greater openness. Let us discuss the various external sector reforms which covered all foreign exchange policies and foreign trade policies.

1. Devaluation of Rupee in 1991

- Pre-1991 overvalued rupee hurts India's exports

Before 1991, the Indian rupee was assessed to be overvalued when compared to the US dollar and other significant currencies. During the period India followed a managed floating exchange rate system under which the rupee was not expected to appreciate against other currencies. Despite the adoption of a managed floating exchange rate system, in 1991 the real effective exchange rate of the Indian rupee did not experience a significant decline compared to the nominal exchange rate. This was primarily due to the higher inflation rate in India in comparison to other countries. The relatively higher inflation eroded the rupee's purchasing power and offset some of the depreciation effects resulting from the nominal exchange rate adjustments. Therefore, the real value of the rupee in terms of its trade-weighted basket of foreign currencies did not decrease as much as indicated by the nominal exchange rate movements. This overvaluation of the Indian rupee had adverse effects, discouraging exports while encouraging imports. Consequently, the foreign exchange policy displayed an anti-export bias. In order to rectify this situation by promoting exports and discouraging imports, the rupee underwent devaluation on two occasions: first on July 1, 1991, and then again on July 3, 1991. These devaluations resulted in an average decline of 22.8 percent in the rupee's value concerning a trade-weighted basket of foreign currencies, which helped to restore India's international competitiveness.

2. Liberalisation of Trade and Dismantling Controls

- Trade liberalisation leads export growth

One of the key policy shifts in India's external sector was the decision to open up the economy to foreign trade, embracing an export-led growth strategy rather than relying solely on import-substitution. This move aimed to boost the competitiveness of domestic industries by providing them access to cheaper imported raw materials and capital goods, which would enable the production of exportable goods at more competitive prices. To achieve this, the government embarked on a phased reduction of customs duties on non-agricultural imports. In 1990, the peak customs tariff rate was an exorbitant 300 percent, but it was gradually lowered to 35 percent in the 2002-03 budget, then further reduced to 15 percent in 2005-06, and eventually to 12.5 percent in the 2006-07 budget.

- Boosting export competitiveness

The reduction in customs duties served multiple purposes. Firstly, it helped to curb cost-push inflation that had arisen due to the devaluation of the Indian rupee. Secondly, it resulted in decreased prices for exportable goods that heavily relied on imported raw materials and capital goods, making Indian exports more competitive in the global market. Thirdly, by lowering customs duties, Indian industries were exposed to foreign competition, leading to increased pressure to improve productivity and efficiency within domestic industries. These policy changes aimed to foster an environment where Indian industries could thrive through enhanced competitiveness, higher productivity, and access to global markets.

3. Market Determined Exchange Rate

- Transition to a market-determined exchange rate system

To address the balance of payments problem, a crucial step was taken in 1993 when the exchange rate of the Indian rupee was transitioned to a market-determined system. This change meant that the exchange rate would be determined by the demand for and supply of foreign currencies against the Indian rupee. Additionally, convertibility on the current account transactions was introduced, simplifying foreign exchange transactions and allowing market forces to determine the exchange rate. Thus, the Indian rupee experienced substantial depreciation since 1993. For instance, the exchange rate fell from 24.47 rupees per US dollar to 31.94 in 1994-95, and further to Rs. 35.50 per US dollar in 1996-97. In subsequent years, the rupee continued to depreciate, reaching Rs. 47.69 in 2001-02 and further to 48.40 in 2002-03. This depreciation greatly benefited exporters and Non-Resident Indians (NRIs) remitting funds to India, as it made Indian goods more competitive in international markets.

4. Decanalisation

Before 1991, a significant portion of both export and import items in India were controlled and channelled through the public sector. However, the trade reforms of 1991 brought about substantial changes by removing government control and regulation from 16 export goods and 20 import goods, effectively decanalising them. This marked a shift towards liberalising the trade sector and reducing state intervention. Subsequently, in the trade policy of 1992-97, the process of decanalisation was further expanded to include a large number of items, with the exception of specific commodities like petroleum products, cereals, edible oil, and fertilisers. This broadened decanalisation opening more segments of the external sector to private enterprises, allowing them greater participation and flexibility in international trade.

- Removal of government control and regulation from trade

4.1.2 Composition of India's Foreign Trade

India had a colonial past marked by intensive and extensive exploitation of their economies by colonial powers. Foreign trade served as an important instrument of exploitation. During the 1940s and 1950s India served as a producer of primary products which were drained to Britain. At the same time the colonial powers produced manufactured goods and exported the same to the colonies. This was because primary products carried a lower price and manufactured goods had a higher price causing a deteriorating term of trade to India. Due to the adverse situation that the country experienced prior to independence, India followed an "inward-oriented policy" thereafter. These policies aimed at promoting domestic industries by imposing direct controls on imports and investment, and overvalued exchange rates. Moreover, Indian exports remained stagnant. The Government of India adopted trade policy reforms in 1991 which advocated import liberalisation and export promotion policies. Composition of trade implies the commodities or products which are included in exports from India to other countries and imports from other countries to India. Through examining the exports and imports of a country we will be able to identify the progress of that country and the pace of development it has made.

- Trade reforms in 1991

4.1.2.1 Composition of Exports

Table 4.1.1 reflects the composition of exports from India over the years in terms of percentage of total export earnings. From the table it is seen that in 1960-61, the share of agriculture and related products accounted for a substantial 44.2 percent of total exports, but by 2020-21, this figure had declined dramatically to just 14.3 percent. Remarkably, in the early 1960s, jute and tea were the primary export commodities, constituting 21 percent and 19.3 percent of India's total export earnings, respectively. However, their contribution has dropped to a mere 0.1 percent and 0.3 percent in 2020-21. On

• Export composition evolution 1960-2021

the other hand, the export landscape has seen a remarkable shift towards manufactured goods. The share of manufactured products in total export earnings has surged from 45.3 percent in 1960-61 to a robust 71.2 percent in 2020-21. This transformation underscores a profound evolution in India's economic structure, transitioning from a predominantly agrarian and underdeveloped economy reliant on primary goods to a dynamic, industrial-driven economy.

Table 4.1.1 Composition of Exports

Commodities	1960-61	1970-71	1980-81	1990-91	2019-20	2020-21
1. Agricuture and allied products	**44.2**	**31.7**	**30.6**	**19.4**	**11.2**	**14.3**
Tea and mate	19.3	9.6	6.3	3.4	0.3	0.3
Cashew kernels	3	3.7	2.1	1.4	0.2	0.2
Rice		0.3	3.3	1.4	2	3.1
Fish and fish preparations	0.8	2	3.2	2.9	2.1	2.6
2. Ores and Minerals	**8.1**	**10.7**	**6.2**	**4.6**	**2.2**	**3.2**
Iron ore	2.6	7.6	4.5	3.2	0.8	1.7
3. Manufactured goods	**45.3**	**50.3**	**55.8**	**72.9**	**71.3**	**71.2**
Cotton yarn, fabrics, made-ups	10.1	9.2	6.1	6.4	2.8	3
readymade garments	0.1	1.9	8.2	12.8	4.9	4.2
Jute manufacturers	21	12.4	4.9	0.9	0.1	0.1
leather and leather manufacturers	4.4	5.2	5.8	8	1.3	1.1
Gems and jewellery	0.1	2.9	9.2	16.1	11.4	8.9
Chemicals and allied products	1.1	1.9	3.3	6.5	10	10.7
Engineering goods	3.4	12.9	12.3	11.9	28.8	30.1
4. Petroleum products	**1.1**	**0.8**	**0.4**	**2.9**	**13.6**	**9.2**
5. Others	**1.3**	**6.5**	**7**	**3.6**	**1.7**	**2.1**
Total exports	100	100	100	100	100	100

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy 2017-18.

With the onset of industrialisation during the planning era, India's export landscape has undergone significant changes. The export of manufactured goods has taken centre stage in this transformation. Engineering goods, for instance, have seen a remarkable ascent, with their share in total export earnings rising from a modest 3.4 percent in 1960-61 to a dominant 30.1 percent in 2019-20, securing the top position in India's export revenue. They now contribute more than a quarter of the country's total export earnings. Similarly, the export of chemical and allied products has shown consistent growth, with their share in total export earnings rising from 1.1 percent in 1960-61 to 10.1 percent in 2020-21. This expansion can be attributed to a notable surge in the export of pharmaceuticals and drugs. Another key contributor to India's export earnings is petroleum products, which now occupy the third position. These exports constitute 9.2 percent of India's total export earnings, trailing behind engineering goods and chemicals and allied products.

- Transformation to manufactured goods-led exports

Gems and jewellery, once the leading contributor with a 16.1 percent share in total export earnings in 1990-91, have also experienced a substantial surge. In 2020-21, they held the fourth position with an 8.9 percent share. Electronic goods, on the other hand, accounted for 3.8 percent of total export earnings in 2020-21, reflecting their increasing importance in foreign trade. The export of ready-made garments has emerged as a significant source of foreign exchange earnings in recent years, constituting 4.2 percent of the total export earnings. Cotton yarn, fabrics, and made-ups accounted for 3.6 percent of export earnings in 2020-21, while iron ore contributed 1.7 percent to total exports. In contrast, the share of leather and leather manufacturers in export earnings has seen a substantial decline, dropping from 8 percent in 1990-91 to just 1.1 percent in 2020-21.

- Sectoral changes, 1990-2021

India’s foreign trade registered a number of structural changes during the planning period. The percentage of non-traditional goods in total exports has continuously increased and the exports of chemical and engineering goods have shown a high growth rate. During the past few years, handmade goods including gems and jewellery have become one of the important export commodities. India is making exports of a few traditional items including tea, coffee, rice, pulses, spices, tobacco, jute, iron ore, etc. The exports of electronic goods and computer goods have also shown good performance.

- Export structure evolves non-traditional, chemicals & engineering

In line with the worldwide pattern, India's merchandise exports displayed a robust revival following the disruption caused by the pandemic. In the fiscal year of 2021-22 (April-December), the country's merchandise exports demonstrated remarkable growth, expanding by 49.7 percent to reach US$ 301.4 billion. This performance is in comparison to the same period in the previous year and signifies an impressive 26.5 percent increase when compared to the figures recorded in 2019-20 (April-December). These figures surpassed the levels achieved prior to the pandemic, reflecting a positive trajectory in India's export sector. Taking advantage of the increased demand for essential commodities amid the COVID-19 pandemic, India's agricultural exports have maintained a strong performance in the year 2021-22. This success is underpinned by a well-executed agriculture export policy that has contributed to the favourable outcomes in the agricultural export sector. Now let us discuss the composition of imports to India.

- Role of agriculture export policy in export success

4.1.2.2 Composition of Imports

The imports from India have been classified under four heads - food and live animals, raw materials and intermediate manufacturers, capital goods and other goods. The table 4.1.2 reflects the composition of imports in terms of expenditure to India over the period from 1960-61 to 2020-21. In 1947-48 the major import items were machinery, oils, grains and pulses, cotton, vehicles, chemicals, dyes, yarns, textile fabrics, paper and manufactured goods. These together constituted around 70 percent of the total imports. With the initiation of the planning process in the country the economy witnessed drastic changes in the composition of imports over succeeding years. The second five-year plan which gave emphasis to industrialisation necessitated the import of capital equipment in large quantities. In subsequent years, for keeping these capital equipment and machineries in working conditions, there arose demand for maintenance imports. Let us discuss the significant changes in composition of imports over the years.

- Focus on capital goods import

Table 4.1.2 Composition of Imports

Commodities	1960-61	1970-71	1980-81	1990-91	2018-19	2019-20	2020-21
1. Food and live animals chiefly for food	**19.1**	**14.8**	**3**	**N.A**	**3.2**	**3.5**	**4.5**
Cereal and cereal preparations	16.1	13	0.8	0.4	0	0.1	0.03
2. Raw materials and intermediate manufacturers	**47**	**54.4**	**77.8**	**N.A**	**N.A**	**N.A**	**N.A**
Edible oils	0.4	1.4	5.4	0.8	1.9	2	2.8
Petroleum oil and lubricants	6.1	8.3	41.9	25	27.4	27.5	21
Fertilisers	1.1	5.3	6.5	4.1	1.5	1.6	1.9
Iron and Steel	11	9	6.8	4.9	2.5	2.3	2.1
Chemical elements and compounds	3.5	4.2	2.8	5.3	6.1	6	7.2
pearl and precious stones	0.1	1.5	3.3	8.7	5.3	4.7	4.1
Non-ferrous metals	4.2	7.3	3.8	2.5	10	9.3	11.9
3. Capital goods	**31.7**	**24.7**	**15.2**	**24.2**	**24**	**26**	**27.3**
Manufacturers of metals	9	0.6	0.7	0.7	1.2	1.2	1.2
Machinery, electrical and non-Electrical	23.2	20.1	10.8	13.7	7.4	7.9	7.6
electronic goods					10.8	11.1	13.3
transport equipment	6.4	4.1	3.8	3.9	4.8	5.3	4.7
Project goods	N.A	N.A	N.A	N.A	0.5	0.4	0.4
Others	2.2	6.1	4	N.A	N.A	N.A	N.A

N.A-Not Applicable

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy 2016-17.

The most important change in imports is that the share of food and live animals have declined sharply which is attributed mainly to decline in the imports of cereals and cereal preparations. The share of cereals and cereal preparations fell from 16.1 percent in 1960-61 to almost zero percent in 2018-19. Conversely, the share of raw materials and intermediate goods has increased considerably due to increase in import of petroleum oil and lubricants, fertilisers, pearls and precious stones. There has been a rise in the import of POL (petroleum, oil and lubricants). Its share which was 6.1 percent in 1960-61 rose to 41.9 percent in 1980-81. But during 2020-21 the percentage share in import of POL fell to 21 percent. Thus, POL turned out to be the most important import item in terms of expenditure. The import of capital goods accounted for 24.2 percent import expenditure in 1990-91 whereas in 2020-21 its share remained at 22.3 percent. The import of non-ferrous metals constituting gold and silver has witnessed a rising trend since 2000. In 2020-21 the share of non-ferrous metals in import was 11.9 percent. Import expenditure on fertilisers and fertiliser materials increased from 3.5 to 6 percent over the period 1970-71 to 1995-96 with the implementation of a new agricultural strategy. However, in 2020-21 its share in total import expenditure stood at 1.9 percent. Thus, for most of the post-reform period POL imports and imports of capital goods have accounted for almost one-fourth of total import expenditure.

- Food decline and POL dominance

One of the most prominent shifts in India's import composition is the significant decline in the share of food and live animals, primarily attributed to a sharp decrease in cereal and cereal preparation imports. Cereals and cereal preparations, which once accounted for 16.1 percent of imports in 1960-61, have virtually disappeared, registering almost zero percent in 2018-19. On the other hand, there has been a substantial increase in the share of raw materials and intermediate goods, driven by imports of petroleum oil and lubricants (POL), fertilisers, pearls, and precious stones. The import of POL, in particular, has been noteworthy. Its share, which stood at 6.1 percent in 1960-61, soared to a peak of 41.9 percent in 1980-81. However, in 2020-21, the percentage share in POL imports decreased to 21 percent, making it the most significant item in terms of import expenditure. Imports of capital goods constituted 24.2 percent of import expenditure in 1990-91, and this figure remained relatively stable at 22.3 percent in 2020-21. Another notable trend is the increasing import of non-ferrous metals, including gold and silver, which has been on the rise since 2000. In 2020-21, the share of non-ferrous metals in imports was 11.9 percent. Additionally, the import expenditure on fertilisers and fertiliser materials increased from 3.5 percent to 6 percent between 1970-71 and 1995-96, following the implementation of a new agricultural strategy. However, in 2020-21, its share in total import expenditure stood at 1.9 percent. Thus, over the post-reform period, imports of petroleum, oil, and lubricants, along with capital goods, have consistently accounted for a

- Food decline, POL dominance and capital goods consistency substantial portion, approximately one-fourth, of India's total import expenditure.

4.1.3 Direction of India’s Foreign Trade

- Trade direction shifts post-independence

Direction of trade means the countries to which India exports its goods and the countries from which it imports. Thus, direction consists of the destination of our exports and sources of our imports. Prior to independence India was under the control of Britain, as a result of which a major part of India’s trade was with Britain and its colonies. However, after independence India was able to establish new trade relationships. The directions of trade for both imports and exports have undergone significant changes since independence. Let us discuss it under two heads-direction of exports and direction of imports.

4.1.3.1 Direction of Exports

- OECD decline and rise of developing nations

To analyse India's trade relationships, its trading partners are categorised into five main groups: OECD, OPEC, Eastern Europe, Developing Nations, and Others. Table 4.1.3 provides a detailed account of the direction of exports. The OECD group has historically been a significant part of India's export landscape. In 1960-61, it comprised a substantial 66.1 percent of India's total exports, but by 2019-20, its share had decreased to 39.6 percent. Notably, the European Union (EU) played a substantial role within this group, accounting for 17.3 percent of India's export earnings in 2019-20. On the other hand, the OPEC group, which contributed only 4.1 percent of India's exports in 1960-61, saw its share rise to 15.4 percent in 2019-20. However, India's exports to Eastern Europe, particularly the USSR, witnessed a remarkable upsurge during the 1980-81 period. Unfortunately, with the dissolution of the USSR, India's exports to this region declined significantly, plummeting to a mere 1.3 percent of total exports in 2019-20. Looking at a broader global perspective in 2019-20, exports to Europe saw a significant decline. At this time, European nations represented a mere 1.3 percent of India's export earnings. Instead, developing nations across Africa, Asia, and Latin America emerged as key trade partners, accounting for 42.8 percent of India's total export earnings. Asian countries, in particular, played a substantial role, contributing 30.6 percent to India's total export earnings in 2019-20. Let us look at country-wise exports from India.

Table 4.1.3 Direction of Exports

Countries	1960-61	1970-71	1980-81	1990-91	2019-20	2020-21
I. OECD	**66.1**	**50.1**	**46.6**	**53.5**	**39.6**	**46.7**
1. EU	18.4	21.6	27.5	21.8	17.2	17
Belgium	0.8	1.3	2.2	3.9	1.8	1.8
Germany	3.7	2.1	5.7	7.8	2.7	2.8
UK	26.8	11.1	5.9	6.5	2.8	3.8
2. USA	16	13.5	11.1	14.7	17	17.7
3. Switzerland		0.5	1.6	1.2	0.4	0.4
4. Japan	3.4	13.3	8.9	9.3	1.4	1.5
II. OPEC	**4.1**	**6.4**	**11.1**	**5.6**	**15.4**	**11.9**
1. UAE		0.4	2.3	2.4	9.2	5.7
2. Iran				0.6	1.1	0.6
3. Saudi Arabia	0.9	2.5	1.7	1.3	2	2
III. Eastern Europe	**7**	**21**	**22.1**	**17.9**	**1.3**	**1.4**
1. Russia	4.5	13.7	18.3	16.1	1	0.9
IV. Developing nations	**14.8**	**19.8**	**19.2**	**17.1**	**42.8**	**46.2**
1. Asia	6.9	10.8	13.4	14.4	30.6	33.7
China				0.1	5.3	7.3
Hong Kong		1.1	2.1	3.3	3.5	3.4
South Korea			0.7	1	1.5	1.6
Singapore			1.6	2.1	2.8	3
Malaysia		0.8	0.8	0.8	2	2.1
V. Others	**8**	**2.6**	**1**	**2.9**	**0.9**	**0.3**
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy 2020-21

India's trade dynamics have undergone notable changes over the years, especially in its relations with various countries. At the onset of planning, the United Kingdom held a significant share of 23 percent, which later diminished to 11.1 percent in 2019-20. In 1950-51 and 1960-61, the United States held the second position with shares of 19.3 percent and 16.0 percent, respectively. Remarkably, India's trade connections with socialist countries were relatively modest until 1960-61.

- Trade dynamics shift

However, there was a marked upswing in trade with these nations thereafter. The USSR emerged as India's top trade partner in 1990-91, boasting a share of 16.1 percent, while the United States held the second position with a 14.7 percent share, followed closely by Japan. The scenario changed significantly with the dissolution of the USSR. In the year 2020-21, Russia contributed a mere 0.9 percent to India's export earnings. During this period, the United States became India's primary trading partner, capturing a 17.7 percent share. China (7.3 percent), the UAE (8.7 percent), Hong Kong (3.5 percent), Bangladesh (3.1 percent), Singapore (3.0 percent), the United Kingdom (2.9 percent), Germany (2.79 percent), Nepal (2.3 percent), and the Netherlands (2.2 percent) also held notable positions in India's export landscape. These changes in trade relationships highlight India's evolving global economic connections and the shift in the importance of various countries in its export market.

4.1.3.2 Direction of Imports

- OECD decline and OPEC rise

Over the years from 1960-61 to 2020-21, there have been significant shifts in the importance of these groups. In 1960-61, the OECD group accounted for a substantial 78% of India's import expenditure, but by 2020-21, this figure had significantly decreased to 29.3%. This decline highlights a diminishing reliance on OECD nations for imports. On the other hand, the OPEC group's share in India's imports has shown a noteworthy increase. Starting at 4.6% in 1960-61, their share had grown to 20.2% by 2020-21. This trend can be attributed to India's increasing dependence on OPEC countries to fulfill its crude oil requirements. Now, let us delve into a more detailed examination of India's import distribution on a country-by-country basis.

Table 4.1.4 Direction of Imports

Countries	1960-61	1970-71	1980-81	1990-91	2019-20	2020-21
I. OECD	**78**	**63.8**	**45.7**	**54**	**28.2**	**29.3**
1.EU	37.1	19.6	21	29.4	10.8	11.1
Belgium	1.4	0.7	2.4	6.3	1.9	1.8
Germany	10.9	6.6	5.5	8	2.8	3.3
UK	19.4	7.8	5.8	6.7	1.4	1.2
2.USA	29.2	27.7	12.9	12.1	7.5	7.3
3.Switzerland		0.7	1	1.1	3.6	4.6
4.Japan	5.4	5.1	6	7.5	2.6	2.8

II. OPEC	**4.6**	**7.7**	**27.8**	**16.3**	**26.1**	**20.2**
1.UAE			2.8	4.4	6.4	6.8
2.Iran	1.5				2.6	0.1
3.Saudi Arabia	1.3	1.5	4.3	6.7	5.5	4.1
III. Eastern Europe	**3.4**	**13.5**	**10.3**	**7.8**	**2.5**	**2.3**
1.Russia	1.4	6.5	8.1	5.9	1.5	1.4
IV. Developing nations	**11.8**	**14.6**	**15.7**	**18.6**	**43.2**	**48.1**
1.Asia	5.7	3.3	11.4	14	35.4	39.3
China				0.1	13.8	16.6
Hong Kong		0.1	0.3	0.7	3.6	3.8
South Korea			1.1	1.5	3.3	3.2
Singapore			3.4	3.3	3.1	3.4
Malaysia		0.4	1.6	2.3	2.1	2.1
V Others		**2.2**	**0.5**	**0.5**	**1.4**	**0.1**
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: Reserve Bank of India, Handbook of Statistics on Indian Economy 2020-21

- Evolution of India's import partners

In 1950-51, the collective share of the UK and USA in India's imports was 39.1%, reflecting India's historical colonial ties. However, as time progressed, new trading partners emerged, including West Germany, Canada, and the USSR. In 1990-91, the distribution of India's imports saw the USA leading with a 12.1% share, followed by Germany at 8.0%, Japan at 7.5%, and the UK and Saudi Arabia each contributing 6.7%. Belgium held a 6.3% share, all in descending order. In 2020-21, China took the top spot in India's imports, claiming a significant 16.6% share. The USA followed with 3.5%, and the UAE with 6.8%. Saudi Arabia accounted for 4.1%, Hong Kong at 3.8%, Iraq at 3.6%, Singapore at 3.4%, Germany at 3.3%, and South Korea with 3.2%. These shifts in India's trading partners over the years indicate a dynamic evolution in its global economic relationships.

4.1.4 MEIS

The foreign trade policy 2015-20 introduced the Merchandise Export from India Scheme (MEIS) as part of the Exports from India Scheme with effect from 1st April 2015. The scheme is implemented by the Ministry of Commerce and Industry and notified by the Directorate General of Foreign Trade

(DGFT). Its main objective was to incentivise and support Indian exporters of goods to enhance their competitiveness in the international market by providing incentives in the form of duty credit scrips. The primary aim of providing these incentives to exporters was to enhance India's foreign exchange inflow. The intention behind this initiative was to boost the exports of specified domestically manufactured goods. Notified items under this scheme encompass a diverse range of products such as cardamom, coffee, pepper, rubber, iron and steel, timber, plywood, and glass. The duty credit scrips offered as incentives under the MEIS have been applicable since its launch on 1st April 2015 and remained valid until 31st March 2020. These duty credit scrips provided exporters with benefits and support to promote exports during the specified period under the MEIS programme. However, with the outbreak of covid pandemic the validity of foreign trade policy 2015-20 has been extended to March 2023. Let us discuss the key features of MEIS in detail.

- Incentives for exporters

4.1.4.1 Features

- MEIS provided export incentives to eligible exporters based on the export performance of specific products and sectors. Under the Merchandise Exports from India Scheme (MEIS), incentives are determined as a percentage (2%, 3%, or 5%) of the realised Free on Board (FOB) value of exports in free foreign exchange. Under this scheme, the rewards for exporters were issued in the form of duty credit scrips, which were transferable and could be used to pay various duties, including customs duties, excise duties, and service tax. The term 'free foreign exchange' encompasses foreign exchange earnings obtained through international credit cards and other instruments permitted by the Reserve Bank of India (RBI).

- Export incentives via duty credits

- MEIS, as an export incentive program, replaced multiple existing schemes that provided distinct duty credit scrips. These schemes included the Focus Market Scheme (FMS), Focus Product Scheme (FPS), Vishesh Krishi Gramin Udyog Yojana (VKGUY), Market Linked Focus Product Scheme (MLFPS), and Agri Infrastructure incentive scheme. With the introduction of MEIS, all duty credit scrips issued under the earlier incentive schemes were consolidated and transferred to the MEIS programme.

- Streamlining export incentives

- Presently, the Merchandise Exports from India Scheme (MEIS) encompasses a total of 7103 tariff lines. Initially,

- 7103 tariff lines

the MEIS included only 4914 tariff lines, with an annual allocation of Rs. 18,000 crores. But the coverage was expanded to 7103 tariff lines, and the annual allocation was increased to Rs. 23,500 crores to support a broader market and product range.

- Diverse goods and global reach

- Under the Foreign Trade Policy (2015-2020), the Merchandise Exports from India Scheme (MEIS) supports a wide range of goods for export incentives. This includes merchandise goods like spices, essential oils, fruits, vegetables, tea, coffee, and processed foods. Additionally, eco-friendly products such as jute products, coir, handlooms, and handicrafts also qualify for incentives. Marine products, textiles (including readymade garments) targeted at countries like Japan, Canada, the EU, and the USA, are also covered. Moreover, the scheme extends its support to pharmaceuticals, industrial machinery, chemicals, rubber, leather (including garments), wooden and steel furniture, ships, planes, and two-wheelers (including bicycles). The Government of India consistently notifies and updates the details of eligible categories, encompassing various capital and consumer goods for the scheme.

The MEIS scheme aimed to offset infrastructural inefficiencies and associated costs involved in exporting products from India. Apart from MEIS, to boost exports in the service sector SEIS was the second scheme introduced under Foreign trade Policy 2015-20 which is discussed in the following part.

4.1.5 SEIS

- Export incentives for services

The SEIS (Service Exports from India Scheme) was introduced on 1st April 2015 as part of the Foreign Trade Policy of India 2015-2020. Prior to SEIS, the scheme was known as the SFIS (Served From India Scheme) for the financial years 2009-2014. Under SEIS, service providers located in India are eligible for incentives on their exports of notified services to foreign clients. The scheme was valid for a period of 5 years from its inception. There are four different modes through which service exports can be made to foreign clients, and these modes determine the eligibility and rate of rewards under the SEIS scheme. The service sector includes various industries such as information technology, telecommunications, banking, financial services, tourism, hospitality, healthcare, education, and many others. India has been a global hub for IT and IT-enabled services, which has been a major driving force behind the growth of the service sector. In order to promote export of services from India, as under MEIS service providers of notified services are incentivised by providing duty credit scrips ranging from 3% to 7% on the net foreign exchange they earn. The SEIS (Service Exports from India Scheme) scrips, earned as incentives, are both transferable and can be utilised for paying various Central duties and taxes, including the basic customs duty.

4.1.5.1 Features

- Rewards for service providers

- The Service Exports from India Scheme (SEIS) extends rewards to service providers located in India engaged in exporting notified services, irrespective of their constitution or profile. The rewards are based on the net foreign exchange earned by these service providers.

- Transferable duty credit scrips

- Under SEIS, the rewards are issued in the form of duty credit scrips, which can be freely transferable and utilised for the payment of various Central duties and taxes, including Goods and Service Tax (GST) debits on procurement of services or goods. These debits are eligible for CENVAT credit or drawback.

- Service exports incentives and usage

While SEIS covers a wide range of services, certain specified categories of services are not eligible for benefits under this scheme. The duty credit scrips can be used for the payment of customs duties for importing inputs or goods. Additionally, they can be used for paying excise duties on domestic procurement of inputs or goods, including capital goods, and for service tax on procurement of services.

4.1.6 CECA

- Broad economic cooperation

A Comprehensive Economic Cooperation Agreement (CECA) typically refers to a type of trade agreement that aims to promote comprehensive economic cooperation between two countries or regions. These agreements go beyond traditional free trade agreements by covering a broader range of issues, such as trade in goods, services, investment, intellectual property rights, and various aspects of economic and technical cooperation. One notable example of a Comprehensive Economic Cooperation Agreement is the agreement between India and Singapore. The India-Singapore CECA, signed in 2005, covers trade in goods, services, investment, and economic cooperation. It aims to foster economic ties between the two countries and enhance business opportunities.

4.1.7 Act East Policy

- Global engagement via Act East Policy Evolution

The inception of the 'Act East Policy' in November 2014 marked a progressive evolution from its predecessor, the "Look East Policy." This diplomatic initiative signifies a proactive drive towards enhancing economic, strategic, and cultural affiliations within the expansive Asia-Pacific realm across various dimensions. The initiative involves a robust and sustained engagement strategy with Southeast Asian nations, spanning realms of connectivity, commerce, cultural exchange, defence, and interpersonal bonds, both bilaterally and across regional and global platforms.

- Regional growth, security and 4C's

At its core, the policy aspires to foster not only economic collaboration but also to nurture cultural connections while forging strategic partnerships with countries within the Indo-Pacific region. Through a dynamic and pragmatic approach, this initiative seeks to fortify the socio-economic advancement of the North Eastern Region (NER), which serves as a pivotal channel to the South East Asia Region. By promoting comprehensive cooperation, boosting cultural ties, and cultivating strategic bonds, the policy aims to usher in mutually beneficial growth and development for all stakeholders involved. The inception of the 'Act East Policy' in India holds a strategic focus on ASEAN nations, emphasising economic integration and security cooperation, particularly with East Asian countries. Prime Minister Narendra Modi underscored the policy's cornerstones as the "4C's": Culture, Commerce, Connectivity, and Capacity building. In this multifaceted endeavour, security takes a paramount role, notably amid heightened Chinese assertiveness in the South China Sea and the Indian Ocean. Safeguarding unhindered navigation and fortifying India's role in the Indian Ocean emerge as central tenets of the Act East Policy.

- Quad collaboration, regional development

This strategic trajectory finds resonance in India's engagement within the Indo-Pacific framework and the informal alliance known as the Quad. The pursuit of robust connectivity stands as a key initiative, demonstrated by projects such as the Agartala-Akhaura Rail Link with Bangladesh, intermodal transport and inland waterways through the same nation, and the Kaladan Multimodal Transit Transport and Trilateral Highway Projects linking the North East to Myanmar and Thailand. The India-Japan Act East Forum, established in 2017, demonstrates this commitment further, with collaborative projects surrounding road and bridge development and hydro-electric power modernisation. By aligning with India's 'Act East Policy' and Japan's 'Free and Open Indo-Pacific Strategy,' the Forum serves as a platform for comprehensive collaboration. Its core objective lies in pinpointing projects for modernising India's North-East region, spanning connectivity, developmental infrastructure, industrial linkages, and fostering people-to-people interactions through tourism, culture, and sports-related endeavours.

4.1.8 RCEP

- Mega Asia-Pacific trade pact

The Regional Comprehensive Economic Partnership Agreement (RCEP) is a major multilateral trade agreement among 15 countries in the Asia-Pacific region. It aims to create a unified framework for trade and economic cooperation among its member countries. The RCEP negotiations were concluded on November 15, 2020, and the agreement was signed on the same day. RCEP, a regional free trade pact, complements and expands upon Australia's existing free trade agreements with 14 Indo-Pacific nations. Effective from January 1, 2022, it came into force for ten original signatories: Australia, Brunei, Cambodia, China, Japan, Laos, New Zealand, Singapore, Thailand, and Vietnam. Subsequently, the Republic of Korea, Malaysia, Indonesia, and the Philippines joined on February 1, 2022, March 18, 2022, January 2, 2023, and June 2, 2023, respectively. RCEP, encompassing the world's largest GDP-based membership, stands as the globe's most extensive free trade accord. Initiated in November 2012, RCEP negotiations involved the Association of Southeast Asian Nations (ASEAN) and its free trade partners (Australia, China, India, Japan, New Zealand, and the Republic of Korea). Notably, India withdrew from negotiations in November 2019. On November 15, 2020, Leaders endorsed the Ministerial Declaration permitting India to embark on RCEP accession discussions post the agreement's enactment. This landmark underscores RCEP's dynamic evolution and its broader impact on regional trade dynamics.

Summarised Overview

India's external sector reforms have been pivotal in its economic history, particularly the transformative reforms of 1991. These reforms marked a turning point by liberalising the Indian economy, reducing trade barriers, and promoting globalisation. The reforms included deregulation, exchange rate adjustments, and liberalisation of foreign trade and investment, setting the stage for India's integration into the global economy. Regarding the composition and directions of India's foreign trade, it involves both goods and services. India's exports cover a wide spectrum, including textiles, pharmaceuticals, software services, and more, while imports consist of machinery, petroleum, electronics, and various commodities. India has diversified its trading partners over time, with shifts in focus from traditional partners like the United Kingdom and the United States to a more prominent role in trade with countries in South East Asia. These changes underline India's strategy to adapt to evolving global trade dynamics, expand trade in both goods and services, and strengthen its economic ties with nations in the Asia-Pacific region.

India's external sector has undergone substantial reforms in recent years, with the primary aim of boosting its foreign trade. These reforms cover a range of initiatives designed to encourage exports, including the Merchandise Exports from India Scheme (MEIS) and the Service Exports from India Scheme (SEIS), which provide incentives to exporters. Additionally, Comprehensive Economic Cooperation Agreements (CECAs) have been established to foster closer economic ties with specific partner countries. Besides, India's Act East Policy reflects a strategic approach to fortify diplomatic and economic relations with nations in Southeast Asia, focusing on trade, investment, and enhanced connectivity in the region. But India decided to withdraw from the Regional Comprehensive Economic Partnership (RCEP), a substantial regional trade agreement involving ASEAN countries and their trading partners like China, South Korea, and Japan. This decision to exit the RCEP highlighted India's cautious approach towards certain trade agreements. These collective measures underline India's commitment to diversify its foreign trade, engage with the global economy, and adapt to changing dynamics in the international trade landscape.

Assignments

1. Explain the key external sector reforms initiated by India in the early 1990s. How have these reforms impacted the composition and direction of India's foreign trade?
2. In terms of imports, what role do capital goods, intermediate goods, and consumer goods play in shaping India's import composition? Can you elaborate on the major sectors contributing to India's import composition and discuss any notable trends or shifts?
3. Describe the objectives and functioning of the MEIS and the SEIS.
4. Evaluate the Act East Policy and its objectives in enhancing India's economic and diplomatic ties with Southeast Asian nations. How has this policy influenced India's foreign trade?
5. Discuss India's initial participation and subsequent withdrawal from the RCEP.

Suggested Reading

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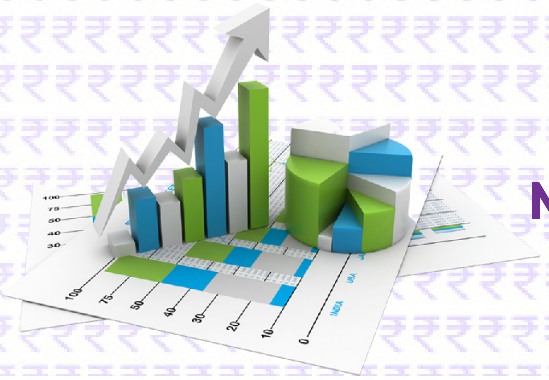
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 2
Merger of Public Sector Banks

Learning Outcomes

After completing this unit, learner will be able to:

- analyse the merger of Public sector banks in India
- get awareness on Payment banks
- understand the important features of Basel III norms

Background

The world of banking and finance is marked by remarkable changes that are shaping the way in which our economy operates. The unit begins with the concept of 'Merger of PSU Banks.' Just as different traders come together to form a bigger, more efficient market, PSU banks, which are like public sector banks, merge to create stronger and more capable financial institutions. These amalgamations help in enhancing operational efficiency, resource optimisation, and fortify the banking ecosystem. Guided by the Indian government's vision and regulatory initiatives, the merging of the public sector banks offers a gateway to understand the complex decisions and the process that underline the transformational journey of financial institutions in India. Further, the unit focuses on the BASEL III norms, a global framework designed to shield financial institutions against economic uncertainties. These norms introduce a new paradigm of capital adequacy, leverage ratios, and liquidity standards, fostering robustness and resilience. As we delve into their assimilation within the Indian context, we interpret their role in elevating the integrity and stability of our banking system.

Keywords

Bank mergers, Payment banks, Capital adequacy, Capital buffer, Liquidity ratio

Discussion

4.2.1 Merger of PSU Banks

- Bank mergers enhance efficiency

As India aspires to achieve its developmental aspirations, the merger of banks emerges as a tool to strengthen the financial sector's resilience and enhance its ability to overcome the complexities of a dynamic global economy. A bank merger occurs when two financial institutions unite their assets and liabilities to form a single entity. There are some amalgamation banks and an anchor bank, and the former gets merged with the latter. The process aims to enhance the efficiency, stability, and overall performance of the banking sector. Merging of banks not only facilitates risk-sharing but also diversifies product portfolios, augments investment returns, and brings in opportunities to explore new markets. Across India, a significant number of middle-market banks are strategising mergers to strengthen their influence and gain the attention of prospective customers. Through mergers, financial entities can experience accelerated growth and promote market credibility. Let us have a look at the mergers in public sector banks in India over the years.

- SBI's nationalisation

In 1955, a significant milestone was achieved in the Indian banking sector with the establishment of the State Bank of India (SBI) through the nationalisation of Imperial bank of India. SBI was established by merging the Bank of Bombay, Bank of Calcutta, and Bank of Madras. The creation of SBI was an outcome of the amalgamation of several state-associated banks, each with their own unique regional presence and operations. However, this journey of consolidation and integration continued beyond the initial establishment of SBI, extending into the subsequent decades of the 1960s and 1970s. The formation of SBI marked a strategic response to the need for a unified and strong banking institution that could cater to diverse geographical regions and effectively serve the evolving economic needs of a newly independent India. The merger of these state-associated banks brought together their expertise, resources, and market reach under a single umbrella, enabling the provision of more inclusive and efficient banking services across the nation.

4.2.1.1 PSB Mergers in 1960's, 1970's and 1990's

In the late 1960s and early 1970s, India underwent a significant phase of transformation in its banking sector, marked by the initiation of bank mergers as a key component of a broader nationalisation strategy. The foundation for bank mergers in India was laid through a process known as bank nationalisation. In 1969, the government took a pioneering step by nationalising 14 major private banks. Prior to this, the banking industry in India was dominated by a few large private banks and smaller entities. These banks catered primarily to urban and privileged segments of society, leaving vast portions of the population without access to formal banking services. This unequal distribution of banking facilities and resources prompted the government to intervene and address the disparities. The nationalisation policy involved transferring ownership and control of these private banks to the government, thereby making them public sector banks (PSBs). Central Bank of India, Bank of Maharashtra, Dena Bank, Punjab National Bank, Syndicate Bank, Canara Bank, Indian Bank, Indian Overseas Bank, Union Bank of India, Allahabad Bank, United Bank of India, Bank of Baroda, Bank of India, and UCO Bank were all nationalised in 1969, shifting them from private ownership to the public sector. This strategic move was led by the Indian government with the aim of achieving several vital socioeconomic objectives. This step was taken to make banking services accessible to all sections of society as well as to promote financial inclusion, balanced economic growth, and improved regulatory control over the banking sector.

- Bank nationalisation shifts 14 private banks to public sector

In 1969, there was a process of both nationalisation of banks and their subsequent amalgamation. Let us discuss on the mergers that led to the formation of the six amalgamated banks:

Syndicate Bank: Syndicate Bank was established by amalgamating two banks:

- Formed by merging two banks

- Canara Industrial and Banking Syndicate Ltd.: This bank, based in Mangalore, was merged to form Syndicate Bank.
- Canara Banking Corporation Ltd.: This bank, also based in Mangalore, was another component of the amalgamation process.

The amalgamation of these two banks led to the creation of Syndicate Bank, which became one of the prominent public sector banks in India.

Union Bank of India: Union Bank of India was formed by merging three banks:

- Merging Union Bank of Bombay, Calcutta, and Madras

- Union Bank of Bombay
- Union Bank of Calcutta
- Union Bank of Madras

These three banks, with their respective headquarters in Mumbai, Kolkata, and Chennai, were amalgamated to establish the Union Bank of India.

Indian Bank: Indian Bank was created through the amalgamation of two banks:

- Creation of Indian Bank

- Bank of India, Kumbakonam Ltd.: This bank, based in Kumbakonam, Tamil Nadu, was merged to form Indian Bank.
- Bank of Madura Ltd.: This bank, headquartered in Madurai, Tamil Nadu, was another entity involved in the amalgamation.

The merger of these two banks resulted in the formation of Indian Bank, which became a key player in the public sector bank.

United Bank of India: United Bank of India was established through the merger of two banks:

- Eastern Merger Success

- Comilla Banking Corporation Ltd.: This bank, with its headquarters in Comilla (now in Bangladesh), was one of the merging entities.
- Hooghly Bank Ltd.: This bank, based in Kolkata, West Bengal, was amalgamated to form United Bank of India.

The merger led to the creation of United Bank of India, which aimed to serve the banking needs of people in Eastern India.

Allahabad Bank: Allahabad Bank was established through the merger of two banks:

- Succesfull merger of Allahabad Bank

- Allahabad Bank
- United Industrial Bank Ltd.

These amalgamations were driven by various factors, including operational efficiency, resource consolidation, and improved customer service. The goal was to create larger, more robust banks capable of effectively serving the economic needs of the country and promoting financial inclusion. Further in 1980, 6 more banks were nationalised, which brought the total number of nationalised banks to 20. In 1990's the Indian economy underwent significant reforms. As part of these reforms, the banking sector underwent changes as well. While mergers were not a prominent feature during 1991, the broader policy environment laid the foundation for future changes and developments in the banking sector, including mergers and consolidation that occurred in subsequent years. New Bank of India was merged with Punjab national bank in the year 1993 by the then government, thus reducing the number of nationalised banks from 20 to 19.

- Promoting financial inclusion

4.2.1.2 PSB Mergers in 2000s and 2010s

In the 2000s and 2010s, there were several instances of mergers and consolidation among public sector banks (PSBs) in India. Let us discuss the amalgamation of banks for the above period.

- SBI mergers

State Bank of India (SBI) executed mergers with its associate banks, leading to significant changes in its structure and making it the largest public sector bank in India. The process began in 2008 when SBI merged with State Bank of Saurashtra, followed by the integration with State Bank of Indore in 2010. State Bank of Mysore, State Bank of Travancore, State Bank of Bikaner and Jaipur, State Bank of Patiala, State Bank of Hyderabad, and Bharatiya Mahila Bank were merged with SBI in 2017, making it one of the largest mergers in the Indian banking sector.

- Bank of Baroda merger: Dena, Vijaya integration

Bank of Baroda proposed on 17 September 2018, the amalgamation of Dena Bank and Vijaya Bank with the former Bank of Baroda marked a significant step. The merger gained approvals from the Union Cabinet and the respective boards on 2 January 2019. In accordance with the terms, shareholders of Dena Bank and Vijaya Bank received 110 and 402 equity shares of Bank of Baroda for every 1,000 shares held ny them, effective from 1 April 2019.

- PNB merger: OBC, United Bank Integration

Punjab National Bank: On 30 August 2019, the finance minister unveiled the merging of Oriental Bank of Commerce and United Bank of India with Punjab National Bank. This move propelled Punjab National Bank to become the second-largest PSB in India. The merger received Union Cabinet approval on 4 March 2020.

- Canara-Syndicate merger: strengthening PSB Position

Canara Bank's Collaboration with Syndicate Bank: In another step towards consolidation, Finance Minister announced Syndicate Bank's merger with Canara Bank on 30 August 2019. The strategic union, approved by the Board of Directors of Canara Bank on 13 September 2019, aimed at strengthening Canara Bank's position as the fourth-largest PSB. Union Cabinet's approval followed on 4 March 2020, and the merger took effect on 1 April 2020.

- Union Bank merger

Union Bank of India's Integration: The announcement on 30 August 2019 revealed Andhra Bank and Corporation Bank's merger into Union Bank of India. This endeavour propelled Union Bank of India to the fifth-largest PSB status. With approvals secured from the Union Cabinet and Andhra Bank's Board of Directors, the merger concluded on 1 April 2020, after being set in motion on 4 March.

- Indian bank - Allahabad bank merger: 7th largest PSB

Indian Bank and Allahabad Bank Integration: Finance Minister's announcement on 30 August 2019 laid the foundation for the merger of Allahabad Bank with Indian Bank. This strategic alliance positioned the merged entity as the seventh-largest PSB in India. The Union Cabinet granted approval on 4 March 2020, and the amalgamation was realised on 1 April 2020.

- PSB transformation

In India, the Public Sector Banks (PSBs) underwent a transformation over the years. Originally there were 27 PSB's but underwent changes with the bank mergers of 2019. As a result, the number of PSBs streamlined to 12 prominent institutions. These include Bank of India, Bank of Baroda, Bank of Maharashtra, Canara Bank, Central Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, Punjab & Sind Bank, Union Bank of India, UCO Bank, and the flagship institution, State Bank of India. This restructuring heralded a new era in the Indian banking sector, augmenting assets, and resources for enhanced service delivery.

4.2.2 Payments Banks

In September 2013, the Reserve Bank of India (RBI) formed the Committee on Comprehensive Financial Services for Small Business and Low-Income Households, led by Nachiket Mor. This committee proposed the concept of a new type of bank known as a payment bank, aiming to address financial services for underserved segments. By January 7th, 2014, the committee had presented its recommendations. Subsequently, the RBI introduced draft guidelines for payment banks in July of the same year, seeking feedback from stakeholders and the public. The final guidelines were released on November 27th, 2014. In February 2015, the RBI disclosed a list of 41 entities that had applied for payment bank licenses. These applicants were evaluated by an external advisory committee chaired by Nachiket Mor, considering their financial history and governance practices. During the Budget presentation on February 28th, 2015, it was revealed that India Post would control its extensive network to operate a payment bank. On July 6th, 2015, the external advisory committee led by Nachiket Mor submitted its evaluations. Following these assessments, on August 19th, 2015, the RBI granted "in-principle" licenses to eleven entities, allowing them to establish payment banks. These licenses were valid for 18 months, during which these entities needed to fulfill the necessary requirements. However, they were not authorised to engage in full-fledged banking activities during this period.

- Nachiket Mor-led committee proposing payment banks

Payment banks are categorised as 'differentiated banks,' distinguishing them from commercial banks. Designed to address public needs, payment banks operate with certain limitations. The services offered by payment banks encompass a range of options, including net banking, mobile banking, debit cards, and ATM cards. They are permitted to open both current and savings accounts for customers, but are not authorised to issue credit cards. India is home to six prominent payment banks constituting Airtel Payments Bank, Jio Payments Bank, NSDL Payments Bank, Paytm Payments Bank, India Post Payments Bank, and Fino Payments Bank. Among these, Airtel payments bank is the first payment bank in India. These banks are authorised to accept demand deposits up to 2 lakhs. But they cannot accept deposits from Non-Resident Indians (NRIs). This implies that individuals of Indian origin residing abroad cannot deposit their funds in payment banks. The minimum capital requirement for payment banks is 100 crore rupees. During the initial five years, the promoter's ownership

- Payment banks, a type of differentiated bank, serve public needs must be at least 40%. Just like with foreign investment in private banks in India, foreign shareholding will be governed by specific rules. The rules of the Banking Regulation Act, 1949, will determine voting rights. Each shareholder's voting right is limited to 10%, but the Reserve Bank of India can allow it to go up to 26%. To ensure outreach, at least 25% of the bank's branches should be in rural areas that lack banking services. These banks need to include the term "payment bank" in their names to distinguish themselves from other types of banks. Their licensing falls under Section 22 of the Banking Regulation Act, 1949, and they must be registered as public limited companies as per the Companies Act, 2013.

- Facilitate personal payments and receive cross-border remittances

Payment banks are allowed to facilitate personal payments and receive cross-border remittances in their current accounts. Like other commercial banks, payment banks are required to maintain a portion of their funds in the form of a Cash Reserve Ratio (CRR) with the RBI. They are required to invest a minimum of 75% of their demand deposits in government treasury bills or securities with a maturity of up to one year. They can also hold a maximum of 25% in current and fixed deposits with other commercial banks for operational purposes. However, these banks are not allowed to establish subsidiaries for engaging in Non-Banking Financial Services activities. These banks are also prohibited from extending loans or offering lending services to their customers. With prior approval from the RBI, payment banks can collaborate with other commercial banks as partners. Additionally, they are permitted to sell mutual funds, pension products, and insurance products.

4.2.3 Implementation of Basel III Norms

- Meet banking obligations

BASEL is a city in Switzerland. The Basel Accords, including Basel I, II, and III, are a set of agreements created by the Basel Committee on Bank Supervision (BCBS). They give recommendations about banking rules related to capital risk, market risk, and operational risk. These norms were first designed in 1988, then updated in 2004 and 2011. The main goal of these accords is to make sure that banks have enough money set aside to meet their obligations and handle unexpected losses. They are very important in the banking world and are followed by over 100 countries worldwide. The objectives of the accords can be summed up as:

1. Strengthen the global banking system.

2. Encourage countries to have similar capital standards.
3. Address unfair competition among banks in different countries.

The Basel I agreement, established in 1988, wasn't a legal document but applied to banks operating internationally in member countries of the Basel Committee on Banking Supervision (BCBS) at the Bank of International Settlements in Basel, Switzerland. The details of how it should be carried out were up to each country to decide, which made Basel I seem G10-centric. This first Basel Accord, Basel I, concentrated on ensuring that financial institutions had enough capital. Capital adequacy risk, which is the risk of unexpected losses for a financial institution, categorised assets into five risk levels (0%, 10%, 20%, 50%, 100%). Banks operating globally were required to have a risk weight of 8% or less.

- Ensure sufficient capital, diverse risks

Moving on to the second Basel Accord, Basel II, set to be fully implemented by 2015, it focuses on three main areas known as the three pillars: minimum capital requirements, supervisory review, and market discipline. This accord aims to strengthen global banking standards and enhance the supervision and enforcement of these standards.

- Capital, supervision, discipline

Basel III is the third set of rules designed to make banks stronger and better managed. The goals of Basel III norms are the following:

a. Help banks handle tough times caused by financial or economic problems.
b. Improve how banks manage risks and make decisions.
c. Make sure banks are clear and open about what they're doing by strengthening transparency and disclosures.

The capital of the banks has been categorised into three distinct tiers, each serving a specific purpose and indicative of varying levels of financial strength. This classification system enables a more comprehensive understanding of the banks' capital structures, allowing for better analysis and informed decision-making in the realm of financial management. The three tiers are given below.

- Stockholders' funds and disclosed reserves

Tier 1 Capital: It is like the main safety net for a bank. Tier I Capital is the measure of how well a bank can handle losses without having to stop its operations. Regulators see this as the most trustworthy form of capital. It includes solid and liquid financial resources, mainly the money from stockholders and disclosed reserves with the bank. Here, stockholders' money cannot be taken back whenever they want, and disclosed reserves are liquid assets that the bank owns.

- After-tax profits, loss reserves, and various debts

Tier 2 Capital: It is the next level of protection for a bank. The Tier 2 Capital is also about the bank's ability to handle losses, but it provides a bit less security for depositors compared to Tier 1. This capital comes after Tier 1 and includes the accumulated after-tax surplus of retained earnings, revaluation reserves related to fixed assets, as well as long-term holdings of equity securities. Additionally, it encompasses reserves set aside for potential losses on loans, a combination of debt and equity capital instruments known as hybrid capital, subordinated debt, and undisclosed reserves.

- Debt not covered by Tier 1 and Tier 2

Tier 3 Capital: It is like the third layer of defense for a bank, specifically against risks in the market, commodities, and foreign currencies. It includes different types of debt, not covered by Tier 1 and Tier 2, which may have more subordinated issues, undisclosed reserves, and general loss reserves. To be Tier 3, these assets must be limited, unsecured, subordinated, and have a minimum maturity of two years.

- Redefined the components of bank capital

Disclosed Reserves are like the visible savings of a bank, including liquid cash and specific assets that can be used anytime. They are part of the main safety net (Tier 1). On the other hand, Undisclosed Reserves are hidden assets that do not appear on public documents, like balance sheets. Most banks accept them as real assets, but they cannot be used freely by the bank. That's why they're considered part of the secondary safety net (Tier 2). The Basel III norms redefined the components of bank capital. While common equity and retained earnings mentioned in previous Basel norms remained crucial, the inclusion of items like deferred tax assets, mortgage-servicing rights, and investments in financial institutions was restricted to a maximum of 15% of the common equity component. These changes aimed to enhance both the quantity and quality of bank capital.

Under the new norms, the key capital ratio was raised to 7% of risky assets. Additionally, Tier-I capital, which encompasses

- Emphasis on macro-prudential stability

common equity and perpetual preferred stock, was to be increased from 2% to 4.5% in phases, starting from January 2013 and concluding by January 2015. Banks were also required to set aside an additional 2.5% as a contingency for future financial stress. Failure to meet these buffer requirements would result in banks being unable to distribute dividends, although they would not be compelled to raise immediate cash. The revised norms reflected a renewed emphasis by central bankers on achieving 'macro-prudential stability.'

- Basel III for system stability

The global financial crisis that stemmed from issues in the US sub-prime market prompted a shift in regulatory approach. The previous guidelines, commonly known as Basel II, focused on 'macro-prudential regulation,' emphasizing the stability of the overall financial system rather than detailed regulation of individual banks. This change in approach reflects a global effort to ensure the stability of the entire financial system. Banks in the Western countries, primarily market leaders, are grappling with challenges such as slow economic growth, capital erosion due to exposure to sovereign debt, and stricter regulations. These banks are expected to face a lasting decrease in their returns on equity due to the increased capital requirements imposed by the new Basel III norms.

- Emerging market banks benefit under Basel III

On the other hand, banks in emerging markets like India, China, and Brazil are in a favourable position to maintain their returns on capital under Basel III. Financial experts suggest that Basel III is reshaping the economic scenario by shifting banking power towards emerging markets. This means that the influence and success of banks are likely to be more pronounced in these growing economies.

- Public Sector Banks faced capital challenges

India, like many other countries, has implemented Basel norms to ensure the stability of its banking sector and protect the interests of depositors. The Reserve Bank of India (RBI) is the regulatory authority responsible for overseeing and implementing these norms in the country. Basel I norms were introduced in 1988 and India adopted Basel I guidelines in 1999 and an expanded accord was introduced in 2004 known as Basel II norms. Basel III norms were introduced in 2010 in response to the 2008 financial crisis. Basel III aimed to strengthen bank capital requirements and introduce new regulatory requirements on bank liquidity and leverage. The goal was to make banks more resilient to economic shocks and decrease the chances of future financial crisis. As of

March 2014, the capital to risk weighted assets ratio (CRAR) for scheduled commercial banks in India, following Basel III norms, was 13.02%, which slightly decreased to 12.75% by September 2014. The required CRAR by regulations for 2015 was 9%. The dip in capital was mainly due to a decline in public sector banks' (PSBs) capital positions. Although the CRAR for all scheduled commercial banks was satisfactory at 12.75% in September 2014, PSBs, in particular, needed significant capital to meet additional regulatory requirements.

- Aligns PSBs and RRBs with Basel III

To align PSBs and Regional Rural Banks (RRBs) with Basel III norms, the government initiated a recapitalisation programme from 2011-12. The government also proposed the idea of a 'non-operating holding company' (Hold Co) through a special Act of Parliament, although action on this is pending. Meanwhile, the government infused three rounds of capital into banks until March 2015. This infusion was based on new criteria, rewarding efficient banks with extra capital based on factors like return on assets and return on equity.

- Challenges led to extended deadlines

In March 2015, the Government of India expressed its intention to reduce its stake in State-run banks to 52%, allowing them more flexibility to raise funds. Most banks were expected to seek additional capital from the market in the following fiscal year, once there was more favourable market conditions. Initially, the Reserve Bank of India (RBI) planned to implement new banking regulations from March 2018. However, Indian banks faced challenges in raising the required capital within such a short timeframe. Consequently, RBI Governor Raghuram Rajan extended the deadline to March 2019. But the deadline for implementing Basel III in India, was pushed to March 2020. Due to the challenges posed by the coronavirus pandemic, the Reserve Bank of India (RBI) decided to grant an additional 6-month extension for the implementation of Basel norms. Extending the deadline provides a relief to banks, reducing the immediate capital burden related to provisioning requirements, including Non-Performing Assets (NPAs).

The increasing problem of Non-Performing Assets (NPAs) is a big worry in India. Non Performing Assets (NPA) and Capital Adequacy Ratio (CAR) are interdependent. If bank has more NPA then it will have more risk towards CAR weights. Thus bank will hesitate to give more loans and it will make the whole economy unstable and will negatively impact the aggregate investment in India. As per Basel norms, banks are required to maintain adequate capital on risk-weighted assets on an ongoing basis. Every increase in NPA level adds to risk weighted assets. To deal with this increased risk, the bank needs to put more capital aside as a safety net. Thus, enforcing Basel norms strictly will compel banks to minimise their non-performing assets and thereby strengthens the banking system. However, the delay in implementing Basel III norms in India might influence how Indian banks and central banks are perceived globally. The decision to postpone could impact the confidence and opinions of international stakeholders regarding the robustness and timely adoption of global banking standards by Indian financial institutions.

- Implementing Basel norms will strengthen Indian banks

Summarised Overview

In recent years, India has undergone significant changes in its banking and financial sector, particularly through the merger of Public Sector Undertaking (PSU) banks. This consolidation was driven by the goal of enhancing operational efficiency and financial stability, ultimately resulting in larger and more competitive banking entities. Simultaneously, India introduced a unique concept known as Payments Banks, which are designed to cater to the digital and electronic banking needs of underbanked and unbanked populations, promoting financial inclusion and facilitating easier access to banking services.

To fortify the country's financial system, India also implemented the Basel III norms, which are international banking regulations designed to bolster banks' resilience and stability. These norms mandate higher capital adequacy ratios, improved risk management practices, and reduced exposure to risky assets, aligning India's banking sector with global standards and ensuring a more robust and secure banking system. Collectively, these measures reflect India's commitment to modernising its banking and financial sector, fostering financial inclusion, and enhancing the stability of its banking institutions.

Assignments

1. Analyse the merger of Public Sector banks in India.
2. Explain the concept and purpose of Payments Banks in India. How do they contribute to financial inclusion, and what services do they offer to customers?
3. Provide an overview of the Basel III norms and their significance in the global banking industry. How do these regulations strengthen the resilience of banks and mitigate risks?

Suggested Reading

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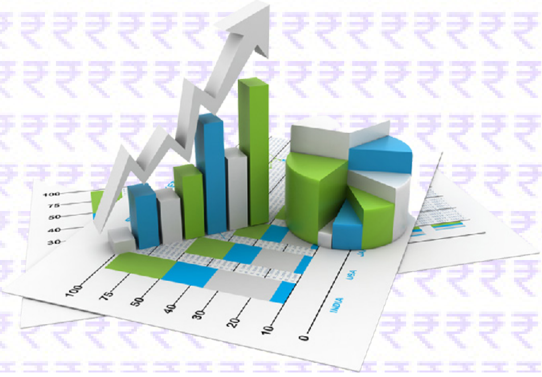
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



UNIT 3
Recent Developments in Indian Economy

Learning Outcomes

After completing this unit, learner will be able to:

- analyse the demonetisation process in India
- comprehend the role of Digital India Initiatives in promoting digital transformation
- get an insight into the concept of Asset Monetisation Scheme

Background

In the previous units we discussed the various external sector reforms and developments that took place in the banking sector in India. In this unit we focus on the recent developments that took place in the Indian economy. One such development is digitalisation which has been an ongoing process, and it gained significant momentum in the previous decade. The key developments associated with digitalisation constitute digital payments, e-commerce as well as fintech innovation. Another such development is the Indian government's decision to demonetise high-denomination currency notes in November 2016 which was a landmark economic event. On that fateful day in 2016, Prime Minister Narendra Modi addressed the nation in a televised speech that became a defining moment in India's contemporary history. This announcement came against the backdrop of several significant challenges facing the Indian economy and society. The asset monetisation scheme, often referred to as the National Monetisation Pipeline (NMP), was announced as a key economic reform initiative. It involves the sale or lease of government-owned assets, including roads, railways, airports, and other infrastructure, to mobilise funds for further development and reduce fiscal deficits. Let us discuss these three reforms in the Indian economy in the following part.

Keywords

Demonetisation, Digital India, Asset Monetisation Pipeline

Discussion

4.3.1 Recent Developments in Indian Economy

- Modernisation initiatives

In recent years, India has seen several significant developments in its economic and technological landscape. Notably, the 2016 demonetisation initiative aimed to tackle corruption and promote digital transactions by invalidating high-denomination currency notes. The Digital India programme is an ongoing effort to expand digital infrastructure and services across the country, emphasising connectivity, e-governance, and digital literacy. Additionally, India has initiated an Asset Monetisation Pipeline strategy, involving the sale or lease of underutilised public assets to generate revenue for reinvestment in infrastructure development. These measures collectively reflect India's commitment to economic modernisation, digitalisation, and efficient use of public assets to spur economic growth and development. Let us examine the recent economic developments in India associated with demonetisation, digitalisation, and the asset monetisation pipeline.

4.3.1.1 Demonetisation

- Currency reform

Demonetisation in India refers to a significant economic policy measure undertaken by the government that involves the sudden withdrawal of a certain denomination of currency notes from circulation and replacing them with new notes. This process is typically carried out with the aim of curbing black money, combating corruption, promoting a cashless economy, and enhancing the overall transparency of financial transactions.

In the Indian context, one of the most notable instances of demonetisation occurred in November 2016, when the government, led by Prime Minister Narendra Modi, announced the discontinuation of ₹500 and ₹1,000 currency notes as legal tender. India has gone through demonetisation twice before the well-known 2016 event. The first time happened in 1946 when

- Demonetisation driven by economic and political challenges

the RBI cancelled the Rs 1,000 and Rs 10,000 notes. Then, in 1954, they brought back higher denomination notes (Rs 1,000, Rs 5,000, and Rs 10,000), only to remove them again in 1978 during Morarji Desai's government. Interestingly, the Rs 10,000 note was printed in 1938 and 1954 but was no longer valid in 1946 and 1978. These demonetisation actions in India were primarily driven by various economic and political challenges, including inflation, political tensions, instability, and the need to tackle issues like corruption.

- Aimed at combating black money and corruption

Prime Minister Narendra Modi took the nation by surprise on November 8 2018, Tuesday night when he announced the demonetisation of Rs. 1000 and Rs. 500 notes, rendering these notes invalid as of midnight. This move was a significant step aimed at combating issues like black money, counterfeit currency, and corruption. During his inaugural televised address to the nation, Mr. Modi also conveyed that the individuals holding Rs. 500 and Rs. 1000 notes could deposit them into their bank and post office accounts starting from November 10 until December 30. These notes were no longer accepted as money. The sudden withdrawal of high-value currency notes led to a temporary cash shortage. This had far-reaching consequences, disrupting daily economic activities, trade, and various sectors such as agriculture, small businesses, and the informal labour market. Long queues formed in front of banks and post offices as individuals rushed to ensure their savings remained valid. Let us discuss the reasons for demonetisation and its impact on the economy in the following part.

A. Reasons for Demonetisation

- Enhancing transparency

1. Curb Corruption- There is a strong link between cash transactions and corruption. By reducing the circulation of cash, the government aimed to control corrupt practices and promote transparency in financial transactions.

- Combating fake currency

2. Eliminate Counterfeiting/Fake Currency- The Annual Report of RBI for the year 2016-'17 revealed that a significant amount of fake currency, amounting to Rs 41.5 crores in the form of old Rs 500 and Rs 1,000 notes, was detected in the banking system. The estimated total of counterfeit currency in circulation was as high as Rs 400 crores. Demonetisation sought to root out this problem by invalidating the existing high-denomination notes.

- Disrupt the financing of illegal operations

3. Tackle Terrorism- High denomination notes like Rs. 500 and Rs. 1000 were frequently used in various unlawful activities, including terrorist activities, drug trafficking, and human trafficking. By discontinuing these notes, the government aimed to disrupt the financing of such illegal operations and enhance national security.

- Curb excessive use of cash in political campaigns

4. Reduce Election Spending: During general elections in India, political parties and candidates often spent substantial amounts of money, a significant portion of which consisted of high-denomination notes like Rs. 500 and Rs. 1000. Demonetisation sought to curb the excessive use of cash in political campaigns, promoting transparency and fair election practices.

- Address black money

5. Combat Black Money- Demonetisation aimed to address the issue of black money, which refers to income that is earned but not declared to tax authorities. Black money often escapes taxation, depriving the government of revenue that could be used for public welfare and infrastructure development. By invalidating high-denomination notes, the government sought to compel individuals holding unaccounted wealth to deposit it in banks, making it subject to scrutiny and taxation.

In essence, this move aimed to tackle issues such as counterfeit currency, unaccounted wealth, and the financing of illegal activities that often thrive in the informal cash-driven economy.

B. Impact of Demonetisation

- Demonetisation evoked mixed reactions

Demonetisation led to a series of far-reaching consequences, impacting various sectors of the economy, individuals, businesses, and financial institutions. It spurred debates on its effectiveness, implementation challenges, and implications for different segments of society. The decision triggered a substantial shift towards digital payments and increased discussions on the potential long-term benefits of reducing cash dependency. While demonetisation evoked mixed reactions and raised debates about its immediate and long-term effects, it undoubtedly left a lasting mark on India's economic landscape, influencing policy discussions, financial behaviour, and strategies for achieving greater financial inclusion and accountability.

4.3.1.2 Digital India Initiatives

- Bridging digital divide

The Digital India initiative, launched by Prime Minister Narendra Modi on July 1, 2015, is a significant government programme aimed at providing high-speed internet connectivity to rural areas. It serves as a complementary effort to several other government schemes, including Make in India, Bharatmala, Sagarmala, Startup India, BharatNet, and Standup India. The primary objective of Digital India is to transform the country into a digitally empowered society by expanding access to the internet and digital technologies, thereby bridging the digital divide and promoting economic growth and innovation. This vision involves ensuring digital access, promoting digital inclusion, empowering citizens with digital skills, and bridging the digital divide.

A. Objectives of Digital India Initiatives

- Power to Empower

The Digital India Mission is guided by the motto "Power to Empower." This ambitious initiative is structured around three central components: digital infrastructure development, digital service delivery, and digital literacy promotion. These core elements serve as the foundation for the programme's objectives, which include enhancing digital access, streamlining service delivery, and fostering digital empowerment across the nation.

1. Empowering Digital Infrastructure

- Digital infrastructure development

The Digital India initiative envisions high-speed internet as a core utility accessible to every citizen. It emphasises providing a unique, lifelong, online, and authenticable digital identity for individuals, enabling secure access to a wide array of services. Additionally, the programme seeks to ensure that every citizen possesses a mobile phone and bank account to participate in the digital and financial realms. Common Service Centres (CSCs) make government and business services readily available, particularly to those with limited digital literacy. Besides, the concept of shareable private spaces on public clouds enhances data storage and sharing capabilities, while a focus on cybersecurity ensures a safe and secure online environment, fostering digital inclusion, knowledge-sharing, and economic opportunities for all. The Digital India initiative aims to create a cohesive and interconnected digital infrastructure that transcends departmental and jurisdictional boundaries.

2. Strengthening Digital Services

This vision focuses on delivering services in real time through online and mobile platforms, making government services accessible to all. By placing all citizen entitlements on the cloud, it ensures that essential benefits and information are readily available, promoting transparency and efficiency. The programme also emphasises the digital transformation of services to enhance the Ease of Doing Business, streamlining processes for individuals and enterprises. Additionally, it seeks to shift financial transactions towards electronic and cashless modes, further promoting digital payments and financial inclusion. Leveraging Geographic Information System (GIS) technology plays a crucial role in decision support systems, helping government agencies make data-informed decisions for efficient resource allocation and service delivery. This comprehensive approach not only simplifies interactions with the government but also boosts economic growth and transparency within the nation.

- Making government services accessible to all

3. Enhancing Digital Literacy

The Digital India initiative is committed to fostering universal digital literacy and ensuring that digital resources are accessible to all. The programme envisions a digital landscape where all documents and certificates are securely stored and readily accessible on the cloud, simplifying record-keeping and retrieval. It emphasises the availability of digital resources and services in multiple Indian languages to cater to the diverse linguistic landscape of the nation. Furthermore, it promotes collaborative digital platforms to encourage participative governance, where citizens can actively engage with the government. A key aspect of this vision involves the portability of all citizen entitlements through cloud-based solutions, allowing individuals to access their benefits and services seamlessly, irrespective of their location. This comprehensive approach to universal digital services not only promotes inclusivity and linguistic diversity but also empowers citizens with the tools and resources to actively participate in the digital age.

- Universal Digital Literacy and Inclusivity

B. Pillars of Digital India

To ensure focus on each of the above objectives nine pivotal pillars were identified, each representing a critical facet of this digital transformation. These pillars collectively form the

- Nine pillars of digital transformation

backbone of the initiative, shaping the way citizens interact with the government and access essential services. From ensuring universal access to high-speed internet and mobile connectivity to promoting electronics manufacturing and fostering employment opportunities in the IT sector, these pillars are instrumental in ushering India into the digital age. They work in unison to break down barriers, enhance digital literacy, streamline governance, and empower citizens with the tools and resources needed to thrive in the digital era. Together, these pillars are the building blocks of a brighter, digitally inclusive future for India. Let us discuss each of these pillars of digital India in detail:

- Digital highways for all

1. **Broadband Highways**: This pillar encompasses three crucial components. "Broadband for All – Rural" and "Broadband for All – Urban" are dedicated to extending high-speed internet access to both rural and urban areas, ensuring that the digital highway reaches every nook and corner of the nation. "National Information Infrastructure (NII)" focuses on building a robust information backbone, facilitating seamless data flow for various digital services and applications.

- Mobile connectivity everywhere

2. **Universal Access to Mobile Connectivity:** The focus here is on boosting mobile network connectivity across the country, addressing connectivity gaps that persist in remote areas. This pillar aims to ensure that even the most isolated regions have access to mobile networks, connecting citizens across the nation.

- Internet access in rural areas

3. **Public Internet Access Programme:** Under this pillar, two vital sub-components come into play. "Common Services Centres (CSCs)" serve as essential hubs, making government and business services readily accessible in rural areas. "Post Offices as Multi-Service Centres" further extend the reach of digital services, using the extensive network of post offices to provide essential services to citizens.

- Efficient government processes

4. **e-Governance:** This pillar emphasises the need for government process re-engineering using IT to simplify and enhance the efficiency of government procedures. It plays a pivotal role in the transformation of service delivery across various government domains, ensuring that government services become more effective, transparent, and accessible.

- Citizen-centric e-governance

5. **e-Kranti:** Focused on enhancing the delivery of public services and streamlining access, this component drives various e-governance initiatives by both state governments and central ministries. It underscores the importance of citizen-centricity, service orientation, and transparency in the evolution of e-governance in India.

- Transparent and accessible data

6. **Information for All:** This pillar is dedicated to ensuring the transparency and availability of reliable data generated by line ministries. The data is made accessible for use, reuse, and redistribution for the benefit of the people of India, fostering informed decision-making and accountability.

- Boost domestic production of electronic goods

7. **Electronics Manufacturing:** This pillar places a spotlight on promoting domestic electronics manufacturing in the country, aligning with the "Make in India" campaign. It seeks to boost the production of electronic goods and components within the nation.

- Youth training for IT job opportunities

8. **IT for Jobs:** Focused on employment generation, this pillar aims to provide training to the youth in the skills required for job opportunities in the Information Technology (IT) and Information Technology Enabled Services (ITES) sectors. It supports skill development, particularly in areas with a growing demand for IT professionals.

- Immediate impact on digital access and communication

9. **Early Harvest Programmes:** This category comprises a range of short-term projects with immediate impact on the Indian digital ecosystem. Initiatives like an IT platform for mass messaging, crowd-sourcing of e-Greetings, implementing biometric attendance in government offices, and providing Wi-Fi in universities all contribute to improving digital access, communication, and efficiency in various areas of public life. These projects serve as catalysts for broader digital development and progress in the country.

These nine pillars together form the strong foundation of the Digital India initiative, aimed at digitally empowering citizens, enhancing access to essential services, and fostering economic growth and innovation in India.

C. Recent Initiatives under Digital India

The Government of India has initiated numerous key projects under the Digital India campaign, each geared toward enhancing digital empowerment and transforming the nation's technological landscape. Some notable initiatives include:

- Secure access to authenticated digital documents

- **DigiLockers:** At the forefront of this initiative is the drive for "Digital Empowerment." DigiLockers provide citizens with secure access to authenticated digital documents, offering a convenient digital document wallet that simplifies document management.

- Integrated platform enhancing healthcare management

- **E-Hospitals:** This Hospital Management Information System (HMIS) serves as an integrated platform, uniting patients, hospitals, and doctors through a single digital interface. As of February 2021, around 420 e-Hospitals have been established under the Digital India program, enhancing healthcare management and accessibility.

- NCERT's platform for educational e-resources

- **E-Pathshala:** Developed by the National Council of Educational Research and Training (NCERT), E-Pathshala is a comprehensive platform that showcases and disseminates a wide array of educational e-resources. These resources include textbooks, audio-visual materials, periodicals, and various print and non-print materials, all accessible through the E-Pathshala website and mobile app. This initiative plays a significant role in promoting digital learning and educational access.

- Streamlining mobile payment transactions with UPI

- **BHIM (Bharat Interface for Money):** BHIM is an innovative mobile app designed to streamline payment transactions. It simplifies financial transactions, making them quick and easy by utilising the Unified Payments Interface (UPI). BHIM is a prime example of the Digital India campaign's commitment to advancing digital payments and financial inclusion, enhancing convenience and accessibility for citizens.

- Backbone of digital service delivery in rural areas

- **Common Services Centres:** Common Services Centres, often referred to as CSCs, are the backbone of digital service delivery, extending their reach to rural areas by collaborating with Village Level Entrepreneurs (VLEs). Through these dedicated individuals, over 400 digital services are made accessible to citizens. Presently, there are more than 5.31 lakh functional CSCs spanning both urban and rural regions nationwide. Notably, 4.20 lakh CSCs operate at the Gram Panchayat-level, ensuring that digital services are within easy reach of rural communities. These centers exemplify the commitment of the Digital India initiative to bridge the urban-rural digital divide and empower citizens with a plethora of online services.

- **DIKSHA:** DIKSHA serves as the nation's digital infrastructure for delivering high-quality e-content for school

- Digital infrastructure for high-quality e-content in school education

- Dedicated channels for school and higher education

- National MOOC platform for credit transfer

- Pioneering 12-digit biometric identity system

education across various States and Union Territories. It provides QR coded Energised Textbooks for all grades, essentially creating a unified digital platform for the entire nation. As of July 25, 2023, DIKSHA has recorded more than 5.24 billion learning sessions, totalling over 6.125 billion learning minutes, with an average of over 2.2 million daily page views. There are presently 317,496 pieces of e-content available on DIKSHA.

- **DTH and SWAYAM PRABHA Channels:** The programme includes 12 DTH channels dedicated to school education and 22 SWAYAM PRABHA channels for higher education. According to the budget announcement for the Financial Year 2022-23, the number of DTH channels will be expanded to 200 PM e-Vidya DTH TV Channels.

- **SWAYAM (Study Webs of Active-Learning for Young Aspiring Minds):** SWAYAM is the national Massive Open Online Courses (MOOC) platform that allows credit transfer to universities for higher education courses. Both the National Institute of Open Schooling (NIOS) and the National Council of Educational Research and Training (NCERT) coordinate school sector courses on SWAYAM, offering courses from 9th to 12th grades. The SWAYAM Portal offers a total of 10,451 courses, including 257 from NCERT and 431 from NIOS. These courses have attracted 4.1 lakh students for NCERT courses and more than 34 lakh students for NIOS courses.

- **Aadhaar:** The Aadhaar system is a pioneering initiative that offers a distinctive 12-digit identity, founded on a combination of biometric and demographic data. This unique identification is designed to be a lifelong, online, and easily authenticable identity for each citizen. The 12-digit Aadhaar number serves as a secure and verifiable digital identity, facilitating access to a multitude of government services and private sector offerings. It empowers individuals by providing them with a digital identity that is not only unique but also readily accessible, enhancing the efficiency and transparency of various transactions and interactions. The Aadhaar system is a testament to India's commitment to harnessing technology to empower its citizens, enabling them to access essential services and engage in the digital age with ease and security.

These initiatives are part of a broader commitment to harness digital technology for the benefit of all citizens, enabling ease of access to essential services, efficient document management, improved healthcare, and enhanced learning resources. They collectively represent the digital transformation underway in India, with the aim of empowering citizens and fostering a digitally inclusive society.

4.3.1.3 Asset Monetisation Pipeline

- Addressing infrastructure challenges

About seven decades ago, assets such as roads, railways, ports, power infrastructure, and oil & gas pipelines were placed under the control of state-owned public enterprises (PSEs). This decision was made with the argument that the private sector might not be entrusted with the stewardship of these crucial and socially significant assets. However, in the decades since this decision, the performance of PSEs has left much to be desired, disappointing even their most enthusiastic supporters. With only a few exceptions, they have struggled to meet their financial and social objectives. Thus, in order to create new or alternative sources of revenue, the Union Budget for the fiscal year 2021-22 introduced a mandate for "Asset Monetisation," which subsequently led to the development of the National Monetisation Pipeline (NMP) by NITI Aayog. In India, the concept of asset monetisation was initially proposed by an expert committee led by economist Vijay Kelkar in 2012, outlining a strategic fiscal consolidation plan. The committee advocated for the government to initiate monetisation as a means to generate resources for continued development and financing infrastructure requirements.

- Creating medium-term plan

Asset monetisation involves the strategic generation of new revenue streams for the government and its entities by unlocking the economic potential of underutilised or unutilised public assets. Public assets encompass a broad spectrum, ranging from properties owned by public bodies to infrastructure such as roads, airports, railways, stations, pipelines, mobile towers, transmission lines, and even unused land. In essence, asset monetization entails offering public infrastructure to institutional investors or the private sector through well-structured mechanisms. This collaborative effort involved consultations with various infrastructure line ministries, including Roads, Transport and Highways, Railways, Power, Pipeline and Natural Gas, Civil Aviation, Shipping Ports and Waterways, Telecommunications, Food and Public Distribution, Mining, Coal, Housing and Urban Affairs. The establishment of the National Monetisation Pipeline (NMP) represents a pioneering initiative by the Government of India, aimed at creating a medium-term plan and roadmap for assets ready for monetisation. The funds generated will be used for infrastructure creation across the country. This initiative was formulated against the backdrop of the unprecedented economic and fiscal challenges brought on by the Covid-19 pandemic.

- Sale or lease of public assets

An asset monetisation pipeline, in simple terms, is a plan by the government to sell or lease various public assets like roads, railways, power plants, and more to private companies. These assets are already built and in use, and the government wants to make money by allowing private businesses to manage and operate them. This can help the government raise funds for other projects and improve the efficiency of these assets. This approach is aimed at mobilising funds for the government, which can then be reinvested in the development of new infrastructure projects, thereby reducing the fiscal burden on the government and fostering economic growth. Asset Monetisation, following the principle of "Creation through Monetisation," is primarily focused on leveraging private sector investments to develop new infrastructure. This approach not only stimulates economic growth but also generates employment opportunities, fostering overall public welfare and enhancing connectivity in rural and semi-urban areas. The NMP identifies assets and asset classes across various infrastructure ministries that will undergo monetisation over time. It provides a clear "visibility" into the volume of assets earmarked for monetisation and the potential value that can be unlocked through this process. Additionally, the NMP serves as a medium-term roadmap outlining potential financing opportunities, which, in turn, fosters readiness among public sponsors and private sector/institutional investors to bridge the infrastructure funding gap. The NMP encompasses a four-year programme dedicated to the monetisation of brownfield infrastructure assets belonging to the Central Government. It is estimated that this initiative will unlock a total monetisation potential of Rs 6.0 lakh crores over a four-year span, spanning from fiscal year 2022 to fiscal year 2025.

Sector wise Monetisation Pipeline over FY 2022-25

Over the span of four years from FY 2022-2025, the National Monetisation Pipeline (NMP) outlines an aggregate asset pipeline with an indicative value of Rs 6.0 lakh crore. This estimated value constitutes approximately 14% of the proposed outlay for the Centre under the National Infrastructure Pipeline (NIP), amounting to Rs 43 lakh crore. The diverse portfolio comprises sectors such as roads, ports, airports, railways, warehousing, gas and product pipelines, power generation and transmission, mining, telecom, stadiums, hospitality, and housing. Much of the aggregate pipeline value, around 83%, is concentrated in the top 5 sectors. These leading sectors are Roads (27%), Railways (25%), Power (15%), Oil & Gas pipelines (8%), and Telecom (6%).

- Outlines an aggregate asset pipeline

The initiative encompasses a wide range of assets, including roads, railways, airports, power transmission lines, and various infrastructure projects. The government seeks to engage the private sector through public-private partnerships to improve the management and operation of these assets, thereby optimising their potential. In many cases, rather than selling assets outright, long-term leases are used to maintain government ownership while allowing private entities to operate and maintain the assets. The funds generated from asset monetisation are intended to be reinvested in new infrastructure projects, driving economic development and job creation. The involvement of private entities often leads to improved operational efficiency and better maintenance of these assets, which can result in cost savings and improved service quality. The government has put in place a regulatory framework to ensure transparency, fair competition, and a level playing field for private investors. The Asset Monetisation Pipeline aims to enhance public services, boost economic growth, and free up government resources for other social and developmental programs. The initiative reflects the Indian government's efforts to maximise the use of its public assets, attract private investment, and promote economic development through effective management and monetisation of infrastructure assets. It is seen as a strategic approach to address fiscal challenges while enhancing the quality of infrastructure and services across the country.

- Promote economic development

Summarised Overview

In recent years, India has witnessed a series of transformative developments that have reshaped its economic and technological landscape. Demonetisation, a bold policy decision to invalidate certain currency notes, brought about significant changes in financial transactions and digitisation, with notable impacts on sectors like agriculture and small businesses. Simultaneously, the Digital India initiative has aimed to empower citizens with digital access and services, bridging the urban-rural digital divide and fostering a digitally inclusive society. These measures have had profound implications on economic resilience, digital literacy, and governance. Also, the Asset Monetisation Pipeline signifies a strategic move toward infrastructure development, encouraging investment in critical projects through public-private partnerships. The initiative aims to boost economic growth while maintaining fiscal discipline, illustrating India's commitment to leveraging infrastructure as an engine for economic progress. These recent developments collectively reflect a dynamic nation poised for continued transformation and growth.

Assignments

1. Discuss the specific circumstances and outcomes of demonetisation in the context of the Indian economy.
2. Enumerate and elaborate on the key features that characterise a demonetisation policy.
3. Explore and detail the foundational pillars that form the basis of the Digital India initiative, illustrating their importance.
4. What is the Asset Monetisation Pipeline, and how does it contribute to government finances and infrastructure development?

Suggested Reading

1. C.Ram Manohar Reddy, *Demonetisation and Black Money*, Orient BlackSwan, 1st Edition, 2017
2. Bharti Pathak, *Indian Financial System* Global EduTech, 5th Edition, 2018

Reference

1. Vol_I_NATIONAL_MONETISATION_PIPELINE_23_Aug_2021.pdf (niti.gov.in)
2. Niti Aayog Report: National Monetisation Pipeline Volume II
3. PIB1945057.pdf (education.gov.in)
4. Expansion of Digital India | UPSC (onmanorama.com)
5. Government of India, Economic Survey (Annual Issues), Ministry of Finance, New Delhi,Accessible via URL-http://indiabudget.nic.in/

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

Model Question Paper Sets

MODEL QUESTION PAPER I
SREENARAYANAGURU OPEN UNIVERSITY

QP CODE: ……… **Reg. No : ………...............**
Name : ………………...

FIRST SEMESTER - MA ECONOMICS EXAMINATION
DISCIPLINE CORE - 03- M23EC03DC – INDIAN ECONOMY
(CBCS - UG)
2023-24 - Admission Onwards

Time: 3 Hours **Max. Marks: 70**

Section A - Objective Type Questions
Answer any 10 questions. Each question carries 1 mark (10 X 1=10 Marks)

1. Name the three land revenue settlements followed in India during the time of British rule?
2. What was the main objective of the First Five Year Plan?
3. What is the sex ratio of India as per the 2011 Census?
4. Define unemployment.
5. What are the three sectors that contribute to India's GDP?
6. Define BOP.
7. Define Amber Box.
8. What is PMFBY?
9. Give an example of a successful PPP project in India.
10. What is Globalisation?
11. When did the first nationalisation of commercial banks take place in India?
12. What is disinvestment?
13. Define CECA.
14. Name the banks merged under Union Bank of India in April 2020.
15. List the three policies introduced in 1991 as a part of economic reform projects.

Section B - Very Short Questions
Answer any 5 questions. Each question carries 2 marks (5X2=10 Marks)

16. Why were the plan holidays adopted in India after the third five-year plan?
17. List out the functions of NITI Aayog.
18. What are the causes of unemployment in India?
19. What is Zamindari system?
20. What are the objectives of land reforms in India?
21. Discuss the agricultural subsidy boxes under WTO.
22. Distinguish the definitions of Micro, Small, and Medium Enterprises.
23. Comment about tenancy reforms introduced in India.
24. Describe the features of liberalisation
25. What is SEIS?

Section C- Short Answer
Answer any 5 questions. Each question carries 4 marks. (5X4=20 Marks)

26. Compare and contrast the working of Planning Commission and NITI Aayog?
27. Explain how demographic dividends affect the Indian economy.
28. Discuss the functions of PDS in assuring food security
29. Explain the impact of globalisation on Indian agriculture.
30. Estimate the effect of the economic crisis of 1991 on the Indian economy.
31. What are the major motives for introducing insurance sector reforms in India?
32. Explain the composition and directions of India's trade.
33. Examine the effects of demonetisation in India.

Section D- Long Answer/Essay Question
Answer any 3 questions. Each question carries 10 marks. (3X10=30 Marks)

34. Explain the various poverty alleviation measures introduced in India.
35. Elucidate the impact of WTO agreements on Indian agriculture.
36. Illustrate the impact of the first wave of liberalisation in India from the 1980s.
37. Analyse the banking sector reforms with special reference to the Narasimham Committee Report.
38. Discuss the features of major external sector reforms in India.
39. Examine the journey of public sector bank mergers in India.

MODEL QUESTION PAPER II

SREENARAYANAGURU OPEN UNIVERSITY

QP CODE: ……… **Reg. No : ……….............**

Name : ………………...

FIRST SEMESTER - MA ECONOMICS EXAMINATION

DISCIPLINE CORE - 03- M23EC03DC – INDIAN ECONOMY

(CBCS - UG)

2023-24 Admission Onwards

Time: 3 Hours **Max Marks: 70**

Section A - Objective Type Questions

Answer any 10 questions. Each question carries 1 mark (10 X 1=10 Marks)

1. What do you mean by Rolling Plan?
2. Define poverty.
3. What was the main objective of the Second Five-Year Plan?
4. What is Yellow Revolution?
5. Who was the Chairman of the first land reform committee formed by INC after independence?
6. What is the share of the manufacturing sector towards GDP in the financial year 2023?
7. What is capital market?
8. Who was the Finance Minister of India at the time of the introduction of new economic reforms in 1991?
9. What is the main objective of the IMF?
10. What was the primary end of the 1956 industrial policy initiative?
11. How many public sector banks are there in India after the merger in 2020?
12. What is RCEP?
13. What are the three most important objectives of demonetisation in India during 2016?
14. What is CECA?
15. When did the Indian government launched the Digital India Campaign?

Section B - Very Short Questions

Answer any 5 questions. Each question carries 2 marks (5X2=10 Marks)

16. What are the features of a mixed economy?

17. Name any four major government policies to promote MSME in India.

18. What are the components of Mission Indradhanush?

19. Write a short note on GST.

20. What is JAM trinity?

21. Discuss the importance of the Narasimham Committee Report.

22. Write a short note on payment banks.

23.Describe Act East Policy.

24.What is MEIS?

25. What are the features of Basel III norms?

Section C- Short Answer

Answer any 5 questions. Each question carries 4 marks. (5X4=20 Marks)

26. During the British period India's share of foreign trade was reduced to 4%. Evaluate the statement.

27.How far population policies are effective in India?

28.Examine the importance of white revolution in rising milk production in India

29.Discuss the impact of MSP in strengthening the agriculture sector.

30.Examine the Structural Adjustment Policies adopted by the Government of India.

31.Explain the impact of the stock market reforms on the Indian economy.

32. Explain the changes in the composition and directions of India's foreign trade since 1991.

33.Explain the goals and impact of Basel III norms in India

Section D- Long Answer/Essay Question

Answer any 3 questions. Each question carries 10 marks. (3X10=30 Marks)

34. Illustrate the historical background of the Planning Commission and point out the objectives and functioning of NITI Aayog?

35. Explain the impact of British rule in the Indian Economy.

36. Elucidate the pre and post reforms of industrial developments in India.

37. Examine the impact of the Green Revolution in Indian agriculture.

38. Illustrate the effectiveness of the FRBM Act in ensuring fiscal discipline and transparency in government finances.

39. Critically examine the impact of the demonetisation policies adopted by the Government of India during recent years.

സർവ്വകലാശാലാഗീതം

വിദ്യയാൽ സ്വതന്ത്രരാകണം
വിശ്വപൗരരായി മാറണം
ഗ്രഹപ്രസാദമായ് വിളങ്ങണം
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സ്നേഹദീപ്തിയായ് വിളങ്ങണം
നീതിവൈജയന്തി പാറണം

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ബോധരശ്മിയിൽ തിളങ്ങുവാൻ
ജ്ഞാനകേന്ദ്രമേ ജ്വലിക്കണേ

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