Indian Economic Development

Features of Developing Economy

- Generally an economy is said to be underdeveloped, if it has the following characteristics:
- **Agriculture** is the main occupation of the people. Nearly 60 to 80 per cent of the population is engaged in agriculture and its related activities.
- **Poverty** is wide-spread. The ability to save of people is very low. Due to the low rate of saving, the rate of capital formation/investment is very low.

- **Population** grows at a high rate (about 2 per cent per annum) and the burden of dependent population is also high
- The standard of living of people is generally low and the productivity of labor is also considerably low.
- The production techniques are backward.
- Investment in research and development is quite low.

- The incidence of **unemployment** and **underemployment** is quite high.
- The level of human well-being measured in terms of real income, health and education is generally low. **Income inequalities** are widespread.
- Apart from the above features, such economies have low participation in foreign trade, their social life is traditional; people are generally orthodox in their outlook and they seldom make any changes in their socio-economic relations.

Role of Agriculture in India

Agriculture is a very important sector of the Indian economy. It plays a major role in the overall development of the country as it contributes **17 of GDP** and engages around **52** per cent of the population of the country.

- **Providing employment:** Agriculture provides employment to a large number of people in India. At the time of Independence around **72** per cent of the population was engaged in agriculture and allied activities. As economy developed, its other sectors (industry and services) also developed and the percentage of people working in agriculture sector came down to around **52 per cent in 2008-09**.

- A large number of people earn their living by working in occupations dependent on agriculture like storage, procuring, trade and transport, marketing and export of agricultural products.
- ***Share in national income:*** Agriculture contributes a large share in the country's gross domestic product. Its share in total GDP in 1950-51 was around 55 per cent which has come down to 17 per cent in *2008-09*.
- Share of *17* per cent is an indicator of the fact that India is still predominantly an agricultural economy.

- ***Supporting industries:*** *Agriculture has a big role in the development of industries specially* the agro-based industries such as textiles, sugar, tea, paper. There are several other industries like handloom, weaving and other cottage industries which also depend upon inputs from agriculture. The prosperity of these agro-based industries is directly dependent upon the availability of inputs from the agricultural sector. The prosperity of industries depends on agricultural prosperity from another angle also. The demand for industrial products depends upon the income of the farmers which in turn depends upon agricultural production.

- ***Shares in foreign trade:*** *The country's foreign trade especially in the export of traditional* commodities like jute, tea, tobacco and coffee depends a great deal on the supplies of the agricultural sector. In case of crop failures the country becomes a net importer of food grains. Therefore, the balance of trade in the country is affected a great deal by the performance of this sector.

- At the time of Independence and a number of years thereafter our export basket mainly consisted of three agro-production-cotton textiles, jute and tea. These three accounted for more than 50 percent of our export earnings. If we consider other agricultural commodities like cashew, kernels, tobacco, coffee, sugar, vegetable oil etc., the total share of agriculture in total exports was about 70 per cent. As economy developed, the share of agricultural exports in total exports fell down.
- In *2007-08 agricultural exports formed about 12.2 per* cent of the national exports. In recent years, special schemes (like Special Agricultural Product Scheme) have been started to promote exports of fruits, vegetables, flowers, dairy products and forest products.

- As far as the agro-imports are concerned they constituted just *3.1 per cent of national* imports in *2007-08*.
- India, over a period of time has become self-sufficient in the production of agro-products and need to import them only when there are severe shortages resulting from unfriendly weather conditions like droughts and floods.

- ***Supplier of food and fodder**: Agriculture meets almost the entire food-needs of the people.* If food is costly; the cost of living of the people also gets affected to a great deal.
- Agriculture also provides fodder to sustain livestock comprising of cattle, buffaloes, sheep and poultry etc. Their number runs in crores. These provide employment and income to many people in the rural and hilly areas.
- **(vi)** ***Savings of capital: Agriculture has low capital output ratio; in other words it requires*** lesser capital per unit of output produced compared with the industries. A capital poor economy like India can make efforts to develop this sector which along with increase in production could increase employment opportunity in the rural areas and could help in solving problems of urban congestion and pollution in the cities.

- ***Contributions to Government's revenue:*** The government revenues also depend a great deal on agricultural prosperity. The direct contribution of agricultural taxes to the revenues of the centre and the states is not significant but indirectly agriculture has a considerable influence on the revenues of the central and state governments. Particularly, when due to agricultural droughts, the revenue suffers a set-back, government expenditure on relief, etc., goes up a great deal leading to heavy deficit in government budgets.

- ***Solving problems of urban congestion and brain drain:*** Migration from rural areas to urban areas and metropolitan cities has created a dual problem: on the one hand, it has deprived rural areas of skilled and educated persons and, on the other hand, it has created the problem of urban congestion. If agriculture is on the road to prosperity and is in a position to absorb fruitfully the growing talent in rural areas, the dual problem of urban congestion and rural brain drain will be solved

Growth of agriculture during planning period:

- In the following points we will learn how agriculture sector has developed in India over the years:
- I ***Increase in production and productivity:*** The following table shows how agricultural production has progressed over the years.
- **Table 4 :**

Agriculture Production in Million Tonnes

Commod ity.	***1950-51***	***1991-92***	***2001-02***	***2007-08***	***2008-09***
Food grains	51.0	167.0	212.9	230.8	229.9
Pulses	8.4	12.0	13.4	14.8	14.2
Sugar Cane	69.0	249	297.2	348.2	289.2
Oil Seeds	5.1	18.3	20.7	29.8	28.1
Cotton	2.1	9.8	10.0	25.9	23.3
Jute & Metsa	3.5	9.2	11.7	11.2	10.3

- We can see from the table that over the last *58 years*, agriculture production has increased by more than thrice. In 1950-51, food grains production was 51 million tonnes which increased to *231* million tonnes in *2007-08* (but reduced to *230* million tonnes in *2008-09*

- Significant breakthrough in the production of food grains (often termed as Green Revolution) has been made possible due to the adoption of the new agricultural strategy since 1966. This strategy stressed upon the use of high-yielding varieties of seeds, proper irrigation facilities, extensive use of fertilizers, pesticides and insecticides often termed as High Yielding Varieties Programmes (HYVP). Since the adoption of this Programme, the production and productivity of food grains especially of wheat have increased sharply. The food grains production increased from 81 million tonnes in the Third Plan (i.e. before HYVP) to 230 million tonnes in 2008-09.

- ***Diversified agriculture:*** Indian agriculture has become diversified as will be clear from the following facts:
- The share of non-crop sectors (fishery, forestry and animal husbandry) in total agricultural output is increasing.
- Area under commercial crop like sugar, cotton, oilseeds, etc. is increasing.
- Within food grains, area under superior cereals (rice and wheat) is increasing and area under the inferior cereals is declining

- ***Modern agriculture:*** Some qualitative changes have taken place in agricultural sector especially in India since 1966 when Green Revolution was started. These are:
- The use of high-yielding varieties of seeds, chemical fertilizers, pesticides, threshing machine is rising.
- Farmers are increasingly resorting to intensive cultivation, multiple cropping, scientific water management in some states.
- There have been noticeable changes in the attitudes of farmers. They are ready to accept new and scientific techniques of production

- Agricultural capacity has improved a lot. This has been made possible due to use of modern techniques such as irrigation facilities, high-yielding varieties of seeds, tractors and other modern machines.
- A number of institutions have come up for marketing agricultural products for providing agricultural credit, for purchasing and distributing of agricultural inputs and storage etc. They have facilitated growth of agriculture.

- In order to stop the exploitation of the actual tillers of the soil and to pass on the ownership of land to them land reforms were introduced after Independence. Three measures were contemplated to achieve these objectives:

- (i) Abolition of Intermediaries
- (ii) Tenancy reforms
- (iii) Reorganisation of agriculture
- Legislations were passed in all states to abolish zamindari system. As a result, around 173 million acres of land was acquired from the intermediaries and two crore tenants were brought in direct contact with the state.

- Under the tenancy reforms, three measures were taken (a) Regulation of rent (b) Security of tenure and (c) Conferment of ownership rights on tenants.
- Before Independence, the rent changed by the zamindars from the tenants was very high. It ranged between 30 to 75 per cent. So after Independence, legislations were passed to fix rents between 25-50 percent for different states. Security of tenure has also been provided by these states by passing legislations which disallow ejectments of the tenants except in accordance with the provisions of the law. Many States have also conferred ownership rights on the tenants

- ***Other developments :*** Apart from the above, the following developments have also taken place:
- Farmers have been getting material inputs at subsidized rates.
- They are getting credit at low rates of interest.
- Government is helping them in procuring their products at predetermined rates and marketing them.
- Minimum wage levels have been fixed for agricultural laborers

- Special programmes such as Integrated Rural Development Programme, Jawahar Rozgar Yojana etc. have been started in rural areas to provide employment to the rural people.
- The National Food Security Mission (NFSM) is being implemented in identified districts of different states. The aim is to have self sufficiency in different food crops like rice, wheat and pulses.

- The Rashtriya Krishi Vikas Yojana (RKVY) is being implemented for integrated development of food crops. The scheme focuses on agricultural mechanisation, improvement of soil health and productivity, development of rain fed farming systems, improvement of agricultural marketing and pest management.
- Projects like Forecasting Agricultural Output using Space, Agro-meteorology and Landbased Observations (FASAL) and Extended Range Forecasting System (ERFS) have been started to establish a more scientific and reliable basis for forecasting.
- Special schemes have been started to improve the production of rubber, coffee, bamboo, poultry, etc.

Problems of agricultural sector in India:

- Slow and uneven growth: (a) The growth of agricultural sector is not sufficient to meet the rising demands of fast growing population. While the population is growing at a rate of around 2 percent per annum, food grain production has increased at an annual rate of 2.42 percent. During the first six years of new millennium starting 2001-02, this sector has grown at a modest rate of 3 per cent per annum. This rate is just sufficient to maintain the existing standard of consumption of people. If we desire better standards of consumption and nutrition, then agriculture will have to grow at a higher rate

- (b)Certain crops (like wheat) are growing at a higher rate than other crops (like maize, jawar etc.).
- (c) Low yield per unit area across almost all crops has become a regular feature of Indian agriculture.
- (d)There are regional imbalances in the spread of growth. The growth has remained confined to certain areas like Punjab, Haryana and Western Uttar Pradesh.
- (e) Till very recently, the attention and resources were devoted to the development of agricultural crops and animal husbandry, fisheries and forestry were not given much attention

- (2) Not so modern agriculture:
- (a) The HYVP was initiated on a small area of 1.89 million hectares in 1966-67 and even in 2003-04 only 80 million hectare of land was covered by this program which is just 44 per cent of the gross cropped area. Naturally, the benefits of the new technology have remained confined to this area only.
- (b) In many areas and in a number of crops old methods of ploughing, sowing and harvesting etc. are still used. As a result, productivity in such areas and crops is very low.

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- (c) About *60 per cent net sown area is rain fed and there are no appropriate dry-farming* techniques.
- (d) Only 40 per cent of the gross cropped area has irrigation facilities.The irrigation sector requires a renewed thrust both in terms of investment as also modern management.

- ***3. Flaws in Land reforms:***
- (a) The legislation measures have not been completed in all the states.
- (b) There are snags in legislation like definitions of 'personal cultivation' and 'tenants’were inadequate, substantial area were given to zamindars for their personal cultivation, landlords often forced their tenants to surrender the lands voluntarily, ceiling laws were inadequate and zamindars indulged in large scale transfer of land to their family members in order to escape these laws.

- (4) ***Problems relating to finance:*** In 1951, moneylenders accounted for as much as 71.6 percent of rural credit. Moneylenders used to charge exorbitant rates of interest ranging from 18 to 50 percent.

- after Independence steps were taken to free farmers from the clutches of money lenders, the most important being the expansion of institutional credit to agriculture. **Fourteen banks were nationalised in 1969 and six banks werenationalised in 1980** with an important objective of providing credit to the rural and other priority sectors. In **1975**, the government established **Regional Rural Banks (RRBs**) to
- specifically meet the requirements of the farmers and villages. This was followed by the
- setting of an apex bank called National Bank for Agriculture and Rural Development **(NABARD) in 1982**.
- Cooperative credit societies were also established to finance rural projects at lower rates of interest. As a result of all these efforts the share of moneylenders has reduced to about 17 per cent now and that of institutional credit has increased.

- Of late a number of steps have been taken to enhance credit support to farmers. These include:
- Introduction of the “Farm Credit Package” in 2004. As a result of this package the flow of credit to the farm sector has more than tripled during 2003-04 to 2008-09.
- Kisan Credit Card scheme was started in 1998 to provide adequate and timely support for the banking system to the farmers for their cultivation needs. More than 800 lakh credit cards have been issued till date.
- Under the aegis of NABARD, the government is trying to revive short term and long term rural credit structure.

- In 2008-09, the government announced Agricultural Debt Waiver and Debt Relief Scheme 2008. The scheme covered direct agricultural loans given to marginal and small farmers and “other farmers”. Under the scheme, overdue loans worth Rs 50000 crore were waived and for loans worth Rs 10000 crore one time settlement relief was provided.
- A rehabilitation package for distressed farmers has also been initiated.

- Although much improvement has taken place in agricultural finance, the following problems have emerged:
- Agricultural loans are concentrated in certain region and states. For example, nearly half of the agricultural bank credit is concentrated in Southern States.
- The proportion of overdue to demand has been increasing. Nearly 40 per cent of the amount financed does not come back to the society.
- The major beneficiaries of the agricultural credit have been the large and medium farmers.
- There is a lack of experienced and skilled staff in these institutions.

- ***Problems relating to warehousing and marketing:***
- The storage facilities are normally very primitive types in the form of dug-holes and pits. As a result 10 - 15 percent of agriculture produce gets spoiled or eaten by rats. Government agencies like Food Corporation of India provide storage facilities but these are inadequate.
- (b) There is a lack of organization among farmers so they do not get a fair price from the purchasers who are generally well-organized.
- (c) There are a number of agents between the producers (farmers) and the consumers (buyers). They charge a heavy amount as their fees or as commission. As a result, the farmers do not get a fair share in the total product price charged.
- (d) Because of heavy indebtedness, the farmers are many times forced to sell their produces at low prices and sometimes due to lack of proper transport facilities in the nearest market at not so great prices.

- A great number of farmers live just for subsistence. Their marketable surplus is very low or almost nil.
- (f) Several malpractices exist in unorganized agricultural markets such as under weighing, levying of a number of unauthorised fees and taxes etc.
- (g) The farmers are many a times not well informed about the prevailing market conditions including prices prevailing in the markets.
- (h) Grading and standardisation are at a very low level. So often inferior quality gets mixed up with superior one, killing the motivation of farmers to produce superior quality products.
- (i) In order to meet the needs of poor people in the country, the government runs a network of ration shops and fair price shops which provide food grains and other essential commodities at very low prices to consumers. But it has been seen that these ration shops have catered to the needs of all and sundry. Despite the massive coverage of these shops, the total requirements of food grains of all vulnerable sectors are not met.

Role of Industry in India

- In any economy, industries have an important role to play. In fact, it has been noticed that countries which are industrially well developed (example USA) have higher per capita income than those countries where industries are not well developed (example: India, Pakistan). The only exception to this could be the petroleum exporting countries (like UAE) which have a higher per capita income due to abundance of petroleum products and virtual monopoly in export of petroleum products

- In India, industrial sector plays the following roles:
- **i)** ***Modernizing agriculture:*** It modernizes agriculture and improves productivity in it. It provides agriculture with the latest tools and equipments which enhance efficiency in this sector.
- **ii)** ***Providing employment:*** Indian economy being labor surplus economy needs sectors which absorb ever increasing labor-force. Industries can play an important role here. It is the establishment of industries alone that can generate employment opportunities on an accelerated rate.

- At present, industries engage only 18 per cent of the labor force of India and there is a need to industrialise country and that too quickly.
- **iii) *Share in the GDP:*** Over the years, the value-added by industrial sector in the GDP has improved from 12 percent in 1950-51 to *25.8* per cent in *2007-08*.
- **iv) *Contribution to exports:*** Indian industries contribute tremendously to the export earnings of India. In fact, manufactured goods alone contribute around *two third* of the export earnings of India.
- **v) *Raising incomes of the people:*** Industries generally help in raising the incomes of the people of a country. This is possible because industries are not dependent on vagaries of nature. By putting in more efforts, capital and improved technology industrial output and production can be raised.

- In fact, in this sector, the benefits of large scale production can be reaped. Higher industrial output results in higher income per head. In fact, in the industrially developed countries, the GNP per capita is very high as compared to the GNP per capita in industrially developing countries. For example, in USA GNP per capita was *$ 46,000* and in India it was just *$950* in *2007*
- ***Enhancing further the economic growth:*** As industrialization grows, the role of capital goods vis-à-vis consumer goods gains strength. This helps in enhancing further the economic growth. It helps an economy to attain self-sustaining growth

- ***Meeting high-income demands:*** Beyond certain limits, the demand of the people for agricultural products falls and for industrial products rises. Industries help in meeting these ever-increasing demands.
- **viii)** ***Strengthening the economy:*** Industries help strengthen the economy in a number of ways:
- (a) The growth of industries producing capital goods i.e. machines, equipments etc. lets a country to produce a number of goods in large quantities and at low cost. This gives industrial character to the economy and strengthens its infrastructure
- (b) It makes possible the production of economic infrastructure goods like railways, dams etc. which in any case are non-importable.

- (c) Agriculture gets improved farm-implements, chemical fertilizers and transport and storage facilities due to industries.
- (d) Dependence on foreign sources for defense materials is a risky matter. Industrialization helps a country to become self reliant in defense materials.

Growth of industrial sector in India:

- All the industries of a country can be grouped in two major ways (i) on the basis of the **size of industries** and (ii) on the **basis of end-use**.
- **(i)** ***On the basis of size of industries:*** On the basis of size of the industries, they can be divided into **large industries, medium industries and small industries**. Large industries which largely form the basis of the country's index of industrial production include the following industries: (a) mining and quarrying (often referred as mining); (b) manufacturing; and (c) electricity, gas and water supply

- ***On the basis of end-use:*** On the basis of end-use of output, industries are divided into:
- (a) Basic goods industries (like minerals, fertilizers, cement, iron and steel, non-ferrous basic metals, electricity etc.)
- (b) Capital goods industries (like machinery, machine tools, rail-road equipments etc.)
- (c) Intermediate goods (like chemicals, rubber, plastic, coal and petroleum products)
- (d) Consumer goods - consumer durables and non durables (like man-made fibers, beverages, watches, cosmetics, perfumes etc.).

	Use Based Classification	1951-55	55-60	60-65	66-80	80-92	92-97	97-2002	02-03	05-06	07-08	08-09
1.	Basic Goods	4.7										
2.	Capital Goods	9.8										
3.	Intermediate Goods											
4.	Consumer Goods											
	(a)Durable Goods											
	(b)Non Durable Goods											
	General Index											

- ***Pattern of Industrial Development since Independence***

The industrial development pattern on the eve of Independence was characterized by the following elements:

- (a) Lop-sided pattern of development dominated by too large and too small industrial units, with very few medium size units. There was a high concentration of employment in small industries and household industries (31%) and in large industries (43%).
- (b) Capital employed per worker in industry was very low because of low priority given to industry, low level of domestic demand and low per capita income.
- (c) Consumer goods industries were well-established to the utter neglect of capital goods industries like steel, machinery, heavy electrical and chemicals. The country had to largely depend on imports for capital goods.

- The progress of industrialization during the last five and a half decades has been striking.
- There has been a remarkable development of capital goods industries, substantial diversification and broad-basing of manufactured products, phenomenal development of small scale industries. An impressive base has been created in sophisticated and high technology industrial sectors like electronics, machine tools, telecommunication equipment and the like

- **Industrial growth experienced ups and downs during the period 1951 to 2008-09.**
- There was steady growth of about **8 per cent during the first three plan period viz., 1951-65.**
- Thereafter, a significant **decline** was experienced for 15 years **1965-80** when the annual rate of industry fell down to **4.1** per cent per annum.
- The situation improved during 1980-91 when the annual rate of industrial growth became **7.8** per cent.
- Then there was a brief spell (1991-93) of **restructuring and consequent lower growth rates**. The industrial production recorded a very low growth of **0.6** per cent during **1991-92** and a small growth of **4** per cent during 1992-93.
- Since then the situation has improved a lot. The annual average growth during **1992-2000** turns out to be **6 per cent.**

- In 2001-2002, the industrial growth rate was very low at 2.7 per cent.
- The Tenth Plan (2002- 2007) *aimed* at achieving a growth rate of 10 per cent in the industrial sector.
- The Eleventh Plan aims at 8.5 per cent per annum growth in the GDP. This will require industry to grow at 10% per annum and manufacturing at 12 per cent during the Eleventh Plan.
- The industrial sector after recording robust growth during 2004-07, started showing signs of moderation in the first half of 2007-08 although overall growth rate remained relatively high at 8.5 per cent.
- The year 2008-09 has, however, been marked by a very strong downturn in growth due to a multitude of factors, the most important being the global financial shock that impacted the whole industrial sector.
- Persistent increase in the crude oil prices during January 2006-July 2008, decline in the foreign direct investment, shrinkage in demand for exports, decline in domestic demand and consequent decrease in profits led to

- lack luster performance of the industrial sector in 2008-09. The industrial rate of growth tumbled down to 2.4 per cent in 2008-09 from 8.5 per cent in 2007-08.
- The structure of industry has shifted in favour of basic and capital goods and intermediate goods sector during the period of planning since 1951. The programme of industrialisation was started on a massive scale in the Second Plan (1956-61).

- Three Steel Plants were set up in the public sector at Bhilai, Rourkela and Durgapur. Public Sector made advances in machine building, machine tools, railway locomotives, heavy electrical, ship building, fertilizers etc.
- In subsequent plans and for almost four decades (1951-90), the strategy to favour basic and capital goods and to give public sector the responsibility to develop these industries was followed. As a result, we now have a strong industrial base in the country

- There has been a remarkable growth of consumer goods industries especially those manufacturing elite-oriented consumer goods such as man made fibers, finer varieties of textiles, beverages, cigarettes, motor cars, motor cycles and scooters, refrigerators, TVs, air-conditioners, electrical goods like fans, watches and clocks, cosmetics and so on.
- Industrial sector has become broad-based and modernised. The role of traditional industries like textiles has reduced and role of non-traditional industries like engineering goods, chemical goods and electrical goods has improved tremendously.
- Manufacturing capabilities over a period of time have strengthened. We now manufacture a wide array of goods like food products, leather products, chemicals products, rubber and plastic products, metal products, machinery, transport and equipments, paper products, wood products and so on.

- There has been a massive increase in the size and diversification of public sector. Before Independence, the existence of public sector was only nominal. The post-Independence period saw a sea change so far as the emergence of public sector was concerned.
- In March *2008*, the number of public sector industrial units increased to *242* with a *cumulative investment* of about Rs. *4,55,000* crores. Several public sector giants like ONGC, Indian Oil Corporation, Steel Authority of India, Bharat Heavy Electricals, HMT, HAL, BEL, Cement Corporation of India, Coal India and NTPC dominate the Indian industrial scene.

- Out of 242 Central Public Sector Enterprises (CPSEs) 160 are making profits. Their net profits stood at more than Rs 91000 crore in 2007-08. The net loss of loss making enterprises (53) on the other hand stood at around Rs 11270 crore.
- So far as the private sector is concerned, the dominance of large and monopoly business houses has increased several times. There were hardly two large business houses – Tata and Birla in 1951 but now not only the number of big business houses has increased enormously to about 80 (which include Reliance Group, *Bajaj,* Thapars, Mafatlals, Kirloskars, Goenka, Chhabria, *Shriram, Walchand, Singhania* and so on) their assets have also increased enormously during the last 50 years. Their aggregate assets amounted to more than Rs. 10,00,000 crores in 2008 compared to just Rs. 50,000 crores in 1990-91

- A remarkable expansion and sophistication took place in infrastructural facilities since 1951, in such respects as power generation, development of energy sources, railway transport, telecommunication, roads and road transport and the like, which are basic prerequisites for industrial development. Large scale railway electrification and dieselisation, extensive discovery of petroleum and gas reserves and their extraction, nationalisation of coal mining and its development, petroleum refineries, pipelines, storage and distribution arrangements, hydro, thermal and atomic power generation, together with manufacture of heavy electrical equipment, electricity grids, electronic telephone exchange and microwave long distance telephone facilities, cellular mobile telephone services, electronic mail services and so on were taken up; significant strides made in these and other infrastructural facilities have catalyzed industrial development in several ways. Industrial finance was supported heavily by financial institutions (LIC, IDBI, ICICI for example) and commercial banks. Port facilities for imports and exports have been substantially expanded.

- The country could be proud of achieving remarkable progress in the science and technology front. Several Research laboratories were set up under the leadership of Council of Scientific and Industrial Research. R & D facilities were installed in public and private sector units.
- Technological know-how was extensively imported through foreign technical collaboration arrangements. Science, Engineering, Management and other professional educational institutions have been established on a large scale. An elite cadre of scientific, technical and professional manpower has been built; India ranks high in the world in respect of technological talent and manpower and in development of information and communication technology, space research, nuclear technology, electronics and so on.

- One of the notable features of the planning era since 1951 has been the mammoth growth of small-scale industrial units. Small-scale industrial units are those who operate with a modest investment in fixed capital, relatively small-scale work force and which produce a relatively small volume of output of goods/services. They differ from large-scale industries with respect to size of capital, employment, production and management, flow of input and outputs and so on.
- *The present Act - Micro, Small and Medium Enterprises Development Act, 2006 has broadly classified the enterprises in those engaged in (i) manufacturing and (ii) providing of services.*
- *Both categories have been further classified in Micro, small and medium based on their investment*

- *In manufacturing sector units with investment upto 25 lakh are called micro enterprises, units with investment between Rs. 25 lakh and Rs. 5 crore are called small enterprises and units with investment between Rs. 5 crore and Rs. 10 crore are called medium enterprises. In the service sector, units with investment upto Rs. 10 lakh are called micro units and units between 10 lakh and Rs. 2 crore are called small enterprises and units with investment between Rs. 2 crore and Rs. 5 crore are called medium enterprises.*
- The number of registered and unregistered units was about 16,000 in 1950; it has gone up to more than *128* lakh in *2006-07*.

Problems of Industrial Development in India

- ***Failure to achieve targets:*** Except a few years, when targets of overall growth in the industrial sector were achieved, in the entire period of planning, achievements have been below targets. The average industrial growth rate during 1951 to *2007-08* has been around 6.2 per cent relative to the target of 8 per cent per annum.
- ***Under-utilization of capacity:*** A large number of industries experience underutilization of production capacity. The magnitude of under utilization varies from 20% to 60% in different industrial sectors, the average under-utilization being in the region of 40% to 50%.

- It is argued by some that the net output of industries in India could be easily increased by 30 to 40% without any investment in capital equipment, but by better management of purchasing, production, manpower and marketing systems.
- The factors responsible for under-utilization of capacity are said to be: (a) indiscriminate grabbing and creation of capacities by private enterprise (b) demand short-falls (c) overoptimistic demand projections (d) supply bottle-necks, (e) labour problems and (f) deliberate under-utilisation to create shortages and thereby to corner more profits.

- ***Absence of world class infrastructure :*** *The most critical barrier to growth of the industrial sector is the absence of world class infrastructure. The short supply of transport facilities, frequent power failures and poor condition of roads have hampered the growth of industry in general.*
- ***Increasing capital-output ratio:*** Another very disturbing future of industrial development of India is the ever-rising average and incremental capital output ratio (ICOR). The latter which was 2.95 during the first plan increased to 3.9 during the Seventh Plan and further to around 4 during Eighth, Ninth and Tenth Plans. The increasing trend of capital output ratios could be explained in terms of increasing capital costs of new industrial units, highly capital intensive nature of basic and heavy units, under-utilisation of capacity, unremunerative administered prices in respect of basic goods and services and so on.

- ***High cost industrial economy:*** The costs and prices of manufactured goods and services in India are generally much higher than international costs and prices. The consuming public is obliged to bear high burden. The high cost economy is attributed to import substitution, government protection to indigenous industries, monopolistic tendencies in several industrial areas, high wage rates, increasing capital intensity in industrial units, outdated technology low productivity of labour, uneconomic size of industrial units, lack of cost consciousness among industrial magnates and managers and so on.

- ***Inadequate employment generation:*** One of the most serious deficiencies of industrial development over the decades since Independence has been its inadequate employment generation in relation to investment made. The process of industrialisation has failed to make a marked dent on the unemployment problem in India. Factory employment absorbed only 2% of the labour force in 1980. There was only a marginal increase in the rate in 1980s. Employment generation through industrialisation has also been decreasing over the decades

- large-scale factory oriented industrialisation with high capital intensity has proved itself to be incapable of generating substantial direct employment.
- ***Poor performance of public sector:*** Though public sector has grown by leaps and bounds over the planning period backed by massive public investment, its performance on production and profit fronts has been generally disappointing. Though profit may not always be the appropriate criterion for evaluating the performance of public sector industrial units, its relevance cannot be ignored altogether.

- Commercial and economic efficiency is to a large extent reflected in profit. A loss making undertaking becomes weakened in course of time. It loses dynamism and survival capability. A large number of public sector units are 'loss leaders‘ in the industrial sphere while the rate of profitability of others is low. *The accumulated losses of central public sector units stood at more than Rs. 42,000 crore in 2005-06 compared to Rs. 83,725 crore in 2004-05*

- ***Sectoral imbalances:*** Planned economic and industrial development pre-supposes coordinated and balanced development of all sectors. There should be proper fine tuning of all sectors so that they reinforce each other. In India, industrial development on an over-all basis suffered several set- backs because of inadequate support from agriculture and infrastructure. Even within the industrial sector the input-output relations between individual industries like steel and machine building, petro-chemicals and fertilizers, are such that they have to be developed in harmony. But in real practice, several sectoral imbalances plague the industrial economy of India.

- ***Regional imbalances:*** Industrial development continues to be lopsided, region-wise. Large scale industries are concentrated in a very few states like Maharashtra, West Bengal, Tamilnadu and Gujarat. These four States account for 44% of total factories and 48% of productive capital. It is true that a large number of new industrial growth centers have emerged since Independence in several States like Bihar, U.P., Punjab, A.P., Karnataka, M.P., and Rajasthan. But these States continue to be industrially backward.
- The industrial units established in these States have somehow failed to generate further industrialisation. Also several States have not been able to attract major industrial units in spite of incentives and facilities because of the magnetic pull of industrially advanced States. Even small units have tended to concentrate around urban conglomerates along with large-scale units than in backward states and small towns.

- ***Industrial sickness:*** Industrial sickness has become a serious problem affecting small, medium and large units. It is a major area of concern due to its implications for the entire economy and health of the industrial sector in particular. In March 2007, there were 1.18 lakh sick units out of which more than 96 percent were small units. Industrial sickness has been spreading over the years. The causes of sickness are identified as financial mismanagement, demand recession, labour unrest, working capital shortage, cost escalations, shortage of raw materials, uneconomic size, out-dated machinery and equipment and so on.

Services

- The service sector or tertiary sector of an economy involves provision of services to other business enterprises as well as to final consumers. Service sector includes:
- Business services and professional services - Accounting, Advertising, Architectural and Engineering, Computer and related services and Legal services.
- Communication services - Audio-visual services, Postal and Courier services, Telecommunications.
- *Real estate* and related services

- Distributive services.
- Education services.
- Energy services.
- Environmental services.
- Financial services.
- Health and social services.
- Tourism services.
- Transport services - Air transport services, Maritime services, services auxiliary to all modes of transport.

Role of Sector in India

- The service sector in India is its largest sector and accounts for increasingly significant share of GDP. This sector is growing very fast. It is playing an important role in the development of the economy as would be clear from the following points:
- **(1) *Increasing share in the GDP:*** Over the planning period, the share of tertiary or services sector has increased from about one third of GDP in 1950-51 to more than half in *2007-08.*
- In *2007-08,* its share in the GDP was *more than 57* per cent. Although compared to high income industrialised economies (where value added by services generally exceeds 60 per cent of the total output) it is not very high but considering the fact that India is still a developing economy, this figure is appreciable.

- ***Providing employment:*** Service sector occupied about 17.3 per cent of working population in 1951. In 2001, around 22.5 per cent of working population was dependent on service sector for occupation.
- **(3) *Providing support to other sectors:*** Service sector provides support to agriculture and industries by providing a number of services in the form of financial services, transport services, storage services, distributive services, software and communication services and so on. No sector can perform and prosper in the absence of network of various financial and other services.

- Contribution to Exports: Services exports from India comprise services such as travel, transportation, insurance, communication, construction, financial services, software, agency services, royalties, copyright and licence fees and management services. Services accounted for more than 45 per cent of total exports in India (2007-08). The potential for growth, however, continues to be large. Software and other services such as business, technical and professional services have emerged as the major categories in India's export of services. In 2006, India's share in world's total commercial services export was 2.7 per cent compared to 2.3 per cent in 2005 and 0.57 per cent in 1990. Indian services exports recorded a growth of around 29 per cent per annum during 2000-2006. The global recession started impacting export of services and its growth came down to 28 per cent in 2006-07 and to 22 per cent in 2007-08. In the list of exporters of commercial services (2008), India is ranked 9th.

Growth of service sector during planning period

- Generally as an economy grows, the share of primary sector in GDP falls and shares of secondary and tertiary sectors increase. The occupational distribution of the working force also undergoes changes. The percentage of people engaged in primary activities particularly agriculture falls and percentage of people engaged in secondary sector and tertiary sector rises. Except a few cases, this has been the experience of almost all developed countries. There, the growth of industries was accompanied by the development of tertiary activities on one hand, and the relative decline of primary activities on the other

- If we consider Indian economy we find that though India has followed the above route, its secondary sector has failed to grow substantially. The tertiary sector has by passed the secondary sector. The rise in the service sector's share in GDP marks a structural shift in the Indian economy and takes it closer to the fundamentals of a developed economy (in the developed economies, the industrial and service sectors contribute a major share in GDP while agricultural accounts for a relatively lower share

- If we analyze growth rate in the service sector, we find that it grew by 7.54 per cent per annum in the Eighth Plan and around 8.1 per cent per annum in the Ninth Plan. The Government of India gave a special status to the service sector in the Export and Import Policy (2002-07). The average growth rate of service sector during the Tenth Plan turned out to be around 9 per cent per annum. The Eleventh Plan aims at an annual average growth rate of 9.4 per cent for the service sector.
- The growth in the services sector has been broad based. Among the sub sectors of services, "transport, storage and communication" has been the fastest growing with growth averaging 15.3 per cent per annum during the Tenth plan. In 2007-08 and 2008-09 they grew at 15.5 per cent rate and 9 per cent respectively.

- India being a sub-continent with varied geographical, climatic, ethnic, cultural, religious and social conditions attracts tourists worldwide. The tourism industry is growing very fast and has the potential for growing still faster. Trade, hotels and restaurants after recording an average growth rate of 8 per cent in 2000-07, recorded a still higher growth of 10 per cent in 2007-08. In 2008-09, however, their growth decelerated to 9 per cent.
- The other notable segment of India's service sector is fast growing financial services segment. This statement is growing very fast and is in the process of transition. Until recently, this sector was under the government control. Now, this sector is undergoing liberal reform process including introduction of an element of competition cutting off the barriers and allowing entry to foreign companies.

- Financial, insurance, real estate and business services recorded an average growth of 7.9 per cent during 2000-07. During 2007-08 and 2008-09 their growth rate was to 11.7 per cent and 7.8 per cent respectively.
- Community, social and personal services which grew at an average rate of 6 per cent per annum in 2000-07, recorded a growth rate of 6.8 per cent and 13 per cent in 2007-08 and 2008-09 respectively.

- India has second largest scientific and technical manpower in the world. India's consultancy professionals possess capability to provide expertise in sophisticated areas like information and technology, advanced financial and banking services etc. to developed countries like USA, UK, France, West Germany and Australia. Other areas of consultancy include infrastructure, economic and social sectors, water resource management, environment, transfer technology etc.
- India's health services, super-speciality hospitals specialising in both modern and traditional Indian medicine systems (like Ayurveda, Unani, and Nature care) supported by state of the art equipment, are attracting patients from across the world.

- Education is another field which is not only a big segment of the services sector with the country but also a foreign exchange earner by way of NRIs, and foreign students enrolled in India. We also export manpower even to the western world.
- Entertainment industry (including films, music, broadcast, television and live entertainment) is another service industry which has grown very fast after Independence.

- Thus services sector has maintained a steady growth pattern since last two decades. But if we consider its share in the employment, we find that there has been a relatively slow growth of jobs in this sector. This is primarily because of rise in labour productivity in services sectors such as information technology that is dependent on the skilled labour. Growth in tourism and tourism-related services such as hotels holds a large potential for employment generation.
- IT enabled services, such as Business Process Outsourcing (BPO) have been growing rapidly (60-70 per cent) in the recent past and will continue to grow. Outsourcing has changed the image of India. Western companies are seeing India as their top destination for outsourcing work.

Factors underlying the Services Sector Growth

- The Services sector has grown at a fast rate in India due to the following reasons: It has been noticed that income elasticity of demand for services is greater than one. Hence, the final demand for services grows faster than the demand for goods and commodities as income rises.
- Technical and structural changes in the economy have made it more efficient to out source certain services that were once produced with in the industry.
- With the advent of the information technology revolution, it has become possible to deliver services over long distances at a reasonable cost, thus trade in services has increased world wide. India has been particular beneficiary of this trend. Services exports increased four fold in the 1990s and reached US$ 90 billion in 2007-08.

- Economic reforms initiated since 1991 also impacted on the performance of the services sector. Increased demand for manufacturing industry provided synergies to the services sector. Also, liberalisation of financial sector provided an environment for faster growth of the financial services. Moreover, reforms in certain segments of infrastructure services also contributed to the growth of services.

Problems of service sector in India

- (1)Achieving rapid growth of the economy and its counterparts requires a very high quality of **infrastructure**. Unfortunately, our infrastructure is inadequate not only in the rural areas but also in the urban areas. For example, power shortage and traffic congestions are very common in Bangalore, the silicon city of India. These affect the quality of services provided.
- (2) Though service sector has been the fastest growing sector in the last decade and has contributed more than 50 per cent of the GDP, it provides less than 25 per cent of the total employment. Services that have witnessed a very high growth rate e.g. business and communication services have a low share in GDP or employment.

- (3) Although economic reforms have been undertaken in all the sectors but they are inadequate. In financial sector many controls and bottlenecks are still there. These need to be removed if financial sector of India has to achieve the international standard.
- (4) India has great potential in the tourism sector. But there is a need to create proper set up for attracting tourists. Foreign tourists often get harassed and cheated in the hands of babus and officialdom, touts and conmen.
- (5) Etiquettes and good behaviour are the hallmark of the service sector. Indian service providers whether they are in banks, in hotels and restaurants, in hospitals or in public administration, they need to be trained thoroughly in public dealing, etiquettes, hospitality and manners.
- (6) The airports, railways etc. in India are not clean and well organized. They need to be revamped and reorganized.

- (7) Our consular division also is not proper. It takes many days to issue visas. This hampers the growth of tourism sector. For this, we need to have a system which entails single window clearance.
- (8) Service trade also faces a number of problems. These include lack of set up like export promotion councils (other than for computer software), various visible and invisible barriers to service trade for example, visa restrictions, sector specific restrictions and preferential market access.
- (9) Unfair competition in the telecom sector and lack of, internet infrastructure, personal computer penetration, monitoring and customer demand, mar the growth of e-commerce.

- (10) Service sector cannot grow in isolation. It needs strong backing of other sectors, primary and secondary. In India, such backing needs to be strengthened. In other words, other sectors especially industries need to grow up if they have to provide market to the service sector.
- (11) Indian service providers (like BPOs and IT service providers) are facing stiff competition from other countries. They need to improve their quality and reduce their costs. There are certain political problems also like a backlash from European and North Americans countries especially in the case of BPOs.

ECON0MIC REFORM OF 1991

-ISHIKA AGARWAL
GEETIKA AGARWAL

INTRODUCTION -

Before 1991, economic development of the country was due to the public sector. But it is realized that public sector was insufficient due to red- tapism, bureaucratic, lack of initiative etc. which result into economic crises.

In July 1991, New economic policy was announced to get the country out of the crises. In this policy main emphasis was on the **liberalization, privatization & globalization**.

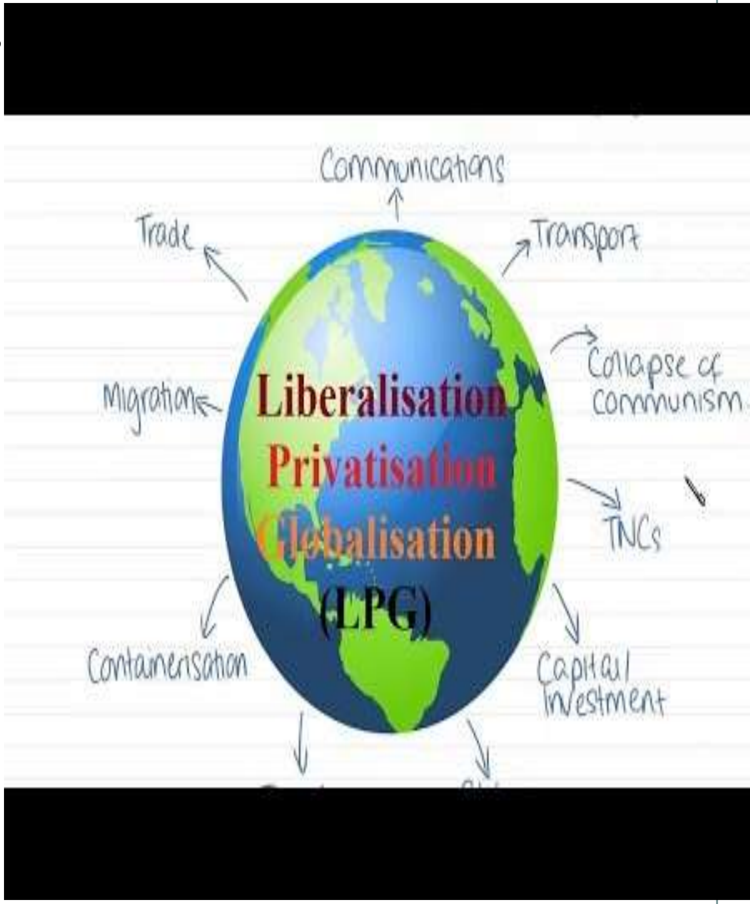
New economic policy refers to various policy measures & changes undertaken since 1991 to increase productivity & growth of economy.

The New Economic policy was launched in 1991 by the union Finance Minister Dr. Manmohan Singh.

FEATURES :-

The seven important features of new economic policies under economic reforms are :-

(1) Liberalization
(2) Privatization
(3) Globalization of the Economy
(4) New Public Sector Policy
(5) Modernization
(6) Financial Reforms
(7) Fiscal Reforms.



• LIBERALISATION -

- It has made provision for liberalizing the economy against unnecessary controls and regulations.
- Here liberalization indicates liberating the trade and industry from unwanted restrictions.
- In order to liberalize the economy and to bring transparency in the policy, the New Industrial Policy, 1991 has abolished the system of industrial licensing for all industrial undertaking, irrespective of the level of investment, except for a short list of 18 industries.

• PRIVATISATION -

- Another important feature is the promotion of the policy of privatization.
- Here , privatization means introduction of private ownership in publicly owned and managed enterprises
- Also signifies introduction of private control and management in public sector enterprises .

• GLOBALISATION -

- *It means opening up of the economy for world market by attaining international competitiveness.*
- *Thus the globalization of the economy simply indicates interaction of the country relating to production, trading and financial transactions with the developed industrialised countries of the world.*

• NEW PUBLIC SECTOR POLICY

- *The new policy has shifted its emphasis from public to private sector. It has taken four major policy decisions in respect of public sector –*

(i) Reduction in the list of industries reserved for the public sector
(ii) Disinvestment of shares in PSEs
(iii) Policy for sick PSEs be designed at par with that of the private sector.
(iv) Improving performance through the performance contract or Memorandum of Understanding (MOU) system

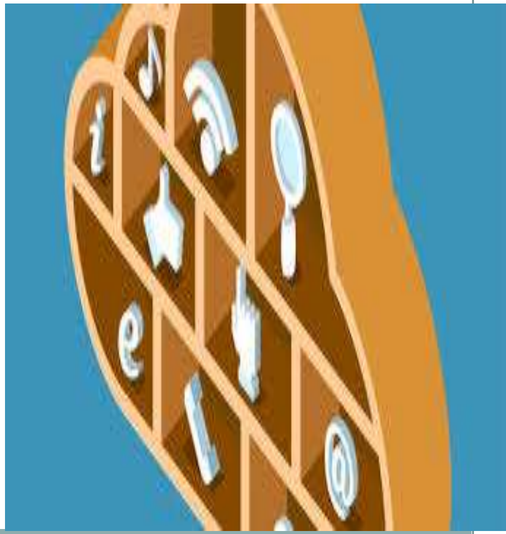
• MODERNISATION -

- *It has been providing high priority to the introduction of modern techniques in production system.*
- *It facilitates growth of sunrise industries, i.e. electronics and computers. In order to introduce better and improved technology, the government is permitting all foreign collaboration proposals related to the import of high technology.*

• FINANCIAL REFORMS -

As per the recommendations of the Narasimham Committee the Government has undertaken various measures for the reform of the financial sector. These include-

(i) Reduction in liquidity ratio,
(ii) Abolition of direct credit programmes,
(iii) Free determination of interest rates,
(iv) Necessary improvement in the banking accounting system,
(v) Making provision for Non-performing assets (NPAs)
(vi) Establishing speedy recovery of loans by special tribunals,
(vii) Liberal treatment to foreign banks
(viii) Abolition of branch licensing system




Narasimham Committee Report on Banking Sector Reforms
Strengthening the Banking sector
Asset Quality
Systems and methods in Banks
Structural Issues
Technological Upgradation

• FISCAL REFORMS –

- *Also, a feature of New Economic Policy is to introduce fiscal policy reforms.*
- *The Government initiated various fiscal measures in order to reduce the fiscal deficit from 8.4 per cent of GDP in 1990-91 to 5.0 per cent in 1996-97 and then to 4.4 per cent in 1999- 2000.*
- *In order to achieve the target the Government has introduced various controls over public expenditure and took initiative to raise its both tax and non-tax revenue.*