INDIAN ECONOMY

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PROF. NILAM NAIDU

SYLLABUS

- UNIT 1 : Perspective of Indian Economy
- UNIT 2 : Human Resources and Economic Development
- UNIT 3 : Sectoral composition of Indian Economy
- UNIT 4 : Inequality and Economic Power in India
- UNIT 5 : The Foreign Trade of India

UNIT 1 -

- Indian Economy as a Developing Economy, Basic Characteristics Overview of Economic Planning, Role of Monetary policy and Fiscal Policy, Budget terminology, Economic Growth, GDP and GDP Trends, Money Supply & Inflation, Inflation trends, RBI – overview of role and functions, Capital Markets – overview of role and functions, Concept of Poverty, Estimates of Poverty, Poverty Line, Economic Reforms and Reduction of Poverty, Concept of Inclusion, Need of inclusive growth, Financial inclusion. Concept of Hard & Soft Infrastructure. Hard Infrastructure - Transport Infrastructure, Energy Infrastructure, Water management infrastructure, Communication Infrastructure, Solid waste management, Earth monitoring and measuring networks. Soft Infrastructure - Governance Infrastructure, Economic infrastructure, Social infrastructure, Critical Infrastructure, Urban infrastructure, Green infrastructure, Education Infrastructure, Health Infrastructure.

Indian Economy as a Developing Economy

- i) Low Per Capita Income (PCI)
- ii) Occupational Pattern – Primary Producing
- iii) Population Pressure
- iv) Chronic Unemployment and Under-Employment in India
- v) Inequality in Wealth/Asset Distribution
- vi) Poor Human Capital Quality
- vii) Low-levels of Technology
- viii) Low Level of Living of an Average Indian
- ix) Demographic Characteristics

BASIC CHARACTERISTICS OVERVIEW OF ECONOMIC PLANNING

- 1. Economic Planning In India – Five Year Plans
- 2. Economic Development
- 3. Increased Levels of Employment
- 4. Self Sufficiency
- 5. Economic Stability
- 6. Social Welfare and Provision of Efficient Social Services
- 7. Regional Development

- 8. Comprehensive and Sustainable Development
- 9. Reduction in Economic Inequality
- 10. Social Justice
- 11. Increased Standard of Living

ROLE OF MONETARY POLICY AND FISCAL POLICY

- **Monetary policy** refers to central bank activities (RBI) that are directed toward influencing the quantity of money and credit in an economy.
- Central Banks typically use monetary policy to either stimulate an economy or to check its growth. By incentivizing individuals and businesses to borrow and spend, the monetary policy aims to spur economic activity. Conversely, by restricting spending and incentivizing savings, monetary policy can act as a brake on inflation and other issues associated with an overheated economy.
- The 6 tools of monetary policy are Repo Rate, Reverse Repo Rate, Open Market Operations, Bank Rate policy (discount rate), Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR).
- Main objective of monetary policy is to maintain price stability while keeping in mind the objective of growth as price stability is a necessary precondition for sustainable economic growth.

- Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions. These include aggregate demand for goods and services, employment, inflation, and economic growth.

- During a recession, the government may lower tax rates or increase spending to encourage demand and spur economic activity. Conversely, to combat inflation, it may raise rates or cut spending to cool down the economy.

Role of Monetary policy

1. To Control Supply Of money in the economy: Money supply refers to the amount of money in circulation as well as the amount of credit created by banks. Credit expansion or contraction is used in monetary policy to manage the money supply in the economy.

- 2. Maintaining Price Stability: Maintaining price stability in India is a significant goal of monetary policy. It means that inflation is under control. Money supply has an impact on price levels. To preserve price stability, monetary policy controls the money supply.

- 3. To Stimulate Economic Growth: One of the most important goals of monetary policy is to provide the appropriate amount of money and loans for the country's economic growth. Credit is made available in sufficient amounts to those industries that are critical to economic growth.

- 4. To Encourage Saving and Investment: Monetary policy encourages saving and investment through regulation of interest rates and controlling inflation. Higher interest rates encourage investment and saving.
- 5. To Encourage Exports & Substitute Imports: Monetary policy stimulates export-oriented and import-substitute businesses by granting concessional loans. This enhances the balance of payments situation.
- 6. To Guarantee Greater Credit for Priority Sectors: Monetary policy attempts to maximise money available to priority sectors by decreasing interest rates. Agriculture, small-scale industries, and the weakest parts of society are examples of priority sectors.
- 7. To Encourage Employment: Monetary policy supports employment by offering loan facilities to profitable ventures, small and medium firms, and special credit schemes for unemployed youth.

- **Fiscal policy** is often contrasted with monetary policy, which is enacted by central bankers and not elected government officials.

- The government possesses two major fiscal tools for influencing the economy. These tools can be divided into spending tools and revenue tools. Spending tools refer to the overall government spending. On the other hand, revenue tools refer to taxes collected by the government.

- By increasing taxes, governments pull money out of the economy and slow business activity. Typically, fiscal policy is used when the government seeks to stimulate the economy. It might lower taxes or offer tax rebates in an effort to encourage economic growth.

- There are lots of fiscal policy objectives, but the main ones are allocating resources, short-term stabilization, longer-term development and maximizing employment.

Role of Fiscal Policy

- 1. Price stability: It regulates the country's price level so that prices can be adjusted when inflation becomes too high.
- 2. Full employment: It tries to reach 100 % employment, or near 100 % employment, as a means of regaining economic activity following a period of low activity.
- 3. Economic growth: It aids in the maintenance of the economy's growth rate, allowing specific economic goals to be met.
- In India, the RBI plays an important role in controlling inflation through the consultation process regarding inflation targeting.

BUDGET TERMINOLOGY

- The definition of the Union Budget according to Article 112 of the Indian Constitution:
- Union Budget is the statement of estimated receipts and expenditure of the government called the Annual Financial Statement for a specific year.
- A budget is a financial plan for a specific period. As individuals, we create a budget for our family to minimize costs and optimally utilize our income while saving something for the proverbial rainy day. Even a company creates a budget for all its costs like marketing, PR, etc. based on its estimated revenues over the coming year. Similarly, a country needs to create a financial plan managing its income and expenses too.
- The Union Budget lays out the government's plan of allocating finances to different projects and agencies. Since tax is the biggest source of income to the Indian Government, the Union Budget specifies any changes in the tax rates/rules. Also, the areas where the government plans to spend money in the coming year can offer an insight into the industries/sectors that can receive a boost.

Gross Domestic Product (GDP) & GDP Trends

- The Gross Domestic Product or GDP is the total market value of all the finished goods and services produced within a country in a specific period of time.
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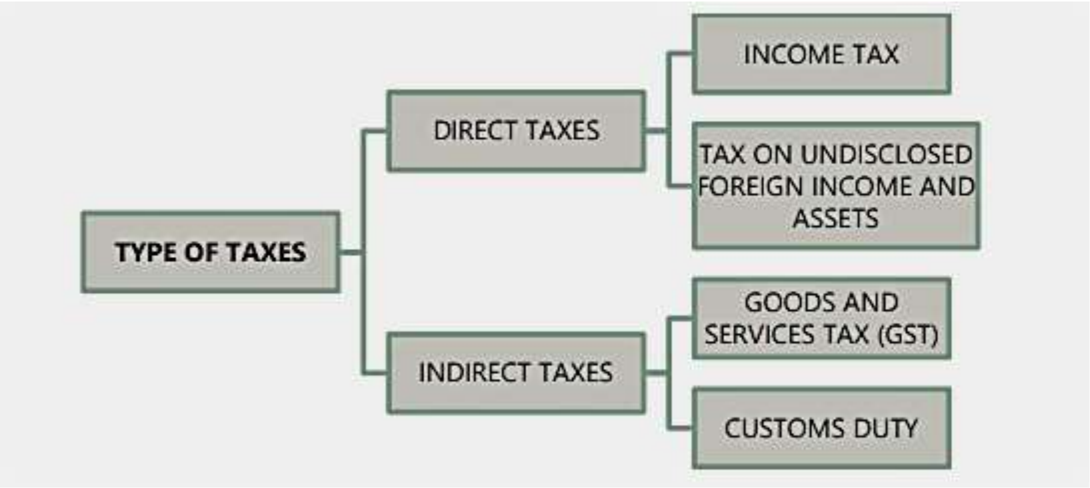
- In most countries, GDP is the standard for measuring the economic condition. GDP can be calculated on an annual or on quarterly basis. In India, the Central Statistical Office (CSO) under the Ministry of Statistics and Programme Implementation calculates the country's GDP by accumulating data from both central government and state government-run agencies. The CSO uses one of these two methods for calculating GDP:
- 1. Factor cost method
- 2. Expenditure based method
- GDP Growth Rate is also known as the Economic Growth Rate, and it measures the change in the GDP of the country in comparison to an earlier period. The amount of change is measured in percentage (%), which serves as a determinant of economic health in the country and the possible growth in the future.

Direct and Indirect Taxes

- Tax is the primary source of income for the government. There are two broad-level taxes in India – Direct and Indirect.
- Direct tax is the tax paid by an individual directly to the government. This includes income tax and corporate tax. On the other hand, Indirect tax is paid by the people to a person/entity who has the burden of paying the tax to the government.


TYPE OF TAXES
DIRECT TAXES
INDIRECT TAXES
INCOME TAX
TAX ON UNDISCLOSED FOREIGN INCOME AND ASSETS
GOODS AND SERVICES TAX (GST)
CUSTOMS DUTY

Fiscal Deficit

- Fiscal means pertaining to the government's revenues. Fiscal Deficit, in simple terms, means the deficit or shortfall that the government is facing in the non-borrowed receipts (income) with respect to its expenditure. If the expenditure is more than the receipts (non-borrowed), then the difference between the total expenditure and total non-borrowed receipts of the government is its Fiscal Deficit. It is usually denoted as a percentage of the country's GDP.

Fiscal Policy

- When a country announces a budget, it has ramifications on the economy. For example, if the government changes the income tax rate, then it impacts the disposable income in people’s hands and influences their buying power. This, subsequently, affects businesses and the tax income of the government. Hence, the government uses its spending and tax policies in a manner that allows it to suitably influence the economic landscape of the country. This is the government’s Fiscal Policy. A budget is usually an indicator of the same.

Monetary Policy

- The flow of money in an economy has a direct impact on its growth. Hence, the government monitors the liquidity in the economy to ensure optimum growth. This is done via the central bank of the country – the Reserve Bank of India (RBI). Monetary Policy is the set of actions taken by the RBI to control liquidity (supply of money) in the economy to achieve sustainable growth.

Inflation

- There are many ways to define inflation. It is a sustained increase in the general price level in an economy. It is also the decline in the purchasing power of a currency over time.
- inflation is an increase in the money supply, causing the consumer price index to increase. When the general price level rises, each unit of currency buys fewer goods and services; consequently, inflation corresponds to a reduction in the purchasing power of money.

Capital Budget

- The Capital Budget consists of capital receipts and capital expenditure.
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- Capital Receipts include disinvestment, loans taken from the public, loans received from foreign Governments and bodies, borrowings from the RBI, recoveries of loans from State/UT Governments and other parties, etc.

Revenue Budget

- The Revenue Budget consists of revenue receipts and revenue expenditure.
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- Revenue Receipts include tax-related revenues, dividends/interest on the investments made by the government, receipts for services provided by the government, etc.

Finance Bill

- In India, a Bill is produced to pass legislation as a law by the houses of the Parliament. A Finance Bill, as the name suggests, is a Bill regarding the country's finances and could include taxes, revenues, government borrowings, etc.

Money Supply & Inflation

- There is a strong link between the money supply and inflation. If the money supply rises faster than real output, then prices will usually rise.

RBI – Overview of role & functions

- Reserve Bank of India

- The RBI acts as a banker to the central and the state governments of India and fulfills all the banking necessities of the government. Also, RBI plays a crucial role as an advisor to the central government of India and assists the government in framing economic policies for the nation.

Functions of RBI

Monetary Authority

Issuer of Currency

Regulator of Financial System

Banker's Bank

Managing Foreign Exchange

Development Functions

Regulator of Payment & Settlement

Banker of Govt.

Detection of fake Currency

Capital Market – Overview of role & functions

- Capital markets provide a platform for companies, governments, and other entities to raise long-term capital by issuing stocks, bonds, and other securities. This enables them to finance investments, expand operations, fund projects, and support economic development.

Poverty

- Poverty is a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living. Poverty means that the income level from employment is so low that basic human needs can't be met.
- In India, 21.9% of the population lives below the national poverty line in 2011.
- In 2018, almost 8% of the world's workers and their families lived on less than US$1.90 per person per day (international poverty line).

- Types of Poverty: There are two main classifications of poverty:

- 1. Absolute Poverty: A condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing). This condition makes it possible to compare between different countries and also over time.
- 2. Relative Poverty: It is defined from the social perspective that is living standard compared to the economic standards of population living in surroundings. Hence it is a measure of income inequality.
- Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income.

Poverty Estimation in India

- Poverty estimation in India is carried out by NITI Aayog's task force through the calculation of poverty line based on the data captured by the National Sample Survey Office under the Ministry of Statistics and Programme Implementation (MOSPI).
- Poverty line estimation in India is based on the consumption expenditure and not on the income levels.
- Poverty is measured based on consumer expenditure surveys of the National Sample Survey Organisation. A poor household is defined as one with an expenditure level below a specific poverty line.
- The incidence of poverty is measured by the poverty ratio, which is the ratio of the number of poor to the total population expressed as a percentage. It is also known as head-count ratio.

- Alagh Committee (1979) determined a poverty line based on a minimum daily requirement of 2400 and 2100 calories for an adult in Rural and Urban area respectively.
- Subsequently different committees; Lakdawala Committee (1993), Tendulkar Committee (2009), Rangarajan committee (2012) did the poverty estimation.
- As per the Rangarajan committee report (2014), the poverty line is estimated as Monthly Per Capita Expenditure of Rs. 1407 in urban areas and Rs. 972 in rural areas.

Causes of Poverty in India

- 1. Population Explosion
- 2. Low Agricultural Productivity
- 3. Inefficient Resource utilization
- 4. Price Rise
- 5. Unemployment
- 6. Lack of Capital and Entrepreneurship
- 7. Social Factors
- 8. Colonial Exploitation
- 9. Climatic Factors

Estimates of Poverty

- According to recent reports, more than a quarter of the population living in rural areas of India is below the poverty line. Out of the total population living in the rural parts of India, 25.7% is living below the poverty line whereas in the urban areas, the situation is a bit better with 13.7% of the population living below the poverty line.

- A common method used to estimate poverty in India is based on the income or consumption levels and if the income or consumption falls below a given minimum level, then the household is said to be Below the Poverty Line (BPL).

- Poverty Line Calculation: Poverty estimation in India is now carried out by NITI Aayog's task force through the calculation of poverty line based on the data captured by the National Sample Survey Office under the Ministry of Statistics and Programme Implementation (MOSPI).
- NITI Aayog as a policy think tank has replaced Planning Commission, which was earlier responsible for calculating the poverty line in India.

Consumption Versus Income Level

- Poverty line estimation in India is based on the consumption expenditure and not on the income levels because of the following reasons:
- 1. Variation in Income
- 2. Additional Income
- 3. Data Collection
- 4. Reference Period

Poverty line in India

- India is having a well-designed poverty measurement mechanism under the erstwhile Planning Commission. The Planning Commission was the nodal agency for estimation of poverty. For setting poverty line and methodology of constructing it, the Planning Commission appointed Expert Groups from time to time. For example, the Rangarajan Committee is the latest among those Expert groups. Traditionally, the planning commission estimates the number of people below poverty line in states as well as in the rural and urban areas based upon the prevailing poverty estimation methodology submitted by the expert groups.

Concept of Inclusion

- Inclusive growth means economic growth that creates employment opportunities and helps in reducing poverty.
- It means having access to essential services in health and education by the poor. It includes providing equality of opportunity, empowering people through education and skill development.
- It also encompasses a growth process that is environment friendly growth, aims for good governance and helps in creation of a gender sensitive society.
- As per OECD (Organisation for Economic Co-operation and Development), inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all.

Elements of Inclusive Growth

- **Skill Development:**
- Harnessing the demographic dividend will depend upon the employability of the working age population, their health, education, vocational training and skills. Skill development plays a key role here.
- India is facing a dual challenge in skill development:
  - First, there is a paucity of highly trained workforce
  - Second, there is non-employment of conventionally trained youths
- According to the Economic Survey 2017, over 30% of youth in India are NEET (Not in education, employment or training).
- Similarly, UNICEF 2019 reports stats that at least 47% of Indian youth are not on track to have the education and skills necessary for employment in 2030.

- **Financial Inclusion:**
- Financial Inclusion is the process of ensuring access to financial services to vulnerable groups at affordable costs.
- Financial inclusion is necessary for inclusive growth as it leads to the culture of saving, which initiates a virtuous cycle of economic development.
- **Technological Advancement:**
- The world is moving towards an era of Industrial Revolution 4.0. These technological advancements have capabilities to both decrease or increase the inequality depending on the way these are being used.
- Several initiatives have been taken by the government, eg. Digital India Mission, so that a digitally literate population can leverage technology for endless possibilities.

- **Economic Growth:**
- India is among the fastest-growing major economies in the world. However, currently Indian economy is facing slowdown due to both cyclic and structural challenges.
- However, the target of becoming a $ 5 trillion economy by 2024-25 can allow India to reduce inequality, increase social expenditure and provide employment to all.
- **Social Development:**
- It means the empowerment of all marginalised sections of the population like SC/ST/OBC/Minorities, women and transgenders.
- Empowerment can be done by improving institutions of the social structure i.e. hospitals especially primary care in the rural areas, schools, universities, etc.

Challenges in Achieving Inclusive Growth

- Poverty
- Unemployment
- Issues with Social Development
- Regional Disparities

Need for Inclusive Growth

- For India, it is a tough task to accomplish inclusive growth. In a democratic country India, majority of population living in rural India and to bringing them into the mainstream is main concern. The challenge for Indian government is to take the levels of growth to all section of the society and to all parts of the country.
- The best way to realise inclusive growth is through developing people's talents. It is said by government authorities that a multidimensional approach towards education and skills development is essential to achieve growth. The challenge of skills shortage can be addressed through public private partnership. Since independence, noteworthy improvement in India's economic and social development made the nation to grow strongly in the 21st century.
- India is the 7th major country by area and 2nd by population. Yet, India is far away from development while our neighbour China is advancing at a faster rate to become the largest economy of the world.

- Rapid and sustained poverty reduction requires inclusive growth that permits people to contribute to and benefit from economic growth. Poverty in India is at 22% according to the Tendulkar committee report.
- Rapid growth is necessary to reduce poverty but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive of the large part of the country's labour force. This explanation of inclusive growth implies a direct link between the macro and micro determinants of growth.
- The micro dimension denotes the importance of structural transformation for economic diversification and competition, including creative destruction of jobs and firms.
- Inclusive growth is defined by many academicians as the pace and pattern of growth, which are considered interlinked, and therefore in need to be addressed together.

FINANCIAL INCLUSION

- According to the World Bank, Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs. The government has made financial inclusion a top priority. The goal is to provide access to various financial services, such as a basic savings bank account, need-based credit, remittance facility, insurance, and pension, to the excluded sections, i.e., the weaker sections and low income groups. Financial inclusion is a critical driver of global economic growth and poverty alleviation.
- A slew of initiatives have been launched by the Government of India, the Reserve Bank of India, and NABARD in order to achieve comprehensive financial inclusion. Some of the significant initiatives include the SHG-Bank Linkage Programme, the opening of No Frills Accounts, mobile banking, Kisan Credit Cards What is Financial Inclusion?
- Exclusion from the financial system is commonly used to define financial inclusion.
- If a target group does not have access to mainstream formal financial services such as banking accounts, credit cards, insurance, payment services, and so on, they are considered financially excluded.

- In 2006, the Government of India formed a committee chaired by Dr. C. Rangarajan to study the pattern of exclusion from access to financial services across region, gender, and occupational structure, as well as to identify the barriers faced by vulnerable groups in accessing credit and financial services and to recommend steps needed for financial inclusion.
- In January 2008, the committee submitted its report. According to the committee, financial inclusion is defined as:
- The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.
- Financial inclusion is achieved when all individuals and businesses have access to and can use a wide range of financial services that are responsibly and affordably provided by sustainable institutions in a well-regulated environment.

INFRASTRUCTURE

- Infrastructure is the basic facilities and system serving a country, region, or community.
- Examples of infrastructure include mass transit and telecommunications networks.
- Large-scale infrastructure is usually produced by the public sector and funded by tax revenue.
- Infrastructure can often be produced on a smaller scale by private firms or through the local authorities.
- Infrastructure can be defined as soft or hard and both are essential to the economy and quality of life of a society.
- The term infrastructure first appeared in the late 1880s, derived from French, with infra- meaning below and structure meaning building. Infrastructure can mean the foundation upon which the structure of an economy is built.

Types of Infrastructure

- Infrastructure is often defined as hard or soft. Hard infrastructure is the tangible, physical assembly of structures such as roads, bridges, tunnels, and railways. Soft infrastructure is the services required to maintain the economic, health, and social needs of a population.
- **Hard Infrastructure**
- Hard infrastructure is the physical system needed to run a modern, industrialized nation. Examples include roads, highways, and bridges, as well as the assets required to make them operational such as transit buses, vehicles, and oil refineries. Technical systems such as networking equipment and cabling are considered hard infrastructure and provide a critical function to support business operations.
- **Soft Infrastructure**
- Soft infrastructure represents human capital and institutions necessary to maintain an economy that delivers certain services to the population such as healthcare, financial institutions, government offices, law enforcement, and education.

Hard Infrastructure

1. Transportation

- Road and highway networks, including structures (bridges, tunnels, culverts, retaining walls), signage and markings, electrical systems (street lighting and traffic lights), edge treatments (curbs, sidewalks,
- landscaping), and specialised facilities such as road maintenance depots and rest areas
- Mass transit systems (Commuter rail systems, subways, Light rail, ferries, trolleys, City Bicycle Sharing system, City Car Sharing system and bus transportation)
- Railways, including structures, terminal facilities (rail yards, railway stations), level crossings, signalling and communications systems
- Canals and navigable waterways requiring continuous maintenance (dredging, etc.)
- Seaports and lighthouses
- Airports, including air navigational systems
- Bicycle paths and pedestrian walkways, including pedestrian bridges, pedestrian underpasses and other specialised structures for cyclists and pedestrians.

2 . Energy

- Electrical power network, including generation plants, electrical grid, substations, and local distribution.
- Natural gas pipelines, storage and distribution terminals, as well as the local distribution network. Some definitions may include the gas wells, as well as the fleets of ships and trucks transporting liquefied gas.
- Petroleum pipelines, including associated storage and distribution terminals. Some definitions may include the oil wells, refineries, as well as the fleets of tanker ships and trucks.
- Specialised coal handling facilities for washing, storing, and transporting coal. Some definitions may include Coal mines.
- Steam or hot water production and distribution networks for district heating systems.
- Electric vehicle networks for charging electric vehicles.

3. Water

- Drinking water supply, including the system of pipes, storage reservoirs, pumps, valves, filtration and treatment equipment and meters, including buildings and structures to house the equipment, used for the collection, treatment and distribution of drinking water
- Sewage collection, and disposal of waste water
- Drainage systems (storm sewers, ditches, etc.)
- Major irrigation systems (reservoirs, irrigation canals)
- Major flood control systems (dikes, levees, major pumping stations and floodgates)
- Large-scale snow removal, including fleets of salt spreaders, snow plows, snowblowers, dedicated dump trucks, sidewalk plows, the dispatching and routing systems for these fleets, as well as fixed assets such as snow dumps, snow chutes, snow melters

4. Communications

- Postal service, including sorting facilities
- Telephone networks (land lines) including telephone exchange systems
- Mobile phone networks
- Television and radio transmission stations, including the regulations and standards governing broadcasting
- Cable television physical networks including receiving stations and cable distribution networks (does not include content providers or "cable networks" when used in the sense of a specialised channel such as CNN or MTV)
- The Internet, including the internet backbone, core routers and server farms, local internet service providers as well as the protocols and other basic software required for the system to function (does not include specific websites, although may include some widely used web-based services, such as social network services and web search engines).

5. Communications satellites

- Undersea cables
- Major private, government or dedicated telecommunications networks, such as those used for internal communication and monitoring by major infrastructure companies, by governments, by the military or by emergency services, as well as national research and education networks
- Pneumatic tube mail distribution networks

6. Solid Waste Management

- Municipal garbage and recyclables collection
- Solid waste landfills
- Solid waste incinerators and plasma gasification facilities
- Materials recovery facilities
- Hazardous waste disposal facilities

7. Earth monitoring and measuring networks

- Meteorological monitoring networks
- Tidal monitoring networks
- Stream Gauge or fluviometric monitoring networks
- Seismometer networks
- Earth observation satellites
- Geodetic benchmarks
- Global Positioning System
- Spatial Data Infrastructure

Soft Infrastructure

1. Governance

- The system of government and law enforcement, including the political, legislative, law enforcement, justice and penal systems, as well as specialised facilities (government offices, courthouses, prisons, etc.), and specialised systems for collecting, storing and disseminating data, laws and regulation, such as civil registration, business and company registries, land registration, and maintenance of other government databases.
- Emergency services, such as police, fire protection, and ambulances, including specialised vehicles, buildings, communications and dispatching systems.
- Military infrastructure, including military bases, arms depots, training facilities, command centres, communication facilities, major weapons systems, fortifications, specialised arms manufacturing, strategic reserves.

2. Economic

- The financial system, including the banking system, financial institutions, the payment system, exchanges, the money supply, financial regulations, as well as accounting standards and regulations
- Major business logistics facilities and systems, including warehouses as well as warehousing and shipping management systems
- Manufacturing infrastructures, including industrial parks and special economic zones, mines and processing plants for basic materials used as inputs in industry, specialised energy, transportation and water infrastructure used by industry, plus the public safety, zoning and environmental laws and regulations that govern and limit industrial activity, and standards organisations
- Agricultural, forestry and fisheries infrastructure, including specialised food and livestock transportation and storage facilities, major feedlots, agricultural price support systems (including agricultural insurance), agricultural health standards, food inspection, experimental farms and agricultural research centres and schools, the system of licensing and quota management, enforcement systems against poaching, forest wardens, and fire fighting

3. Social

- The health care system, including hospitals, the financing of health care, including health insurance, the systems for regulation and testing of medications and medical procedures, the system for training, inspection and professional discipline of doctors and other medical professionals, public health monitoring and regulations, as well as coordination of measures taken during public health emergencies such as epidemics
- The educational and research system, including elementary and secondary schools, universities, specialised colleges, research institutions, the systems for financing and accrediting educational institutions
- Social welfare systems, including both government support and private charity for the poor, for people in distress or victims of abuse.

4. Cultural, sports and recreational

- Sports and recreational infrastructure, such as parks, sports facilities, the system of sports leagues and associations
- Cultural infrastructure, such as concert halls, museums, libraries, theatres, studios (film studios and recording studios), and specialised training facilities
- Business travel and tourism infrastructure, including both man-made and natural attractions, convention centres, hotels, restaurants, amusement parks, and other services that cater mainly to tourists and business travellers, as well as the systems for informing and attracting tourists, and travel insurance

5. Critical Infrastructure

- Critical Infrastructure and Critical Information Infrastructure (CII)
- The Information Technology Act, 2000 defines Critical Information Infrastructure (CII) as “those computer resource, the destruction of which, shall have debilitating impact on national security, economy, public health or safety”.
- National Critical Information Infrastructure Protection Centre (NCIIPC) has identified the following as ‘Critical Sectors’: –
- Power & Energy
- Banking, Financial Services & Insurance
- Telecom
- Transport
- Government
- Strategic & Public Enterprises

- Present Status:
- Instances of cyberattacks by national/state actors targeting critical infrastructure and nationally important establishments are becoming more common.
- A string of high-profile cyberattacks in recent months has exposed vulnerabilities in the critical infrastructure of even advanced nations.
- This has reinforced the need for improved defences against cyberattacks across continents.
- Defending civilian targets, and more so critical infrastructure, against cyberattacks such as ransomware and phishing will stretch the capability and resources of governments across the globe.

6. Blue-Green Infrastructure

- Blue-Green Infrastructure is intrinsic to development and often serves as a major driver of economic growth. India is at the tipping point of transitioning from a rural to an urban society, so it is critical that the economic and social infrastructure are in good shape.
- Cities are like living organisms. Our cities occupy just 3% of the nation's land, but their contribution to the Gross Domestic Product (GDP) is a whopping around 65%.
- Cities are also a key contributor to climate change. The inability to effectively streamline, regulate and monitor urbanization processes is inadvertently responsible for this vast environmental loss.
- The need of the hour is incisive, insightful planning and nature-driven solutions as a counter to conventional infrastructure practices in cities by harnessing Blue-Green Infrastructure.

7.Education Infrastructure

- Education sector development and investment in infrastructure in this sector are very important to build human and social capital. In India, the education sector is growing rapidly, due to significant private individuals collaborating with the government to improve it. The government is also considering a number of measures to improve India's educational quality. Primary education is becoming more popular, and many international schools are establishing themselves in India. Parents are now voluntarily enrolling their children in international schools to receive a high-quality education beginning in primary school.

8.Health Infrastructure

- Health can be explained as mental, physical, and social well-being which are the resources of living a full and happy life. Good health does not only mean an absence of disease but having the ability and willpower to overcome and bounce back from sickness and other physical or mental issues.
- A healthy individual contributes to the maximum of overall development and growth of a country. A developed health infrastructure also guarantees a country of strong and healthy manpower for the production of goods and services. Health infrastructure includes advanced machines, specialist doctors, nurses, and other paramedical professionals and developed pharmaceutical industries.
- Generally, it is difficult to describe exactly what good health means. However, few scholars evaluate good health by taking various signs like infant and maternal mortality rate, nutrition level, life expectancy, and with the current data of communicable and non-communicable diseases.

- **Problems :**
- a) Concentration of health infra in large cities – facilities required all over India especially rural areas.
- b) Inadequate health infra to meet requirement of large population – more hospitals and clinics to be opened
- c) Lack of health education, no sanitation facilities – better health education required to maintain health and hygiene
- d) Lack of awareness of different diseases – use of IT technology to spread information

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Human Resources and Economic Development

UNIT - 2

THE THEORY OF DEMOGRAPHIC TRANSITION

- Theory of Demographic Transition is a theory that throws light on changes in birth rate and death rate and consequently on the growth-rate of population.
- Along with the economic development, tendencies of birth-rate and death rate are different.
- Because of it, growth rate of population is also different.
- “Demographic transition refers to a population cycle that begins with a fall in the death rate, continues with a phase of rapid population growth and concludes with a decline in the birth rate”-E.G. Dolan.
- According to this theory, economic development has the effect of bringing about a reduction in the death rate.

- The relationship between birth and death rates changes with economic development and a country has to pass through different stages of population growth. C.P. Blacker divided population into five types as high, stationary, early expanding, low stationary and diminishing. According to the theory of demographic transition, population growth will have to pass through these different stages during the course of economic development.
- The four stages of demographic transition mentioned by Max are explained as follows:
- 1st Stage – BR=DR
- 2nd Stage – BR > DR
- 3rd Stage – BR>DR
- 4th Stage – BR=DR

stages of demographic transition

- Stage I is characterised by high birth rate, death rate and low rate of population growth.

- Stage II is characterised by high and stationary birth rate, rapidly declining death rate and very rapid increase in population.

- Stage III is characterised by a falling birth rate, low and stationary death rate and rapidly rising population.

Demographic Transition in India

- With a population of 1.4 billion, India accounts for about 17.5 per cent of the world’s population, 1 of every 6 people on the planet live in India.

- According to the 2022 edition of the United Nations’ World Population Prospects (WPP), India is projected to surpass China as the world’s most populous country in 2023. India is currently at a stage of demographic transition with a substantial percentage of the youth population.

- The Ministry of Statistics and Programme Implementation (MoSPI) has released ‘Youth in India 2022’ Report, which shows that the population share of the youth is starting to decline whereas the share of the elderly is expected to increase during 2021-2036.

- The proportion of elderly population to the total population has increased from 6.8% in 1991 to 9.2% in 2016 and is projected to reach 14.9% in 2036. On the contrary, youth in the age group of 15-29 years comprise 27.2% of the population for the year 2021 which is expected to decrease to 22.7 by 2036.
- The large number of youths in the light of its impact on work participation and dependency ratios, has been called a window of opportunity in terms of growth and development of our country, an opportunity which would need to be seized before the window closes.

DEMOGRAPHIC DIVIDEND

- According to the United Nations Population Fund (UNFPA), demographic dividend means the economic growth potential that can result from shifts in a population's age structure.
- Mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older).
- Median Age:
- The median age in India is 28 years., compared to 38 in China and the US, 43 in Western Europe, and 48 in Japan.
- Diversity in India's States:
- While India is a young country, the status and pace of population ageing vary among States.
- Southern States, which are advanced in demographic transition, already have a higher percentage of older people.
- While Kerala's population is already ageing, in Bihar the working age cohort is predicted to continue increasing till 2051.
- The differences in age structure reflect differences in economic development and health of the states.

How can India take Advantage from the Demographic Dividend?

- Increase in Fiscal Space: Fiscal resources can be diverted from spending on children to investing in modern physical and human infrastructure that will increase economic sustainability of India.
- Rise in Workforce: With more than 65% of the working age population, India can rise as an economic superpower, supplying more than half of Asia's potential workforce over the coming decades.
- Increase in the Labour Force that enhances the productivity of the economy.
- Rise in Women's Workforce that naturally accompanies a decline in fertility, and which can be a new source of growth.

Challenges Associated with Demographic Dividend in India?

- Unfulfilled Educational Requirements: While over 95% of India's children attend primary school, the National Family Health Surveys confirms that poor infrastructure in government schools, malnutrition, and scarcity of trained teachers have resulted in poor learning outcomes.
- The gender inequality in education is a concern as in India, boys are more likely to be enrolled in secondary and tertiary school than girls.
- However, in the Philippines, China and Thailand, it is the reverse and in Japan, South Korea, and Indonesia, the gender differences are rather minimal.
- Low Human Development Parameters: India ranked at 131st position by the United Nations Development Programme (UNDP) Human Development Index 2020, which is alarming.

- Therefore, health and education parameters need to be improved substantially to make the Indian workforce efficient and skilled.

- Jobless Growth: There is mounting concern that future growth could turn out to be jobless due to de-industrialization, de-globalization, and the industrial revolution 4.0.

- As per the NSSO Periodic Labour Force Survey 2017-18, India’s labour force participation rate for the age-group 15-59 years is around 53%, that is, around half of the working age population is jobless.

- The informal nature of the economy in India is another hurdle in reaping the benefits of demographic transition in India.

Absence of Proper Policies:

- Without proper policies, the increase in the working-age population may lead to rising unemployment, fuelling economic and social risks.
- Rise in the Share of Elderly Population: A greater proportion of youth at present will result in a greater proportion of elderly in the population in future.
- This will create a demand for better healthcare facilities and development of welfare schemes/programmes for elderly people.
- People, typically in informal employment, don’t have social security, it will add burden to the respective state.

What Should be Our Approach Forward?

- Upgrading Education Standards: Irrespective of rural or urban setting, the public school system must ensure that every child completes high school education, and is pushed into appropriate skilling, training and vocational education in line with market demand.
- Modernising school curricula, deploying new technology to put in place virtual classrooms together with Massive Open Online Courses (MOOCS) and investing in open digital universities would further help yield a higher educated workforce.
- Fulfilling Health Related Requirements: More finance for health as well as better health facilities from the available funding needs to be ensured and reproductive healthcare services need to be made accessible on a rights-based approach.
- Bridging Gender Gaps in Workforce: New skills and opportunities for women and girls befitting their participation in a 3 trillion dollar economy is urgently needed. This can be done by:
- Legally compulsory gender budgeting to analyse gender disaggregated data and its impact on policies
- Increasing childcare benefits

- Boosting tax incentives for part-time work
- Federal Approach for Diverse States: A new federal approach to governance reforms for demographic dividend will need to be put in place for policy coordination between States on various emerging population issues such as migration, ageing, skilling, female workforce participation and urbanisation.
- Inter-ministerial coordination for strategic planning, investment, monitoring and course correction should be an important feature of this governance arrangement.
- The Health and Education Ministries can collaborate to disseminate key information to help adolescents safeguard their health and ability to learn.
- Inter-Sectoral Collaborations: Moving forward towards safeguarding the futures of adolescents, it is imperative to put in place mechanisms for better inter-sectoral collaboration.
- For instance, School mid-day meals exemplify how improved nutrition benefits learning.
- Studies have established strong links between nutrition and cognitive scores among teenagers.

Size and Growth Rate of Population in India

- The rapid and excessive increase in population is called Population Explosion. In India, population has increased tremendously in post-independence period.
- It increased more than 7.80 crore between 1951-61. Population has been increasing constantly since 1951.
- In year 1991, it was estimated 84.63 crore and in 2001, it increased to 102.87 crore. In 2005 figure stood at 109.10 crore. The rapid rate of increase in population is the main problem of the country.
- India comes second to China as regards the size of its population. It occupies 2.4% of world's area and with 1.5% of world's income; India is maintaining 16% of world's population. It shows that there is excessive burden of population in India. 1.60 crore persons are added annually in country's population. First census took place in 1891 in India.

Table 1. Growth of India's Population

Year	Population (Crore)	Increase/Decrease (Crore)
1891	23.67	—
1901	23.63	—0.04
1911	25.21	1.58
1921	25.14	—0.07
Year of Great Divide		
1993	27.90	2.76
1941	31.86	3.96
1951	36.10	4.24
Year of Population Explosion		
1961	43.92	7.82
1971	54.81	10.89
1981	68.33	13.52
1991	84.63	16.30
2001	102.87	18.24

(Census of India 2001—Statistical Outline of India 2006. India 2006)

In 2011, India's population was 121 crore.
In 2021, India's population was 140 crore.

The Sex Composition of Population

- Sex Composition of the human population is one of the basic demographic characteristics; as changes in sex composition largely reflect the underlying socio-economic and cultural patterns of society in different ways.
- It is an important social indicator to measure the extent of prevailing equity between males and females at a given point in time
- It also becomes important for various types of planning and for the analysis of other demographic characteristics such as mortality, migration, marital status, economic characteristics, etc.
- Sex composition is expressed with the help of a ratio known as sex ratio
- SEX RATIO is defined as "number of females per 1000 males in the population"
- Thus, a sex ratio of 1000 implies complete parity between the two sexes
- Ratios above 1000 indicate excess of females over males; those below 1000 indicate a deficit of females

Reasons why the sex ratio of populations varies and is rarely equal:

- Differences in mortality rates and life expectancy for women and men. Women, on average, live longer than men. This means that all else being equal, we would expect females to account for slightly more than half of the total population.

- Sex ratios at birth are not equal. In all countries, there are more male than female births

- In the absence of selective abortion practices, births in a given population are typically male-biased – the chances of having a boy are very slightly higher than having a girl.

- Migration can also affect the sex ratio of the population. If in some countries there is a significant amount of imported male-dominant labour, all else being equal, we would expect males to account for more than half of the total population

SEX-RATIO IN INDIA

- According to figures of 2011 Census, out of 1210.1 million population, 623.7 million are male and 586.4 million are females
- Thus, the overall sex ratio for Indian Population according to the 2011 Census, is 943
- This suggests that the number of females is quite less as compared to males
- In other words, the sex ratio in the country had always remained unfavorable to females
- The sex-ratio was 933 in the previous census 2001.

Important factors responsible for low and declining sex ratio?

- More males are born than females
- This is a worldwide phenomenon and India is no exception to this
- According to the findings of the Census of India, the imbalance in the number of males and females starts in the beginning
- It is now a well-established law of nature, that the males exceed females at the time of birth
- Many demographers believe that left to its own, this is an unalterable constant
- Practice of female infanticide in the past, and the cognizant feticide at present have resulted in low sex
- The preference for male child, leads to sex determination tests and the resultant termination of pregnancy in case happens to be a female

- The pre-conception and pre-natal diagnostic Technique(Prohibition of Sex Selection) Act, has failed to yield the desired result, because of its inherent loopholes and faulty implementation
- With small family norms, many young couples do not go for a second child, if the first child happens to be a male
- State level patterns of Sex Ratio
- During the post-Independence period from 1951 to 2011, sex ratio in rural India has decreased from 965 to 946 and increased from 860 to 929 in urban India
- At all India level, the sex ratio has decreased from 946 in 1951 to 943 in 2011
- During this period 19 States/UTs have recorded significant increase in sex ratio

- Notable increase has been recorded in Andaman & Nicobar Islands, (40.16%), Delhi (13.02%), Assam (10.34%) and West Bengal (9.82%). Contrary to this, 16 States/UTs have recorded significant decrease in Sex ratio.
- Notable decrease in sex ratio have been recorded in Daman & Diu (45.03%), Dadra & Nagar Haveli (18.19%), Goa (13.71%), Lakshadweep (9.25%) and Bihar (8.21%)
- the lowest sex ratio in India is in Haryana, where sex ratio is only 879 whereas the highest sex ratio is in Kerala (1084)
- If we talk about the sex ratio in the union territories; Puducherry has highest sex ratio of 1037 while Daman and Diu has lowest sex ratio (618) among all the union territories of India
- Position of the bottom five is occupied by the five Union Territories of India i.e. Andaman and Nicobar Islands, Delhi, Chandigarh, Dadra and Nagar Haveli and Daman and Diu.

- Puducherry and Lakshadweep are the only two union territories which have sex ratio of more than 900 females per thousand males
- The steps taken to improve the sex ratio in India
- Complete ban under law on sex determination during pregnancy under the PCPDNT Act
- Declaring 24th January as the National Girl Child Day in 2012
- Sabla scheme launched on the International Women’s day in 2011, aims at enabling self-development and empowerment of adolescent girls, improving their health and nutrition status; and spreading awareness about health, hygiene, nutrition, reproductive health, family and child care
- Beti Bachao Beti Padhao Scheme was launched in 2015 in Panipat, Haryana to address the issue of decline in child sex ratio, whose objectives are:

- Prevention of gender biased sex selective elimination
- Ensuring survival & protection of the girl child
- Ensuring education and participation of the girl child
- **Other recommendations/suggestions:**
- Rolling out campaigns on sensitisation towards women and children
- Effective implementation of the existing women- and children-related policies
- Improving women’s status in the society, could help change the bias for son preference
- Investing on education and economic prosperity could help empower women and reduce gender gap

Age Composition of Population

- Age structure of the population of a country indicates the extent, to which the population of that country is productive from the economic point of view. Population in the age group of 15-60 years is known as working population. Population in the age group of 0-14 years and above 60 years is known as non-working/dependent population. Higher proportion of working population is beneficial for the economic development of the country. In India, percentage of population in the age group of 0-14 years is still high.
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- Demographic Gap

- It is the difference between the birth rate and death rate of the population of a country. In demographic transition, the demographic gap is small during the initial and final stages, while it becomes large during the middle stages.

Demographic Dividend

- It refers to an opportunity before a country with a high share of population between the ages of 15 and 64, to boost economic growth. This stage is reached when the country experiences lower fertility rates, which means that the dependent population below the age of 15 years is low. The population above 64 years of age is also low due to the lower life expectancies of the older generations. On the other hand, the population between 15-64 is high, due to the higher birth rates in the previous generation. This reduces the dependency ratio (share of population not engaged in productive employment and dependent on others) and thus, boosts the economic growth.
- A larger working population also means that the domestic savings rate is high (since the dependent population does not increase savings, but reduces them) and thus, investment and economic growth is higher. Many East Asian countries were able to achieve high economic growth rates by utilizing their demographic dividend. Demographic dividend can only be useful, if it is accompanied by supportive national policies, which improve literacy, provide employment, health care etc. High share of young population in a country can also have negative consequences like social unrest, crime and high divorce rates etc.

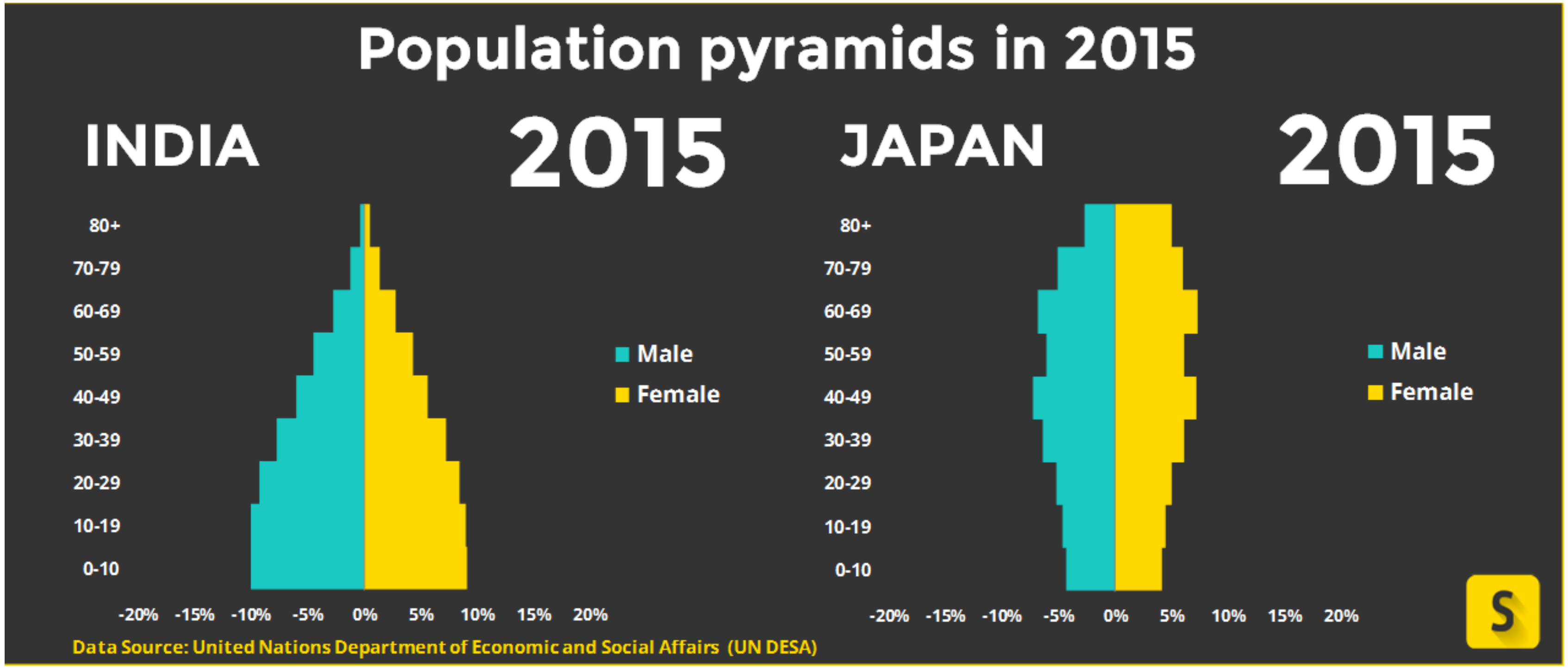
Demographic Dividend – India

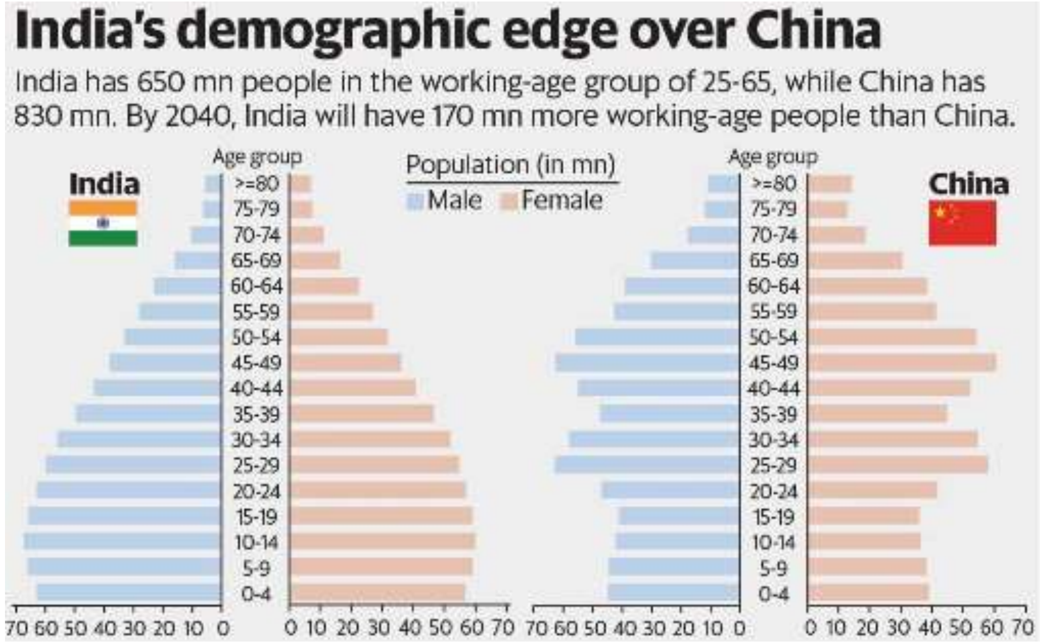
Table. Age Structure of the Indian Population 1961-2026

Year	Age groups (Percentage round up)			Total
	0-14 years	15-59 years	60 + years	
1961	41	53	6	100
1971	42	53	5	100
1981	40	54	6	100
1991	38	56	7	100
2001	34	59	7	100
2011	29	63	8	100
2026	23	64	12	100

- Numbers show the share of population as a percentage of total population.
- Demographic dividend helps economic growth in three ways
- Working population has a higher saving rate, which means higher investment and growth.
- Low fertility means females get freedom to work (lesser burden of taking care of children), which boosts economic production. It also, promotes gender equality.
- With lesser children, people spend more on their health, leading to improvement in productivity

Population Pyramid




India's demographic edge over China
India has 650 mn people in the working-age group of 25-65, while China has 830 mn. By 2040, India will have 170 mn more working-age people than China.
India
China
Population (in mn)
Male
Female
Age group
>=80
75-79
70-74
65-69
60-64
55-59
50-54
45-49
40-44
35-39
30-34
25-29
20-24
15-19
10-14
5-9
0-4
70 60 50 40 30 20 10 0
0 10 20 30 40 50 60 70

Density of Population

- Population density is the number of people living in a unit area of the earth’s surface. It is normally expressed as per square km.
- According to the census of 2011 ,the population density of India is 382 people/square km
- The main cause of worry is that the Indian population density has been consistently increasing since 1921

Urbanization and Economic Growth in India

- Since historic times cities are engines of economic growth and innovation. It is said that, cities, not nation-states, are the main players in macroeconomics. According to The Economic Survey, from 1991 to 2011, the percentage of India's population that lives in cities and towns has increased from a quarter to a third and this segment produces more than three-fifths of the country's gross domestic product (GDP). India will be the third-largest economy by 2025 (HSBC 2018). Powering that growth is the country's urbanisation, which is accelerating rapidly in absolute numbers, although not as fast if considering decadal growth rates. Urbanization acts as a two-edged sword, as it brings prosperity but also new challenges along with it.
- *Urbanization led to socio-eco growth*
- Over the last two decades, cities have emerged as the world's economic platforms for production, innovation and trade.
- The rapid economic growth usually associated with urbanisation can be partially attributed to structural transformation, as labour moves from the agricultural sector to industry and services.

- Urban areas offer significant opportunities for both formal and informal employment, generating a sizeable share of new private sector jobs.
- Urbanization has helped millions escape poverty through increased productivity, employment opportunities, improved quality of life and large-scale investment in infrastructure and services.

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- Urbanization has helped millions escape poverty through increased productivity, employment opportunities, improved quality of life and large-scale investment in infrastructure and services.
- The transformative power of urbanization has in part, been facilitated by the rapid deployment of Information and Communications Technology.

- It can also be attributed to agglomeration and scale economies, as proximity and density reduce the per capita costs of providing infrastructure and service.
- Urbanization helps in creating knowledge spill-overs and specialisation that hugely enhance the productivity of urban residents.

Challenges

- Overcrowding
- Migration
- Unemployment
- Poverty
- Housing
- Slums and Squatter Settlements
- Urban Crime
- Environmental challenges
- Urban Pollution
- Service delivery
- Planning
- Solid waste management
- Transport and communication

The Quality of Population

- The country's growth rate is ultimately determined by the quality of its population. The efficiency of a country's human resources in terms of productivity, the standard of living, and social activities are measured by population quality. The overall level of certain desirable traits in a population is referred to as population quality. The overall population of a country does not contribute equally to the size of the next generation, the distribution of births, particularly in low-fertility populations, differs significantly from that of adult members. Following factors that influence population quality:
- **Impact of Literacy Rate:**
- **Impact of Healthcare System:**
- **Impact of Skilled and Trained People:**

Human development index

Human development index measures the development on the basis of the following indicators:

- Longevity
- Education attainment
- Income or per capita real domestic product.

HDI of Indian State

The following values are estimates from 2021 calculated by Global Data Lab

Rank	State/Union Territory	HDI (2021)
High Human Development		
1	Kerala	0.752
2	Goa	0.751
3	Chandigarh	0.744
4	Delhi	0.73
5	Puducherry	0.726
6	Lakshadweep	0.715
7	Himachal Pradesh	0.703
8	Sikkim	0.702

Medium Human Development

9	Jammu and Kashmir		0.699
10	Punjab		0.694
11	Haryana		0.691
12	Maharashtra		0.688
12	Mizoram		0.688
13	Tamil Nadu		0.686
14	Manipur		0.678
15	Uttarakhand		0.672
16	Nagaland		0.67
17	Karnataka		0.667
18	Arunachal Pradesh		0.665
19	Daman and Diu		0.661
20	Telangana		0.647
21	Meghalaya		0.643
22	Rajasthan		0.638
23	Gujarat		0.638
24	Andhra Pradesh		0.63
25	Tripura		0.629
26	West Bengal		0.624
27	Dadra and Nagar Haveli		0.62
28	Chhattisgarh		0.605
29	Assam		0.597
30	Odisha		0.597
31	Madhya Pradesh		0.596
32	Uttar Pradesh		0.592
33	Jharkhand		0.589
34	Bihar		0.571

Changing profile of GDP and employment in India

- country's employment structure depicts how the workforce is divided into primary, secondary, and tertiary sectors.
- Different employment structures exist in different countries.
- A country's employment structure can reveal a great deal about its economy.
- In the wealthiest countries, for example, the tertiary/quaternary sector employs far more people than the primary and secondary sectors.
- More people work in the primary sector than in the secondary or tertiary sectors in the world's poorest countries.
- For example, in the USA most people work in the tertiary sector while the labor force in Brazil is more evenly distributed across the three sectors.

- The nature of employment in India is multifaceted.
- Some people are employed throughout the year, while others are only employed for a few months.
- Many workers do not receive fair pay for their work.
- All those engaged in economic activities are counted as employed when calculating the number of worker.
- Men account for roughly 70% of the workforce, while women make up the remaining 30%s.

Employment and Productivity per Worker in India

- Labour productivity is an important economic indicator that is closely linked to economic growth, competitiveness, and living standards within an economy. Labour productivity represents the total volume of output (measured in terms of Gross Domestic Product, GDP) produced per unit of labour (measured in terms of the number of employed persons or hours worked) during a given time reference period. The indicator allows data users to assess GDP-to-labour input levels and growth rates over time, thus providing general information about the efficiency and quality of human capital in the production process for a given economic and social context, including other complementary inputs and innovations used in production.

Sectoral composition of Indian Economy

UNIT-3

PRIMARY, SECONDARY, TERTIARY SECTORS

- India is the fastest growing large economy in the world, with an enormous population, favourable demographics and high catch-up potential due to low initial GDP per head.
- As per the World Bank data, in 2017, India became the sixth largest economy with a GDP of USD 2.59 trillion, relegating France to the seventh position.
- India is likely to surpass the United Kingdom in the world's largest economy rankings in 2019, according to a report by global consultancy firm PwC.
- According to World Economic Outlook report of IMF, India's economy is expected to grow by 7.5 per cent in the 2019-20 fiscal year, keeping an upward trajectory as the rest of the world slumps.

- According to report "India's economy is poised to pick up in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease," the report said.
- As per Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation (MOSPI), the growth in GDP during 2018-19 is estimated at 7.2 percent as compared to the growth rate of 6.7 per cent in 2017-18.

ECONOMIC SECTORS

- Economic activities result in the production of goods and services while sectors are the group of economic activities classified on the basis of some criteria.
- All economic activity was in the primary sector during early civilisation. After the surplus production of food, people's need for other products increased which led to the development of the secondary sector.
- The growth of secondary sector spread its influence during the industrial revolution in the nineteenth century.
- A support system was needed to facilitate the industrial activity. Certain sectors like transport and finance played an important role in supporting the industrial activity.

Primary Sector

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

Secondary Sector

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

Tertiary Sector/Service Sector

- This sector's activities help in the development of the primary and secondary sectors. By itself, economic activities in tertiary sector do not produce goods but they are an aid or a support for the production.
- Goods transported by trucks or trains, banking, insurance, finance etc. come under the sector. It provides the value addition to a product same as secondary sector.
- This sector jobs are called white collar jobs.

Pink Collar Worker

- Pink-collar worker is one who is employed in a job that is traditionally considered to be women's work. The term pink-collar worker was used to distinguish female-orientated jobs from the blue-collar worker, a worker in manual labor, and the white-collar worker, a professional or educated worker in office positions.
- A pink collar worker need not require as much professional training as white-collar professions. They do not get equal pay or prestige.
- A pink collar worker is usually a woman. Men rarely work in pink collar jobs. Some examples of pink collar occupations are baby sitter, florist, day care worker, nurses etc.
- Lately, the pink collar worker is educated or trained. Pink collar workers are educated through training seminars or classes and they have to continue to strive for advancement in their careers.
- Today, women have more opportunities in traditionally male white-collar jobs and men work in traditionally female pink-collar jobs.

Why did India shift from primary sector to services sector and not secondary sector?

- The natural economic movement of a country goes from agrarian economy to an industrial economy to a service economy but India has leapfrogged from an agrarian economy to a service economy.

- One remarkable feature of India’s recent growth is diversification into services, with the services sector dominating GDP.

- India’s success in software and IT-enables serviced (ITeS) exports, has made it a significant services exporter with its share in world services exports rising from 0.6 per cent in 1990 to 3.3 per cent in 2013.

- Well educated and immense human resources, Fluency in English and availability of cheap labour are other reasons for rapid growth of service sector in the country

Quaternary Activities

- These are specialized tertiary activities in the ‘Knowledge Sector’ which demands a separate classification.
- The quaternary sector is the intellectual aspect of the economy. It is the process which enables entrepreneurs to innovate and improve the quality of services offered in the economy.
- Personnel working in office buildings, elementary schools and university classrooms, hospitals and doctors’ offices, theatres, accounting and brokerage firms all belong to this category of services.
- Like other tertiary functions, quaternary activities can also be outsourced.

Quinary Activities

- The quinary sector is the part of the economy where the top-level decisions are made. This includes the government which passes legislation. It also comprises the top decision-makers in industry, commerce and also the education sector.

- These are services that focus on the creation, re-arrangement and interpretation of new and existing ideas; data interpretation and the use and evaluation of new technologies.

- Profession under this category often referred as 'gold collar' professions, they represent another subdivision of the tertiary sector representing special and highly paid skills of senior business executives, government officials, research scientists, financial and legal consultants, etc.

Organised Sector

- employment terms are fixed and regular, and the employees get assured work and social security.
- It can also be defined as a sector, which is registered with the government and a number of acts apply to the enterprises. Schools and hospitals are covered under the organised sector.
- Workers in the organised sector enjoy security of employment. They are expected to work only a fixed number of hours. If they work more, they have to be paid overtime by the employer.

Unorganised Sector

- An unorganised worker is a home-based worker or a self-employed worker or a wage worker in the unorganized sector and includes a worker in the organized sector who is not covered by any of the Acts pertaining to welfare Schemes as mentioned in Schedule-II of Unorganized Workers Social Security Act, 2008.

- In this sector wage-paid labour is largely non-unionised due to casual and seasonal nature of employment and scattered location of enterprises.

- The sector is marked by low incomes, unstable and irregular employment, and lack of protection either from legislation or trade unions.

The Public Sector

- In the sector, government owns most of the assets and it is the part of the economy concerned with providing various governmental services.
- The purpose of the public sector is not just to earn profits. Governments raise money through taxes and other ways to meet expenses on the services rendered by it.

The Private Sector

- In the private sector, ownership of assets and delivery of services is in the hands of private individuals or companies.
- It is sometimes referred as the citizen sector, which is run by private individuals or groups, usually as a means of enterprise for profit, and is not controlled but regulate by the State.
- Activities in the private sector are guided by the motive to earn profits. To get such services we have to pay money to these individuals and companies.

Issues in Agriculture sector in India

- Agriculture plays a vital role in the Indian economy. Over 70 per cent of the rural households depend on agriculture.
- Agriculture is an important sector of Indian economy as it contributes about 17% to the total GDP and provides employment to around 58% of the population. Indian agriculture has registered impressive growth over last few decades. The foodgrains production has increased from 51 million tonnes (MT) in 1950-51 to 250MT during 2011-12 highest ever since independence
- The share of agriculture in GDP increased to 19.9 per cent in 2020-21 from 17.8 per cent in 2019-20. The last time the contribution of the agriculture sector in GDP was at 20 per cent was in 2003-04.
- **Instability:** Agriculture in India is largely depends on monsoon. As a result, production of food-grains fluctuates year after year. A year of abundant output of cereals is often followed by a year of acute shortage.
- **Cropping Pattern:** The crops that are grown in India are divided into two broad categories: food crops and non-food crops. While the former comprise food-grains, sugarcane and other beverages, the latter includes different kinds of fibres and oil seeds.

- Land Ownership: Although the ownership of agricultural land in India is fairly widely distributed, there is some degree of concentration of land holding. Inequality in land distribution is also due to the fact that there are frequent changes in land ownership in India. It is believed that large parcels of land in India are owned by a relatively small section of the rich farmers, landlords and money-lenders, while the vast majority of farmers own very little amount of land, or no land at all.

- Sub-Division and Fragmentation of Holding: Due to the growth of population and break-down of the joint family system, there has occurred continuous sub-division of agricultural land into smaller and smaller plots. At times small farmers are forced to sell a portion of their land to repay their debt. This creates further sub-division of land.

- Land Tenure: The land tenure system of India is also far from perfect. In the pre-independence period, most tenants suffered from insecurity of tenancy. They could be evicted any time. However, various steps have been taken after Independence to provide security of tenancy.

- Conditions of Agricultural Labourers: The conditions of most agricultural labourers in India are far from satisfactory. There is also the problem of surplus labour or disguised unemployment. This pushes the wage rates below the subsistence levels.

- Manures, Fertilizers and Biocides: Indian soils have been used for growing crops over thousands of years without caring much for replenishing. This has led to depletion and exhaustion of soils resulting in their low productivity. The average yields of almost all the crops are among t e lowest in the world. This is a serious problem which can be solved by using more manures and fertilizers.

- Irrigation: Although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Irrigation is the most important agricultural input in a tropical monsoon country like India where rainfall is uncertain, unreliable and erratic India cannot achieve sustained progress in agriculture unless and until more than half of the cropped area is brought under assured irrigation.

- Lack of mechanisation: In spite of the large-scale mechanisation of agriculture in some parts of the country, most of the agricultural operations in larger parts are carried on by human hand using simple and conventional tools and implements like wooden plough, sickle, etc. Little or no use of machines is made in ploughing, sowing, irrigating, thinning and pruning, weeding, harvesting threshing and transporting the crops.

- Agricultural Marketing: Agricultural marketing still continues to be in a bad shape in rural India. In the absence of sound marketing facilities, the farmers have to depend upon local traders and middlemen for the disposal of their farm produce which is sold at throw-away price.

- Inadequate transport: One of the main handicaps with Indian agriculture is the lack of cheap and efficient means of transportation. Even at present there are lakhs of villages which are not well connected with main roads or with market centres.

Land Reforms

- Pre Independence
- Under the British Raj, the farmers did not have the ownership of the lands they cultivated, the landlordship of the land lied with the Zamindars, Jagirdars etc.
- Several important issues confronted the government and stood as a challenge in front of independent India.
- Land was concentrated in the hands of a few and there was a proliferation of intermediaries who had no vested interest in self-cultivation.
- Leasing out land was a common practice.
- The tenancy contracts were expropriative in nature and tenant exploitation was almost everywhere.
- Land records were in extremely bad shape giving rise to a mass of litigation.
- One problem of agriculture was that the land was fragmented into very small parts for commercial farming.
- It resulted in inefficient use of soil, capital, and labour in the form of boundary lands and boundary disputes.

- Post Independence
- A committee, under the Chairmanship of C. J. Kumarappan was appointed to look into the problem of land. The Kumarappa Committee's report recommended comprehensive agrarian reform measures.
- The Land Reforms of the independent India had four components:
- The Abolition of the Intermediaries
- Tenancy Reforms
- Fixing Ceilings on Landholdings
- Consolidation of Landholdings.
- These were taken in phases because of the need to establish a political will for their wider acceptance of these reforms.

Abolition of the Intermediaries

- Abolition of the zamindari system: The first important legislation was the abolition of the zamindari system, which removed the layer of intermediaries who stood between the cultivators and the state.

- The reform was relatively the most effective than the other reforms, for in most areas it succeeded in taking away the superior rights of the zamindars over the land and weakening their economic and political power.

- The reform was made to strengthen the actual landholders, the cultivators.

- Advantages: The abolition of intermediaries made almost 2 crore tenants the owners of the land they cultivated.
- The abolition of intermediaries has led to the end of a parasite class. More lands have been brought to government possession for distribution to landless farmers.
- A considerable area of cultivable waste land and private forests belonging to the intermediaries has been vested in the State.
- The legal abolition brought the cultivators in direct contact with the government.
- Disadvantages: However, zamindari abolition did not wipe out landlordism or the tenancy or sharecropping systems, which continued in many areas. It only removed the top layer of landlords in the multi-layered agrarian structure.

- It has led to large-scale eviction. Large-scale eviction, in turn, has given rise to several problems – social, economic, administrative and legal.
- Issues: While the states of J&K and West Bengal legalised the abolition, in other states, intermediaries were allowed to retain possession of lands under their personal cultivation without limit being set.
- Besides, in some states, the law applied only to tenant interests like sairatimahals etc. and not to agricultural holdings.
- Therefore, many large intermediaries continued to exist even after the formal abolition of zamindari.
- It led to large-scale eviction which in turn gave rise to several socio-economic and administrative problems.

Tenancy Reforms

- After passing the Zamindari Abolition Acts, the next major problem was of tenancy regulation.
- The rent paid by the tenants during the pre-independence period was exorbitant; between 35% and 75% of gross produce throughout India.
- Tenancy reforms introduced to regulate rent, provide security of tenure and confer ownership to tenants.
- With the enactment of legislation (early 1950s) for regulating the rent payable by the cultivators, fair rent was fixed at 20% to 25% of the gross produce level in all the states except Punjab, Haryana, Jammu and Kashmir, Tamil Nadu, and some parts of Andhra Pradesh.
- The reform attempted either to outlaw tenancy altogether or to regulate rents to give some security to the tenants.

- In West Bengal and Kerala, there was a radical restructuring of the agrarian structure that gave land rights to the tenants.
- Issues: In most of the states, these laws were never implemented very effectively. Despite repeated emphasis in the plan documents, some states could not pass legislation to confer rights of ownership to tenants.
- Few states in India have completely abolished tenancy while others states have given clearly spelt out rights to recognized tenants and sharecroppers.
- Although the reforms reduced the areas under tenancy, they led to only a small percentage of tenants acquiring ownership rights.

Ceilings on Landholdings

- The third major category of land reform laws were the Land Ceiling Acts. In simpler terms, the ceilings on landholdings referred to legally stipulating the maximum size beyond which no individual farmer or farm household could hold any land. The imposition of such a ceiling was to deter the concentration of land in the hands of a few.

- In 1942 the Kumarappan Committee recommended the maximum size of lands a landlord can retain. It was three times the economic holding i.e. sufficient livelihood for a family.

- By 1961-62, all the state governments had passed the land ceiling acts. But the ceiling limits varied from state to state. To bring uniformity across states, a new land ceiling policy was evolved in 1971.

- In 1972, national guidelines were issued with ceiling limits varying from region to region, depending on the kind of land, its productivity, and other such factors.
- It was 10-18 acres for best land, 18-27 acres for second class land and for the rest with 27-54 acres of land with a slightly higher limit in the hill and desert areas.
- With the help of these reforms, the state was supposed to identify and take possession of surplus land (above the ceiling limit) held by each household, and redistribute it to landless families and households in other specified categories, such as SCs and STs.

- Issues: In most of the states these acts proved to be toothless. There were many loopholes and other strategies through which most landowners were able to escape from having their surplus land taken over by the state.
- While some very large estates were broken up, in most cases landowners managed to divide the land among relatives and others, including servants, in so-called ‘benami transfers’ – which allowed them to keep control over the land.
- In some places, some rich farmers actually divorced their wives (but continued to live with them) in order to avoid the provisions of the Land Ceiling Act, which allowed a separate share for unmarried women but not for wives.

Consolidation of Landholdings

- Consolidation referred to reorganization/redistribution of fragmented lands into one plot.
- The growing population and less work opportunities in non- agricultural sectors, increased pressure on the land, leading to an increasing trend of fragmentation of the landholdings.
- This fragmentation of land made the irrigation management tasks and personal supervision of the land plots very difficult.
- This led to the introduction of landholdings consolidation.
- Under this act, If a farmer had a few plots of land in the village, those lands were consolidated into one bigger piece of land which was done by either purchasing or exchanging the land.
- Almost all states except Tamil Nadu, Kerala, Manipur, Nagaland, Tripura and parts of Andhra Pradesh enacted laws for consolidation of Holdings.

- In Punjab and Haryana, there was compulsory consolidation of the lands, whereas in other states law provided for consolidation on voluntary basis; if the majority of the landowners agreed.
- Advantages: It prevented the endless subdivision and fragmentation of land Holdings.
- It saved the time and labour of the farmers spent in irrigating and cultivating lands at different places.
- The reform also brought down the cost of cultivation and reduced litigation among farmers as well.
- Result: Due to lack of adequate political and administrative support the progress made in terms of consolidation of holding was not very satisfactory except in Punjab, Haryana and western Uttar Pradesh where the task of consolidation was accomplished.

- However, in these states there was a need for re-consolidation due to subsequent fragmentation of land under the population pressure.
- Need of re-consolidation: The average holding size in 1970-71 was 2.28 hectares (Ha), which has come down to 1.08 Ha in 2015-16.
- While Nagaland has the largest average farm size, Punjab and Haryana rank second and third in the list respectively.
- The holdings are much smaller in densely populated states like Bihar, West Bengal and Kerala.
- The multiple subdivisions across generations have reduced even the sub divisions to a very small size.

Green Revolution

- In India, the Green Revolution was mainly led by M.S. Swaminathan.
- The Green Revolution resulted in a great increase in production of food grains (especially wheat and rice) due to the introduction into developing countries of new, high-yielding variety seeds, beginning in the mid-20th century.
- Its early dramatic successes were in Mexico and the Indian subcontinent.
- The Green Revolution, spreading over the period from 1967-68 to 1977-78, changed India’s status from a food-deficient country to one of the world's leading agricultural nations.

Objectives of Green Revolution

- Short Term: The revolution was launched to address India's hunger crisis during the second Five Year Plan.
- Long Term: The long term objectives included overall agriculture modernization based on rural development, industrial development; infrastructure, raw material etc.
- Employment: To provide employment to both agricultural and industrial workers.
- Scientific Studies: Producing stronger plants which could withstand extreme climates and diseases.
- Globalization of the Agricultural World: By spreading technology to non-industrialized nations and setting up many corporations in major agricultural areas.

Basic Elements of the Green Revolution

- Expansion of Farming Areas: Although the area of land under cultivation was being increased from 1947 itself, this was not enough to meet the rising demand.
- The Green Revolution provided assistance in this quantitative expansion of farmlands.
- Double-cropping System: Double cropping was a primary feature of the Green Revolution. The decision was made to have two crop seasons per year instead of just one.
- The one-season-per-year practice was based on the fact that there is only one rainy season annually.
- Water for the second phase now came from huge irrigation projects. Dams were built and other simple irrigation techniques were also adopted.

- Using seeds with improved genetics: Using seeds with superior genetics was the scientific aspect of the Green Revolution.
- The Indian Council for Agricultural Research developed new strains of high yield variety seeds, mainly wheat and rice, millet and corn.
- Important Crops in the Revolution:
- Main crops were Wheat, Rice, Jowar, Bajra and Maize.
- Non-food grains were excluded from the ambit of the new strategy.
- Wheat remained the mainstay of the Green Revolution for years.

Positive Impacts of Green Revolution

- Tremendous Increase in Crop Produce: It resulted in a grain output of 131 million tonnes in the year 1978-79 and established India as one of the world's biggest agricultural producers.
- The crop area under high yielding varieties of wheat and rice grew considerably during the Green Revolution.
- Reduced Import of Food-Grains: India became self-sufficient in food-grains and had sufficient stock in the central pool, even, at times, India was in a position to export food-grains.
- The per capita net availability of food-grains has also increased.
- Benefits to the Farmers: The introduction of the Green Revolution helped the farmers in raising their level of income.
- Farmers ploughed back their surplus income for improving agricultural productivity.

- The big farmers with more than 10 hectares of land were particularly benefited by this revolution by investing large amounts of money in various inputs like HYV seeds, fertilizers, machines, etc. It also promoted capitalist farming.
- Industrial Growth: The Revolution brought about large scale farm mechanization which created demand for different types of machines like tractors, harvesters, threshers, combines, diesel engines, electric motors, pumping sets, etc.
- Besides, demand for chemical fertilizers, pesticides, insecticides, weedicides, etc. also increased considerably.

- Several agricultural products were also used as raw materials in various industries known as agro based industries.
- Rural Employment: There was an appreciable increase in the demand for labour force due to multiple cropping and use of fertilizers.
- The Green Revolution created plenty of jobs not only for agricultural workers but also industrial workers by creating related facilities such as factories and hydroelectric power stations.

Negative Impacts of Green Revolution

- Non-Food Grains Left Out : Although all food-grains including wheat, rice, jowar, bajra and maize have gained from the revolution, other crops such as coarse cereals, pulses and oilseeds were left out of the ambit of the revolution.
- Major commercial crops like cotton, jute, tea and sugarcane were also left almost untouched by the Green Revolution.
- Limited Coverage of HYVP: High Yielding Variety Programme (HYVP) was restricted to only five crops: Wheat, Rice, Jowar, Bajra and Maize.
- Therefore, non-food grains were excluded from the ambit of the new strategy.
- The HYV seeds in the non-food crops were either not developed so far or they were not good enough for farmers to risk their adoption.

- Regional Disparities:
- Green Revolution technology has given birth to growing disparities in economic development at interred and intra regional levels.
- It has so far affected only 40 percent of the total cropped area and 60 per cent is still untouched by it.
- The most affected areas are Punjab, Haryana and western Uttar Pradesh in the north and Andhra Pradesh and Tamil Nadu in the south.
- It has hardly touched the Eastern region, including Assam, Bihar, West Bengal and Orissa and arid and semi-arid areas of Western and Southern India.

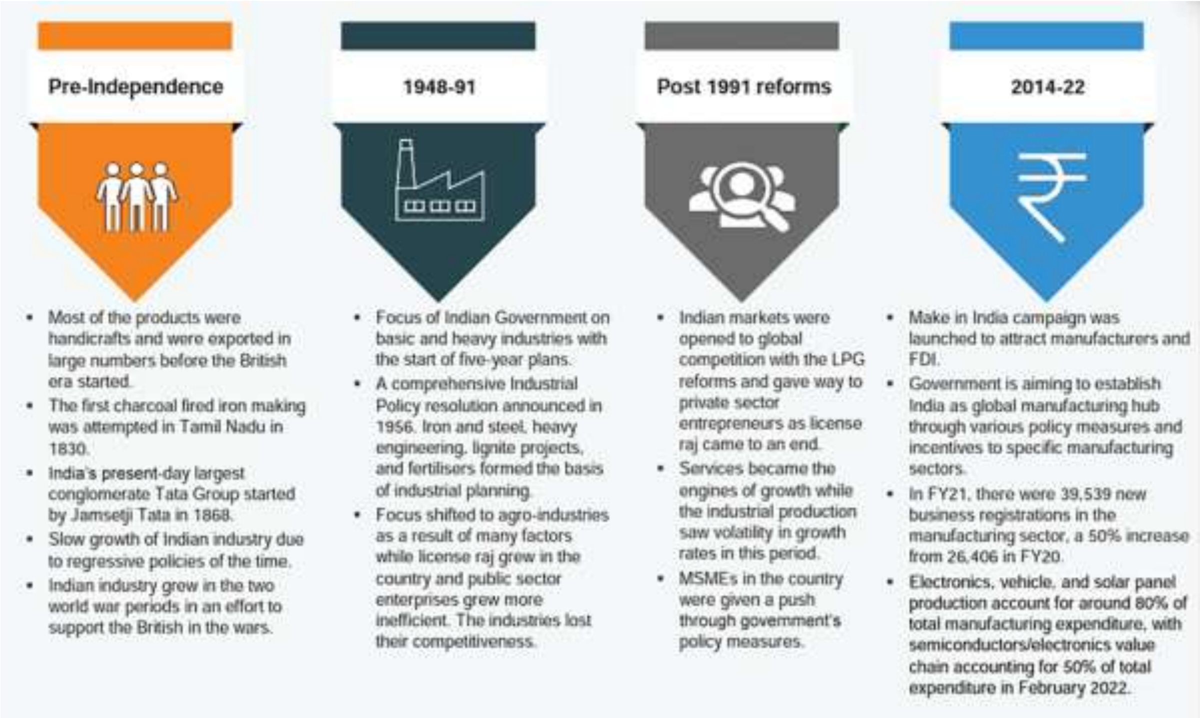
- The Green Revolution affected only those areas which were already better placed from an agricultural point of view.
- Thus the problem of regional disparities has further aggravated as a result of the Green Revolution.
- Excessive Usage of Chemicals: The Green Revolution resulted in a large-scale use of pesticides and synthetic nitrogen fertilisers for improved irrigation projects and crop varieties.
- However, little or no efforts were made to educate farmers about the high risk associated with the intensive use of pesticides.
- Pesticides were sprayed on crops usually by untrained farm labourers without following instructions or precautions.

- This causes more harm than good to crops and also becomes a cause for environment and soil pollution.
- Water Consumption: The crops introduced during the green revolution were water-intensive crops.
- Most of these crops being cereals, required almost 50% of dietary water footprint.
- Canal systems were introduced, and irrigation pumps also sucked out the groundwater to supply the water-intensive crops, such as sugarcane and rice, thus depleting the groundwater levels.
- Punjab is a major wheat- and rice-cultivating area, and hence it is one of the highest water depleted regions in India.
- Impacts on Soil and Crop Production: Repeated crop cycle in order to ensure increased crop production depleted the soil's nutrients.

- To meet the needs of new kinds of seeds, farmers increased fertilizer usage.
- The pH level of the soil increased due to the usage of these alkaline chemicals.
- Toxic chemicals in the soil destroyed beneficial pathogens, which further led to the decline in the yield.
- Unemployment: Except in Punjab, and to some extent in Haryana, farm mechanization under the Green Revolution created widespread unemployment among agricultural labourers in the rural areas.
- The worst affected were the poor and the landless labourers.
- Health Hazards: The large-scale use of chemical fertilizers and pesticides such as Phosphamidon, Methomyl, Phorate, Triazophos and Monocrotophos resulted in resulted in a number of critical health illnesses including cancer, renal failure, stillborn babies and birth defects.

Industrial Development

- India's vision of a USD 5 Trillion Economy will significantly depend on the growth of the Industrial sector. There are eight industrial sectors that are considered the core in India:
- Electricity.
- Steel.
- Refinery products.
- Crude oil.
- Coal.
- Cement.
- Natural gas.
- Fertilizers.


Pre-Independence
1948-91
Post 1991 reforms
2014-22
• Most of the products were handicrafts and were exported in large numbers before the British era started.
• The first charcoal fired iron making was attempted in Tamil Nadu in 1830.
• India's present-day largest conglomerate Tata Group started by Jamsetji Tata in 1868.
• Slow growth of Indian industry due to regressive policies of the time.
• Indian industry grew in the two world war periods in an effort to support the British in the wars.
• Focus of Indian Government on basic and heavy industries with the start of five-year plans.
• A comprehensive Industrial Policy resolution announced in 1956. Iron and steel, heavy engineering, lignite projects, and fertilisers formed the basis of industrial planning.
• Focus shifted to agro-industries as a result of many factors while license raj grew in the country and public sector enterprises grew more inefficient. The industries lost their competitiveness.
• Indian markets were opened to global competition with the LPG reforms and gave way to private sector entrepreneurs as license raj came to an end.
• Services became the engines of growth while the industrial production saw volatility in growth rates in this period.
• MSMEs in the country were given a push through government's policy measures.
• Make in India campaign was launched to attract manufacturers and FDI.
• Government is aiming to establish India as global manufacturing hub through various policy measures and incentives to specific manufacturing sectors.
• In FY21, there were 39,539 new business registrations in the manufacturing sector, a 50% increase from 26,406 in FY20.
• Electronics, vehicle, and solar panel production account for around 80% of total manufacturing expenditure, with semiconductors/electronics value chain accounting for 50% of total expenditure in February 2022.

Liberalization, Privatization and Globalization (LPG) Model of Development

- The New Economic Policy was introduced in 1991. There are three broad concepts of New Economic Policy: Liberalisation, Privatisation, and Globalisation, or the LPG Model. The LPG Model was introduced to replace the LQP Model, i.e., Licensing, Quotas, and Permits. The main aim of introducing the reforms was to attain a high rate of economic growth, reduce the rate of inflation, reduce the fiscal deficit, and overcome the BoP (Balance of Payment) crisis.

Liberalisation

- Liberalisation of the economy is considered a key component of NEP. Before the New Economic Policy of 1991, the private sector was in control of the government. Because of this, the domestic industries were not allowed to take any decisions regarding the industry's work without the government's interference. This resulted in a fall in professionalism and inefficiency of work within the industry. With the introduction of the liberalisation policy, this sector gained the freedom of decision-making without any interference from the government.

- The government also decided to abolish the licensing system. Before 1991, a business needed to get a license from the government to start any industrial activity. This resulted in a delay in getting a license, as there was a long queue of people before the window of the government department, seeking authorisation to get a license. This also resulted in corruption as the officers started taking bribes to make the process faster. To end this, the government abolished the licensing system and permitted individuals to start their industrial activities without any permission (however permission is still required in industries, such as medicine, defense equipment, etc.)

Privatisation

- Privatisation refers to the partial or full ownership and operation of the public sector enterprises by the private sector. It implies the withdrawal of government ownership from the public sector. It can be done in two ways:
- Outright sale of part of the equity of Public Sector Undertakings (PSUs) to private entrepreneurs (also known as Disinvestment), or
- Withdrawal of ownership and management of the public sector companies from the government to the private sector.
- The need for privatisation was felt mainly because of the poor performance of the Public Sector Undertakings, PSUs. As a result, the consumers were facing a major loss, as they did not receive quality products, and other services, such as the delivery system were also very poor. With the introduction of the privatisation policy, this factor was eliminated as:
- Privatisation promoted the diversification of production.
- Privatisation of enterprises generated higher profits
- Privatisation provides high productivity.
- Privatisation promoted growth and development by working in a competitive environment

Globalisation

- Globalisation refers to the integration of the economy of a country with the economies of other countries. The process of globalisation is associated with the free flow of trade, capital across borders, increasing openness, growing economic independence, and deepening of economic integration in the world. The main aim of globalisation was to integrate the Indian economy with the global economy. As a result, there will be an unrestricted flow of information, goods and services, technologies, and even people across countries, which will eventually enhance the development of the country. The government allowed foreign companies to hold 51 percent or more share of the Indian companies in the case of collaboration so that they can function freely and as the owner. This also promoted the transfer of the latest technologies into Indian territory due to collaboration with MNCs. The reduction of the tariff and non-tariff barriers, adoption of policies to promote exports, increase in Foreign Investments, increase of foreign currency in the country (Forex), growth of the IT industry in India, and several other features came under the globalisation policy.

Impact of LPG

Positive Impacts

- Increase in GDP growth rate in India. After 1991, India's GDP growth rate increased year by year, and in the year 2015-16, it was estimated to be 7.5%, whereas it was only 1.1% during the year 1990-91. Because of the privatisation, advanced foreign technology, reduction of taxes, and the abolition of industrial licensing, there was major growth in the GDP of the country.
- The rate of unemployment was high before the adaption of the new economic policy. But, in 1991, the rate of employment increased as the MNCs started investing in India, which resulted in the new job opening, and the requirement for employees was created. And due to the removal of the industrial licensing, many individuals started their businesses.

- An increase in the country’s per capita income. Per capita income refers to the average income earned by a person in a given country. In 1991, the Per capita Income of India was ₹11,235, but in 2014-15 Per Capita Income reached ₹85,533.
- Increase in Foreign Direct Investment from ₹408 Crores in 1991 to ₹106,693 Crores in 2015 after the introduction of the new economic reforms of globalisation.
- Decrease in the Fiscal Deficit. A fiscal deficit refers to a situation where the revenue generated is exceeded by the expenditures made by the government. The fiscal deficit of India before 1991 was 8.5% of Gross Operating Profit, but it came down to 4% of the Gross Operating Profit in 2015.

Negative Impacts

- Agriculture has been the backbone of the Indian economy but, because of NEP, there was a decrease in the growth rate of the agricultural sector. The agricultural sector came from giving employment to 72% of the population in agriculture, and a contribution of 29.02% to GDP in 1991 to a drastic fall of only 17.9% contribution to GDP in 2014.
- Reduction in employment level. Because of the strict labour laws imposed due to the economic liberalisation in the manufacturing industries, the employment level of the country had a downfall.
- The globalisation of the econrowth rate of the agricultural sector. The agricultural sector came from giving employment to 72% of the population in agriculture, and a contribution of 29.02% to GDP in 1991 to a drastic fall of only 17.9% contribution to GDP in 2014.

- Reduction in employment level. Because of the strict labour laws imposed due to the economic liberalisation in the manufacturing industries, the employment level of the country had a downfall.
- The globalisation of the economy caused threats to local businesses and companies. Due to the invasion of MNCs, the level of competition increased, as the Indian market had limited finance, a lack of adequate technologies, and inefficiency of production.
- Because of the emission of harmful gases and chemicals from manufacturing plants and the construction of new companies, there has been an adverse effect on the environment, which resulted in pollution and clearing of the vegetation covers.
- The reforms focused mainly on the formal sector of the economy, thus other sectors such as the urban informal sector, the agricultural sector, and forest-dependent communities were untouched by the reform. As a result of this, there was an uneven growth in the economy.

Planning commission v/s NITI Aayog

- The Planning Commission of India is no longer active as the NITI Aayog replaced it in 2015. It was formulated on 15th March 1950, right after the enactment of the constitution of India. The Planning Commission used to form five-year plans at the national level and had the power to impose policies in states (which is not the case with the NITI Aayog).
- The NITI Aayog is the policy think tank for the Government of India established on 01 January 2015, by the Central Government of India under the leadership of Prime Minister NarendraModi. Some of the initiative taken by it includes a "15-year Road map", and a "7- year vision, strategy, and action plan". It works as an advisory body and has no power to impose policies on states.

NITI Aayog
At present, the NITI Aayog does not have any powers to impose a policy decision on the state and acts only as an advisory body.
Fewer working members as compared to the Planning Commission.
The Prime Minister will appoint the CEO, and all such members are called secretaries.
The NITI Aayog does not have any powers to allocate any funds. The power lies with the finance ministry of the government.
The NITI Aayog enjoys the partnership of several states at present. This helps to maintain cooperation between the body and the states to implement its programs. This also provides a structure for interaction and communication between the states.
Part-time members can be appointed to the NITI Aayog based on the requirements.
Members: CEO, Vice-Chairperson, 4 Cabinet members. This body has 2 part-time members and 5 full-time members.

Inequality and Economic Power in India

UNIT - 4

Foreign Direct Investment (FDI)

- A Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.
- FDI lets an investor purchase a direct business interest in a foreign country.
- Investors can make FDI in a number of ways.
- Include establishing a subsidiary in another country, acquiring or merging with an existing foreign company, or starting a joint venture partnership with a foreign company.
- FDI has been a major non-debt financial resource for the economic development of India.

Routes of FDI

- 1. Greenfield Investment: A foreign investor establishes a new business or subsidiary in the host country. This often involves constructing new facilities and infrastructure from the ground up.
- 2. Mergers and Acquisitions (M&A): FDI can also occur through the acquisition of an existing business or its assets in the host country. This can be achieved through mergers, takeovers, or purchasing shares of a local company.
- 3. Joint Ventures: Foreign investors may form partnerships or joint ventures with local companies or individuals in the host country. Both parties share ownership and management of the business, combining their resources and expertise.
- 4. Strategic Alliances: FDI can also be made through strategic alliances or collaborations with local companies. These partnerships are often formed for specific projects or objectives.
- 5. Subsidiaries: Foreign companies may establish wholly-owned subsidiaries in the host country, which operate independently but are owned by the parent company.
- 6. Equity Investments: FDI can involve acquiring shares or equity in a local company, giving the foreign investor a stake in the ownership and management of the business.

Startups

- Startups have gained significant prominence in the context of the Indian economy in recent years. India has emerged as one of the world's fastest-growing startup ecosystems, and the government has taken several initiatives to promote and support entrepreneurship.

1. **Government Initiatives:** The Indian government has launched several programs and initiatives to encourage startups. The flagship program is "Startup India," which aims to provide a conducive environment for startups to thrive. It includes incentives such as tax benefits, funding support, and simplification of regulations.
2. **Growth of Unicorns:** India has seen the emergence of numerous unicorns, which are privately held startups valued at $1 billion or more. Companies like Flipkart, Ola, Paytm, Byju's, and Zomato have achieved unicorn status, highlighting the potential for high-growth ventures in the Indian market.

3. Diverse Sectors: Indian startups span a wide range of sectors, including technology, e-commerce, healthtech, fintech, edtech, and agritech. This diversity reflects the evolving needs and opportunities within the Indian economy.

4. Young Demographic: India's youthful population is a valuable asset for startups. The availability of a young and tech-savvy workforce has contributed to the growth of technology-driven startups.

5. Access to Capital: Access to capital, including venture capital and angel investment, has improved significantly. Many Indian startups have successfully raised funding from domestic and international investors.

6. Digital Transformation: The rapid adoption of smartphones and the internet has created a digital transformation in the country. Startups are leveraging this trend to offer innovative solutions and services.

7. Challenges: While the startup ecosystem in India is vibrant, it also faces challenges such as regulatory hurdles, competition, and access to skilled talent. Infrastructure and logistics challenges can also impact the scalability of startups.

8. Job Creation: Startups have become important job creators in the Indian economy, offering employment opportunities to a diverse range of professionals and skilled workers.

9. Innovation: Indian startups are known for their innovative solutions, particularly in areas like healthcare, education, and financial inclusion. These innovations have the potential to address unique challenges in the Indian context.

10. Global Expansion: Some Indian startups are expanding internationally, seeking to tap into global markets. This trend indicates the global competitiveness of Indian startups.

- Status:
- India has become the 3rd largest start-up ecosystem in the world after the US and China.
- India is home to as many as 75,000 Startups.
- 49% of start-ups are from tier-2 and tier-3 cities.
- There are currently 105 unicorns, out of which 44 were born in 2021 and 19 in 2022.
- Startups are also emerging in the fields like IT, agriculture, aviation, education, energy, health and space sectors.

- Global Innovation Index:
- India has been ranked in its global ranking of Global Innovation Index (GII) from 81st in the year 2015 to 46th in 2021 among 130 economies of the world.
- Growth Drivers:
- Government Support: India has increased the Gross Expenditure on R&D (GERD) more than three times in the last few years.
- India has over 5 lakh R&D personnel, the number that has shown a 40-50% increase in the last 8 years.
- In the last 8 years, women's participation in R&D has also doubled
- Adoption of Digital Services: The pandemic accelerated the adoption of digital services by consumers helping start-ups and new-age ventures build tech-focused businesses for customers.

- Online Services and Work from Home Culture: Many Indians moved to online services exploring a host of services ranging from food delivery and Edu-tech to e-grocery.
- The Work-from-home culture helped increase the number of start-ups' user base and expedited their business expansion plans and attracting investors.
- Digital Payments: The growth of Digital Payments is another aspect that aided the unicorn the most.
- Buyouts from Major Public Corporations: Many startups become unicorns as a result of buyouts from major public corporations that prefer to focus on acquisitions to grow their business rather than investing in internal growth.

Government's Initiatives for Startups

- National Initiative for Developing and Harnessing Innovations (NIDHI)
- Startup India Action Plan (SIAP)
- Ranking of States on Support to Startup Ecosystems (RSSSE)
- Startup India Seed Fund Scheme (SISFS)
- National Startup Awards
- Shanghai Cooperation Organisation (SCO) Startup Forum
- Prarambh

Investment Models

- Investment ?
- Investment is the exchange of money for a profit-generating asset.
- The same profit is invested in other assets with the same profit.
- In terms of the country's economic well-being, investment is critical because it contributes to growth and development.
- When the government invests in businesses, agriculture, manufacturing, and other supporting industries, it can create jobs for its citizens.
- A strong investment scenario, on the other hand, occurs when the government and the private sector work together to create investment opportunities.

- Investment Models define the methods by which funds are invested in specific assets in order to generate income. Investments are one of the driving factors of any economy in terms of its growth and overall well-being. Therefore different types of investment models are explored in the economy to maximize the economic and social returns on investment.

Need for an Investment

- Investments are one of the driving factors of any economy as far as its growth and the well being of the country is concerned.
- It is essential to invest in creating and developing assets and infrastructure so that there are more jobs and increased income in the country.
- It expands the scope of large-scale manufacturing. Large-scale production units that require a lot of money can be set up in the country.
- It enables the country to employ contemporary manufacturing practices which aids in the development of scientific and technological innovations.
- It provides the essential production tools and equipment.
- It generates job opportunities. New factories, irrigation projects, and other initiatives are all on the horizon.
- It has the potential to lead to industrialization.

Investment Models

- Domestic Investment Models:
- It can be from Public, Private or PPP
- Foreign Investment Model :
- It can be 100% FDI or Foreign-Domestic Mix

Domestic Investment Models:

- Public Investment Model.
- In a Public Investment Model, the government invests in specific goods and services through the central or state government, or with the help of the public sector, using revenue generated by it.
- Private Investment Model
- In India, there are times when the earnings from the public sector are insufficient to cover certain shortfalls that may occur.

- Public Private Participation Investment Model (PPP)
- A public-private partnership (PPP, 3P, or P3) is a long-term collaborative arrangement between two or more public and private sectors.
- The Government of India has always believed in Public-Private Partnerships as far as investing in the growth of the country is concerned.
- In India, projects based on the PPP model have been implemented in the following sectors:
- Health Sector
- Power Sector
- Railways
- Urban Housing

Foreign Investment Models

- A foreign direct investment (FDI) is a financial investment made by a company or individual from one country into a company in another country.
- It differs from portfolio investment, which is when a company simply invests its money in assets in other countries.
- Foreign companies involved in FDI are directly involved in the day-to-day operations of the other country.

Investment Models in India

- Harrod-Domar Model
- The Harrod-Domar Model is more of a One-Sector Model, in which economic growth is based on policies that increase savings and technological advancements.
- Solow Swan Model
- The Harrod-Domar Model was extended by the Solow Swan Model, which placed a special emphasis on productivity growth.
- Feldman–Mahalanobis model
- This model focuses on improving the domestic consumption goods sector when the capital goods sector has sufficient capacity.

- Rao ManMohan Model
- The Rao ManMohan Model, named after Narasimha Rao and Dr. Manmohan Singh, is a policy of economic liberalisation and foreign direct investment (FDI) that was implemented in 1999.

- Infrastructure Financing
- Infrastructure financing is the process of financing those industries which the government identifies as central to the economy. Eg: roads, railways etc.
- Generally in countries there are lists of industries identified as infrastructure.
- These industries are also strategically important and therefore too much private participation in its financing won’t be allowed. Rather the governments impose regulations to avoid monopolistic tendencies.

- The primary sources of investment in an economy are either the government or private players. These private players could be foreign or domestic players. The government has a great deal of risk-taking capability that the private sector lacks. The private sector, on the other hand, has a track record of being effective and innovative when good governance is in place.

Growth of Large Industrial Houses Since Independence

- Industrial Houses (Business Groups) – Business Houses are a public or private structure business that forms a group of various companies dealing in different segments. Business Houses are an important part of a nation’s economy and a major contributor to the GDP of the country. The industrial scenario of many developing economies is identified by various business groups. In India, 90% of the businesses are family-owned. They have played a very crucial role in the development of the Indian economy.
- the Indian economy is a mixed economy where both public and private players are allowed to participate in the development process. So, there are two types of industrial houses and industrial complexes based on ownership:
- Public industrial houses and complex
- Private industrial houses and complex (For examples, Tata and Birla Industrial houses)

Background of Business Groups:

- Some industrial houses in India have played a pivotal role in the industrialization of a country that was an agrarian economy primarily till mid 20th century. Many of the industrial houses have existed since the pre-independence days, yet there are some which have come up in post-independent India and have played praiseworthy roles in the direction of industrial development in the country.

- The Indian economy has gone through a roller-coaster ride since the country's Independence. In 1947, India was an open economy but by the mid-1950s, big business was a bad word and soon the government placed regulatory limits on the growth of big firms.

- Public sector firms were at the center of the economy. The economic policy came a full circle in 1991, as the P V Narasimha Rao government unleashed reforms and liberalized the economy. Big businesses and foreign capital were now objects of desire, rather than derision.

- All through this change, one feature of the Indian economy has remained unchanged – the dominance of family-owned enterprises. Fifteen of the top 20 business groups are family-owned.

- But, beneath this apparent status quo, there has been a big churn. Except for a handful, most family-owned groups have fallen by the wayside. Conversely, many of today's top business groups were either very small in the early 1950s or are products of post-Independence economic growth.

- In all, only three business groups that were among the top 20 in 1951 – Tata, Birla (AV), and Mahindra – are still at the league table. And, in case of Birlas, only one of the branches has managed to maintain its dominance.

INDIA'S TOP 20 BUSINESS GROUPS BY ASSETS

1951		1990		2016	
Rank	Business group	Rank	Business group	Rank	Business group
1	Tata	1	Tata (excl ACC)*	1	Tata
2	Birla	2	Birla	2	Mukesh Ambani
3	Martin Burn	3	Ambani	3	Birla AV
4	Sahu Jain	4	JK Singhania	4	Anil Ambani
5	Bird Heilgers	5	Thapar	5	Vedanta
6	Andrew Yule	6	Mafatlal	6	Bharti
7	Shriram	7	Bajaj	7	L&T
8	Mafatlal	8	Modi	8	Adani
9	Kasturbhai Lalbhai	9	MA Chidambaram	9	HDFC
10	JK Singhania	10	TVS	10	Mahindra
11	Waldhand	11	Shriram	11	ICICI
12	Thapar	12	UB	12	OP Jindal
13	Bangur	13	Bangur	13	JSW GROUP
14	Khatau	14	Kirloskar	14	Jaypee Group
15	Indra Singh	15	Walchand	15	Infosys
16	Seshayee	16	Mahindra	16	Wipro
17	Ramakrishna	17	Goenka	17	DLF
18	Kirloskar	18	Nanda (Escorts)	18	Axis Bank
19	Mahindra	19	Lalbhai	19	GMR
20	Shapoorji	20	Ruia (Essar)	20	Rahul Bajaj

*Sources for data for 1990 and 1951 are RK Hazari's The Structure of the Corporate Private Sector: A Study of Concentration, Ownership and Control, Gita Piramal's Big business and entrepreneurship in Seminar, August 2003 "; 2016 figures based on data from Capitaline database. Financial figures have been adjusted for listed subsidiares of key group companies
For bank and financial companies networth has been taken into consideration instead of total assets

- today’s top 20 business groups are products of post-independence economic growth. They now account for two-thirds of the combined assets and nearly 70 percent of the combined revenues of the top 20.
- The 1991 economic reforms accelerated the churn. Nine of the current top 20 business groups owe their rise to the opportunities unleashed by the reforms – abolition of industrial licensing, free cross-border sector.
- This led to the rapid growth of business groups such as Bharti, Adani, GMR, HDFC, and the Jaypee group.
- With the global software boom, Infosys and Wipro became the 15th and 16th largest business groups, respectively. Tata Consultancy Services is the most profitable and valuable company in the Tata group, while Tech Mahindra is the group’s second-largest business after farm equipment and automotive.

- The Tata
- Being one of the oldest industrial houses in India this industrial house has iron and steel as well as an automobile (heavy) as its traditional areas of interest. But in the coming times, it has diversified in a great many areas/sectors such as pharmaceuticals, cement, publishing, power, finance, hotel, insurance, software, refrigeration, air-conditioning, telecommunication, etc. Its Tata Consultancy Services, a software development, and export company, is the largest software services company in the country. Its recent foray into the four-wheel segment has been able to make historic news around the world with the launching of the $ 2500 car—the Nano.

- The Birla
- The Birlas, though they have gone for divisions, are among the oldest industrial houses in India like the Tatas. Their traditional areas of activities have been textile, paper, paraffin, cement, aluminium, and automobiles. In the last few decades, they have diversified in other areas too such as machine tools, pharmaceuticals, telecommunications, consumer durables, and nondurables, etc.
- The Bajaj
- Among the oldest business families of India, they are known around the world for their
- commendable product the Bajaj Scooter, which is competent enough to fight out the international competition in the segment. Of late, they diversified into the areas of bikes also. Their areas of activity expand to electric and home appliances, entertainment, etc. Recently, they announced their intentions of entering the automobile sector with one of the cheapest cars in the world (after Tata's Nano).

- The Godrej
- Amongst the top, oldest, and reputed industrial houses of the country, this organization has
- contributed in the areas of detergents, refrigeration, almirahs, furniture, air-conditioning, and lock industries providing the highest of the standards.
- The Ambanis (The Reliance)
- Though the group is now divided between two brothers, the industrial house is considered rags to riches story and represents the rise of a new entrepreneurial class in the country. It has paraffin and synthetic yarn as its traditional interests; today it has diversified in more than a dozen traditional and new industrial areas such as power, petroleum, textile, garments, hospitality, telecommunication, pharmaceuticals, software, banking, insurance, etc.

- The Kirloskars
- This industrial house is famous for manufacturing high-class heavy and light machine tools. it has a place of pride in locomotion. The credit for producing India's first diesel pump set goes to this industrial house. it has brought about a revolution in farm mechanization by manufacturing India's first tractor. Its compressors are known for high-quality performance. It is also producing cars in collaboration with Toyota.
- The Infosys
- The main industries of this house are electronics and software for which it is a well-reputed house. Besides this house is making a significant contribution in the fields of education and social work.

- The Wipro
- The doyen of the sunrise industries, this industrial house of India is primarily involved in the field of software development and export including the production of computer peripherals. This is also a leading company in the field of business process outsourcing (BPO).
- The Bharati
- Bharti Enterprises was founded by Sunil Bharti Mittal in the year 1976. The company has its headquarters in New Delhi and is operational in 16 countries across Africa and Asia. The company has businesses in the field of telecommunications, agribusiness, financial services, and manufacturing. It has its presence in many sectors but its largest revenue comes from the telecom industry. Some international companies like Singtel, IBM, Ericsson, Nokia Siemens, and Alcatel-Lucent are the current key partners of the company in telecom. Its charitable arm, the Bharti Foundation is reaching out to 2,40,000 students and engaging 8,000 teachers across 13 Indian states to revolutionize the education sector.

- The Dabur
- Its primary activity is the manufacturing of Ayurvedic medicines for which it has earned a name for itself.
- The Baidhyanath
- this industrial house is also known to preserve and Ayurvedic medicines and is quite renowned in this field.
- Manipal Group
- Manipal Group was founded in the year 1953. Manipal Group provides education and healthcare services in India and internationally through its subsidiaries. The group has been imparting world-class education for over six decades. Manipal Healthcare manages 11 hospitals including 8 teaching hospitals, making it Asia’s largest healthcare management group. MNE Technologies Pvt Ltd is the only Asian group of companies solely dedicated to providing integrated biomedical equipment maintenance and management.

- The Oberois
- This industrial house is well known for its mark in the hospitality industry. It has built high-class hotels in different parts of India and in different countries in the world.
- Bombay Dying
- Bombay Dyeing & Manufacturing Company Limited (Bombay Dyeing) is the flagship company of the Wadia Group, engaged primarily in the business of Textiles. Bombay Dyeing is one of India’s largest producers of textiles.
- The Arvind Mills
- Arvind Limited (formerly Arvind Mills) is a textile manufacturer and the flagship company of the Lalbhai Group. This company is one of the largest producers of Jeans cloth and supplies this cloth to almost all the major brands in the world.

- The ACC
- This is the organization of cement-producing companies and is known as Associated cement company (ACC). It produces high-quality cement which has great demand in the market. The company has contributed a lot in boosting the construction activity in the country.
- Hinduja Group
- Hinduja Group was founded in the year 1914 by Parmanand Deepchand Hinduja. It was founded in the year 1914. Its product range is Oil & Gas, Media & Telecom, Financial Services, ITES. It is headquartered in London, United Kingdom. Companies under this group are involved in a wide range of activities including foundries, import-export, trading, motor vehicles, banking, call centers, and healthcare, etc. It is one of the top 10 Business Groups in India.

- Mahindra Group

- Mahindra Group was founded in the year 1945 and is headquartered in Mumbai, India. The group has operations in over 100 countries around the globe. The group has a presence in aerospace, agribusiness, aftermarket, automotive, components, construction equipment, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail, and two-wheelers.

- TVS Group

- TVS Group was founded in the year 1911 and is headquartered in Madurai. It was founded by T. V. Sundaram Iyengar. The Group is India’s leading supplier of automotive components and one of the country’s most respected business groups. It currently comprises over 50 companies. These operate in diverse fields that range from two-wheeler and automotive component manufacturing to automotive dealerships, finance, and electronics.

- It is considered to be one of the most reputable Indian industrial houses with market leadership in utility vehicles as well as tractors in India. The group has been divided into six Strategic Business Units: Automotive; Farm Equipment; Infrastructure; Trade and Financial Services; Information Technology; and Automotive Components

Growth of Monopolies and Concentration of Economic Power in India

Competition Policy and Competition Law

- Competition policy provides a healthy environment to ensure that the companies serve in the best possible way to the consumers.
- Competition policy is a type of public policy that ensures to maintain the competition within the market or undermines in any ways which are detrimental to the economy of the country and the society of humans. Competition policy also plays a very important role in predicting the idea that competitive markets are central to growth, investment, innovation, and efficiency. Competition policy also helps to put companies or large industries under constant pressure which help to offer the best possible range of goods and services at the best possible prices to the consumers. Business should be like a competitive game in the market where consumers act as the beneficiaries.

- There are three main areas that are covered by competition policy which are as follows:
- 1. Restrictive Practices
- Restrictive practices are controlled by competitor firms to fix the prices of the goods and services. It is very important for the largest multinational firms to collaborate with competitors in areas such as research and development
- 2. Monopolies
- It is the abuse of a monopoly position that is addressed through policy. The regulation of utilities helps to transfer the large numbers of state-owned utilities into the private sector which provide the benefits of economies associated with a monopoly network provider

- 3. Mergers
- Mergers are one of the most controversial and consequently areas of competition policy. There always has been a controversy whether a particular merger will result in a damaging reduction in the competition of prices without any potential benefits

Commission

- The commission is the body or regulatory authority which helps to preserve the well functioning of the markets and also prevent and correct anti-competitive behaviours

Competition Commission of India (CCI):

- Competition Commission of India is abbreviated as CCI. It was formed on 14th October 2003. It has access to all ranges of goods and services. With the increase in competition, producers can generate maximum incentive to innovate and specialize. This would help to reduce the costs and provide wider choices to consumers. Fair competition in the market is very essential to achieve the objective of the competition commission. The main aim of the competition commission of India is to create and sustain fair competition in the economy of the country which provides producers to make the markets that work for the welfare of the consumers. Competition Commission of India mainly consists of chairperson and members who are appointed by the central government. The chairperson of the competition commission of India is Ashok Kumar Gupta.
- Dr Sangeeta Kumar and Bhagwant Singh are the members of competition commission of India.

Role of Competition Commission of India:

- The duty of the competition commission of India is to prevent practices that have adverse effects on competition and to promote & sustain competition in order to protect the interests of consumers and provide freedom of trade in the markets of India
- The competition commission of India also gives an opinion on competition issues received from a statutory authority which is established under any law and to undertake competition advocacy, create public awareness and impart training on competition issues
- Competition Commission of India is also responsible to enforce the competition act, 2002 throughout India

- National Competition Policy:
- The national competition policy of India is formulated by the government of India. The main aim of the national competition policy is to achieve a high employment rate, high economic growth, standards of living for the people of India, entrepreneurship, protect economic rights, social development and promote economic democracy and support good governance by restricting rent-seeking practices.
- Competition law and policy:
- The competition act which was introduced in the year 2002 was amended by the competition amendment act in 2007 which mainly deals with the philosophy of modern competition laws. The act helps to prevent the anti-competitive agreements and abuse of dominant position by large companies. This act also regulates the combinations of acquisition and acquiring of control which causes an appreciable adverse effect on competition within the country.

Advantages of Competition policy to Consumers

- 1. Upgradation
- The companies upgrade their product as well as innovate on a regular basis. If there was no competition in the market, there would be no innovations. So, upgrading is a very beneficial advantage of having market competition
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- 2. Adding more value
- The main advantage of competition policy is that companies are always trying to add more value to their product. At every step, they try to increase the quality of the product or decrease the prices. In both cases, the products become more effective and desirable to the customers
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- 3. More options for customers
- Due to competition policy, the customers get various more options that are available in the market. When competition is strong in the market, various companies such as Samsung offer various options to the customer
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- 4. Productivity
- Businesses tend to be more productive and efficient due to the competition policy in the market. For example, In case, your competitor is making and modifying their strategies on a regular basis then you will also optimize your operations and manufacturing. Due to this reason, customers get better customer service and optimized products. This is one of the biggest advantages of market competition

- 5. Focus on sales and customers
- The best advantage of market competition is the company primarily focuses on sales and on its customers. More customers mean more market share. However, when a company starts losing its market share, then competitors can have an advantage. If there will be no competition, then the company would not be worried about sales or market share

Benefits of Competition policy to Businesses

- Competition in the market helps businessmen to think more innovatively which can be beneficial for the growth of the business.
- If there will be no competition in the market, then the companies might not focus much on the quality of service. The product might be boosted in the market but customers are not actually satisfied with your service.
- If there is high competition in the market, the companies get better information about customer preferences or requirements.
- To stand out from the competition, the companies always need to be highly motivated.

Growth and Inequality

- That India is a highly unequal economy is beyond contestation. India's household surveys tend to massively underreport consumption, income and wealth.
- Moreover, it's hard to dispute the notion that Covid-19 has deepened existing faultlines, exacerbating entrenched inequalities.
- The rise in the fortunes of the very rich during this period, when juxtaposed against the misery of the millions of migrant workers who had to walk back to their villages, is a stark reminder of the extent of economic disparities.

Socio-Economic Inequality in India

- Areas of Inequality: By and large, the discourse on inequality in India tends to centre around disparities in consumption, income, and wealth.
- the country is also marked by high levels of inequalities in “opportunities”.
- Factors Affecting Inequality in Opportunities: An individual’s class of origin, his/her household of birth, who his/her parents are, tend to have a significant bearing on his/her educational attainment, employment and income prospects, and as a consequence, his/her class of destination.
- Characterised by low levels of social mobility across generations, children born in disadvantaged households have a lower chance of moving up the income ladder.

India-Specific-Findings of World Inequality Report:

- India is now among the most unequal countries in the world.
- In India, the top 10% of the population earns 57% of the national income.
- Within the top 10%, the very elite top 1% earns 22%.
- In comparison, the share of the bottom 50% in national income has declined to 13%.
- The female labour income share is equal to 18% which is significantly lower than the average in Asia [21%, excluding China].

- Impact of Covid-19 Pandemic: Covid has led to a worsening of education inequalities, induced labour market scarring, and exacerbated income inequality which in turn, is quite likely to depress social mobility.
- Impact on Education: The ASER 2021 attests the fact that extended closure of schools and the shift to online modes of education has widened the learning gaps between children from poor and affluent households.
- Younger children from low-income households were more deprived of mediums of learning such as smartphones, tablets, internet etc.
- Moreover, over a fourth of children in households with a smartphone could not access it.

- Impact on Jobs: Since the onset of the pandemic, there has been a decline in labour force participation in India, specially among the women labour-force.
- In the same period, the unemployment rate has risen from 7.5% to 8.6% which implies that among those looking for jobs, those unable to find jobs, perhaps even at lower wages, have risen.
- Among the people with jobs, more are increasingly being employed as casual wage labour.
- The growing "casualisation" or "contractualisation" of the workforce implies an absence of well-paying, productive jobs.
- Way Forward
- Nordic Economic Model: To make the current redistribution of wealth more equitable, the current neo-liberal model can be replaced by the 'Nordic Economic Model.'

- This Model consists of effective welfare safety nets for all, corruption-free governance, the fundamental right to quality education & healthcare, high taxes for the rich, etc.
- Political Empowerment: It is the first key ingredient of poverty removal. People with political agency will demand and obtain better education and healthcare.
- It will also erode the structural inequality and sectarian divides in society.
- Redistribution of Wealth: The World Inequality Report, 2022 suggests levying a modest progressive wealth tax on multimillionaires.
- Given the large volume of wealth concentration, modest progressive taxes can generate significant revenues for governments.
- A global effective wealth tax rate of 1.2% for wealth over $1 million could generate revenues of 2.1% of global income.

- Increasing the Reach of Basic Necessities: Given the growing inequality in India, the direction that public policy should now take is evident; there is a need to spread health and education far more widely amidst the population.
- By ensuring universal access to public funded high quality services like Public health and education, social security benefits, employment guarantee schemes, inequality can be reduced to a great extent.
- Employment Generation: The hindrance in the growth of manufacturing sectors like Textile, Clothing, automobiles, consumer goods etc. is an important reason for rising inequalities.
- Labor-intensive manufacturing has the potential to absorb millions of people who are leaving farming while the service sector tends to benefit the urban middle class.

- Mitigating Wage Inequalities: The International Labour Organisation (ILO) recommends that a minimum wage floor should be set in a manner that balances the needs of workers and their families with broader economic factors.
- Promoting Civil Society: Providing a greater voice to traditionally oppressed and suppressed groups, including by enabling civil society groups like unions and association within these groups.
- Scheduled castes and Scheduled tribes should be motivated to become entrepreneurs, schemes like Stand up India need to be expanded to widen its reach by increasing funding.
- Imbibing Gender Equality: There is a need to remove barriers to women’s full inclusion in the economy, including through access to the labor market, property rights and targeted credit and investments.
- Encouraging more women to become entrepreneurs will provide a long-term solution.
- By creating jobs and furthering investment in health and education, entrepreneurship among women could transform India’s economy and society.

India as an Economic Superpower

- **Growth of the Indian Middle Class**
- Middle-class social stature in India was developed in the early 19th century as British rulers had no political systems and economic strategy for developing the nation.
- The middle class emerged in India because the British Government does not provide an adequate facility for economic growth and development. The middle class of the country wants to make a transplant system for governing the economic activity in the nation. The 19th century social and religious movement also encouraged the Indian community to make governing principles for promotion of economical captivity and ensure productivity of the nation. The caste system hampers occupational mobility in the early 18th century and has resulted in the classification of society. Economic development of the land policy between the years 1857-1947 is the major player in the creation of the middle class in the country.

How did the Middle-Class Concept Develop in India

- The middle-class concept was developed due to the change in the political and social system against capitalism. The capitalist society of the early 19th century also hindered the growth of the community and produced the concept of the middle class. Land economy and lack of education also create barriers in the society and develop classification in the social structure. The Law of property was closely dependent on the law of cast and religion hampers the equality in the social class. The British land economy hampers the caste distinction and creates trade barriers in society.

Causes for the Development of the Indian Middle Class

- The middle-class people came into existence due to the effects of the industrial revolution of the 18th century. Large scale mechanical manufacturing and production were possible due to the change in economic policy and technological development in the country. Change in British land policy also introduces a new classification among the early middle class of Indian society. The capitalist growth in the pre-British era makes the classification of merchants and develops the principle for the middle class in the society.

Economic Liberalization Program

- Economic liberalisation program refers to the government policy for promoting free trade, eliminating subsidies, deregulation, price control system, and removing the chances of privatisation. The Economic liberalisation program was first introduced in India in 1991 to motivate the macroeconomic crisis 1991. The Indian government introduced three different economic models including liberalisation, globalisation and privatisation. The primary aim of the liberalisation program is to boost economic activity by restricting the capital flow in the country. In this program, restrictions are removed on the movement of goods across the country and help to make prices of goods by reduction of tax rates.

Stabilisation of Annual GDP Growth Rate in the Liberalisation Program

- Stabilisation of the annual growth rate has helped in the maintenance of business environments and competitiveness. Stabilisation of the annual growth rate introduces new policies for macroeconomics and reduces the impact of trade barriers on the economy. This economic liberalisation opens up a new strategy for foreign investment and the Indian private sector was introduced to change the global business environment. Liberalisation has helped in the quick reduction of the trade deficit and improved the GDP growth rate for the future. Annual GDP growth rate determines the success of the economy.

Expansion of Middle Class in India

- The middle-class concept was developed in the celery 19th century and it is continuing in recent years. The rising middle-class concept introduces four types in the middle-class stature of the country. The commercial class or middle man was found in the early era of the 19th century. Moneylenders and brokers are the middle-class community in the society that invested their money in the land. The percentage of industrial middle-class people is very few as the growth of the industry was minimal in the early 19th century. The last class is the educated middle-class people who have technical and administrative knowledge.

Effect of Middle-Class Development

- The middle class is the main source of economic development and the new land policy of the British government in the early 19th century improved the social stature of middle-class people. The educated middle-class people promoted western ideas and education and started the reformist movement in the country like Brahmo Samaj and Arya Samaj.Lower middle class generally comprised the dissatisfied educated people with low income than upper-middle class.

Indian MNCs : Mergers and Acquisitions

- Multinational Companies
- A Multinational Company (MNCs) or Transnational Corporation (TNC), or Multinational Enterprise (MNE) is a business organization whose operations are carried on in more than one country (other than the home country).
- Multinational Corporations (MNCs) operate their business simultaneously in different countries of the world. MNCs have their main offices (headquarters) in their home country, and secondary offices, assets, factories in other countries (known as host countries).
- MNCs will always lookout for opportunities. They carry out risk analysis and send their personnel to learn and understand the business climate. They develop expertise in understanding the culture, politics, economy, and legal aspects of the country that they are planning to enter.
- The essential element that distinguishes the true multinational is its commitment to manufacturing, marketing, developing R&D, and financing opportunities throughout the world, rather than just thinking of the domestic situation.

Characteristics of MNCs are:

- Management by Professionals – MNCs recruits suitable managers to take care of their business operations, technology, finances, external affairs, etc.
- Control – MNCs business operations in the host country have their own management and offices, but the ultimate control will still remain in the hands of head office (home country).
- Huge Assets & Turnover – Because MNCs operates on a global basis, they have huge physical and financial assets. For example: Market capitalization of Microsoft Corp. is 1000.76B
- Advanced Technology – MNCs regulates on advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

- Mode of Transfer:
- The MNC has considerable freedom in selecting the financial channel through which funds or profits or both are moved, e.g., patents and trademarks can be sold outright or transferred in return through the contractual binding on royalty payments.
- Similarly, the MNC can move profits and cash from one unit to another by adjusting transfer prices on intercompany sales and purchases of goods and services. MNCs can use these various channels, singly or in combination, to transfer funds internationally, depending on the specific circumstances encountered.

- Value for Money:
- By shifting profits from high-tax to low-tax nations, MNCs can reduce their global tax payments. In addition, they can transfer funds among their various units, which allow them to circumvents currency controls and other regulations and to tap previously inaccessible investment and financing opportunities.
- Flexibility:
- Some to the internationally generated claims require a fixed payment schedule; other can be accelerated or delayed. MNCs can extend trade credit to their other subsidiaries through open account terms, say from 90 to 180 days. This give a major leverage to financial status. In addition, the timing for Indian MNCs

- TATA Group (TCS & TATA Motors)
- TATA Motors’ products include passenger cars, trucks, vans, coaches, buses, sports cars, construction equipment, and military vehicles. TCS is an Indian multinational information technology (IT) service and consulting company and also the second-largest Indian company by market capitalization.
- Infosys
- NIA (Next Generation Integrated AI Platform), Infosys Consulting for global management solutions, Infosys Information Platform, Edge Verve Systems, and Panaya Cloud Suite. Headquartered in Bangalore, India, Infosys has offices in the USA, China, Middle East, Japan, and Europe.

- Aditya Birla Group
- Aditya Birla Group is an Indian multinational conglomerate, headquartered in Mumbai. It operates in 35 countries with more than 120,000 employees worldwide. Sectors include viscose staple fiber, metals, cement, viscose filament yarn, branded apparel, carbon-black, chemicals, fertilizers, insulators, financial services, telecom, BPO, and IT services.
- Mahindra Group
- Mahindra Group (headquartered in Mumbai) has a presence in aerospace, agribusiness, aftermarket, automotive, components, construction equipment, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail, & two-wheelers.

The Foreign Trade of India

UNIT 5

- i. The primary function of foreign trade is to explore means of procuring imports of capital goods, without which no process of development can start;

- ii. Trade provides for flow of technology, which allows for increases in productivity, and also result in short-term multiplier effect;

- iii. Foreign trade generates pressure for dynamic change through (a) competitive pressure from imports, (b) pressure of competing export markets,- and (c) a better allocation of resources;

- iv. Exports allow fuller utilisation of capacity resulting in achievement of economies of scale, separates production pattern from domestic demand, increases familiarity with absorption of new technologies;

- v. Foreign trade increases most workers' welfare. It does so at least in four ways: (a) Larger exports translate into higher wages; (b) because workers are also consumers, trade brings them immediate gains through products of imports; (c) it enables workers to become more productive as the goods they produce increase in value; and (d) trade increases technology transfers from industrial to developing countries resulting in demand for more skilled labour in the recipient countries.

- vi. Increased openness to trade has been strongly associated with reduction in poverty in most developing countries.

Composition of India's Foreign Trade

- country’s imports and exports of products and services is known as the composition of trade.
- it provides information on a country’s imports and exports of commodities. As a result, it reveals a nation’s structure and level of economic development. Raw resources, agricultural products, and intermediate commodities are exported by developing countries, whereas developed nations export finished goods, equipment, and machines. The Indian Foreign Trade Policy boosts the economy by allowing India’s exports and imports to rise significantly.
- Composition of Indian foreign trade: Imports
- The composition of India’s import basket included oils, pulses, machinery, chemicals, hardware, pharmaceuticals, dyes, yarns, paper, grains, non-ferrous metals, cars, and other items at the time of independence. With the advent of planning and the emphasis on establishing capital goods and engineering sectors, the government was required to purchase a large number of capital equipment and maintenance imports.

- The composition of India’s imports is segregated into three categories: raw materials, capital goods, and consumer products.

Raw materials

- Petroleum oil, lubricants, edible oil, iron and steel, fertilisers, non-ferrous metals, precious stones, pearls, and other commodities fall into this category. The percentage of total imports made up of all of these commodities skyrocketed significantly from 47% in 1960-61 to nearly 80% in 1980-81.
- Presently, concerns about supply disruptions have risen due to Russia's invasion of Ukraine, bringing oil prices to multi-year highs. Given that India imports roughly 80% of its oil, the current circumstance puts its trade deficit in jeopardy.
- Petroleum imports increased from USD 13.1 billion in January to USD 15.3 billion on February 22. Due to rising international oil prices, higher mobility, and a corresponding increase in domestic and foreign oil consumption, petroleum imports climbed significantly from USD 72.4 billion in FY21 to USD 141.7 billion in FY22.

Capital goods

- Non-electrical and electrical machinery, metals, locomotives, and other transport equipment, among other things, fall into this category. These items are necessary for the country’s industrial development. Capital goods imports accounted for roughly 32% of overall imports in 1960-61, amounting to around INR 356 crore. This gradually decreased, and in 1992-93, it was around 21%.

Consumer products

- It involves importing electrical items, food grains, medications, and paper, among other things. Until the end of the Third Five-Year Plan, India had a severe food grain shortfall. As a result, India would import enormous amounts of food grains. Presently, India has become self-sufficient in food production.

Composition of Indian foreign trade: Exports

The top eight export items during the April-February period of FY22 were

- Engineering goods (26.9% of total exports)
- Organic & inorganic chemicals (7.1%)
- Gems & jewellery (9.4%)
- Drugs & pharmaceuticals (5.9%)
- Textiles (3.8%)
- Electronic goods (3.7%)
- Petroleum products (14.8%)
- Cotton yarn/fabs/made-ups, handloom products etc. (3.7%).

These eight goods accounted for approximately 75 percent of overall exports in FY22.

India’s export composition can be classified into two categories: traditional exports and non-traditional exports.

- **Traditional products**

Traditional items include the export of coffee, tea, jute goods, iron ore, animal skin, cotton, minerals, fish and fish products, etc. These products accounted for nearly 80% of our overall exports at the start of the planning era. However, these items’ contribution is gradually decreasing, while non-traditional items’ contribution is increasing.

- **Non-traditional products**

Engineering goods, sugar, chemicals, electrical goods, iron and steel, leather goods, gems and jewellery are among the non-traditional items exported.

Engineering goods and petroleum products are the two major components of India’s total exports. Exports of engineering goods have climbed to USD 101 billion in FY22, a 49.8% increase. Also, petroleum exports have skyrocketed from USD 22.2 billion in FY21 to USD 55.5 billion in FY22.

Direction of India's Foreign Trade

- The directions of India’s foreign trade are an essential part to be discussed under the subject Kerala. This direction here is defined and referred to as the destination of the import that India has been engaging. The trade that India does with various other foreign countries is the ultimate destination of those goods. That destination is known as the direction of exports.

- Similarly, India also with the advent of globalization has been indulged in cross-national trade of goods and services. This means the product of another country comes and enters the geographical boundaries of India. This final destination of the imports of various other nations is India. Hence, the direction of import here is referred to as the final destination that is India.

- Thus, the direction here is referred to as the destination of the goods and services that are imported and exported on account of cross-national: export and imports. In the present context, India engages in “trade and commerce” with various nations across the world. In the British era, this was only limited to the Britishers.

India's Balance of Payments on Current Account

- The balance of payments (BoP) records transactions in goods, services, and assets between residents of a country and the rest of the world over a set period of time, typically a year.
- The BoP has two main accounts:

1. current account
2. capital account

- Current Account: The current account keeps track of goods exports and imports, as well as trade in services and transfer payments.
- Capital Account: The capital account records all international purchases and sales of assets such as money, stocks, bonds, and so on. Foreign investments and loans are included.

Balance on Current Account

- Receipts from exports of goods, services, and unilateral payments are recorded as credit or positive items in the current account, while payments for imports of goods, services, and unilateral payments are recorded as debit or negative items.

- The current account balance is the net value of credit and debit balances.

- A current account surplus occurs when credit items exceed debit items. It represents the net inflow of foreign exchange.

- A current account deficit occurs when debit items exceed credit items. It denotes the net outflow of foreign currency.

Balance of Trade

- The balance of trade (BOT) is the difference between a country's imports and exports for a given period and is the most important component of a country's balance of payments (BOP).
- A trade deficit occurs when a country imports more goods and services than it exports in terms of value, whereas a trade surplus occurs when a country exports more goods and services than it imports.

Components of the Current Account

1. Visible Trade (goods exported and imported)
2. Invisible trade (the export and import of services)
3. Transfer Payments
4. Net Factor Income
5. Remittances
6. Current Account Deficit

Balance of Payments Crisis

- A country's balance of payments (also known as balance of international payments/ BoP) is the difference between all money flowing into the country in a given period of time (e.g., a quarter or a year) and all money flowing out to the rest of the world. Due to a large macroeconomic imbalance, India experienced a Balance of Payments crisis in 1991. The Balance of Payments (BoP) Crisis is also known as a currency crisis. It happens when a country is unable to pay for essential imports or service its external debt.

Features of Balance of Payment Crisis 1991

- The Indian economic crisis of 1991 was an economic crisis in India caused by a balance of payments deficit caused by an over-reliance on imports and other external factors.
- In 1985, India's economic problems worsened as imports increased, leaving the country with a twin deficit: the Indian trade balance was in deficit at the same time that the government was running a massive fiscal deficit.
- The collapse of the Soviet Bloc, with which India had traded in rupees, also caused issues. By the end of 1990, in the run-up to the Gulf War, India's foreign exchange reserves could barely have financed three weeks' worth of imports. Meanwhile, the government was on the verge of defaulting on its own debts.

- By July of that year, the rupee had suffered a sharp depreciation/devaluation as a result of the low reserves, exacerbating the twin deficit problem.
- After Moody's downgraded India's bond ratings in February 1991, the Chandrasekhar government was unable to pass the budget. The ratings suffered further damage as a result of the budget's failure to pass.
- This made it impossible for the country to obtain short-term loans, exacerbating the country's current economic crisis.
- The World Bank and IMF also withdrew their assistance, leaving the government with no choice but to mortgage the country's gold in order to avoid payment default.

Causes of Balance of Payment Crisis 1991

- The Government Expenditure exceeded the Earnings. As a result, the fiscal deficit was large. The Gross Fiscal Deficit increased from 9% of GDP in 1980-81 to 12.7% of GDP in 1990-91.
- Because of the aforementioned reason, the government's internal debt increased. It increased from 35% of GDP in 1985-86 to 53% of GDP in 1990-91.
- Furthermore, the country was importing more than it was exporting. As a result, the current account deficit was large.
- The current account deficit was caused by the increase in crude oil prices as a result of the Gulf War. As a result, India's forex reserves were severely depleted, despite significant IMF (International Monetary Fund) borrowings earlier in the year.

- India lacked sufficient foreign exchange reserves to conduct international trade and was about to default on its international debt obligations. Investors withdrew their funds.
- Short-term credit dried up as exporters feared they would not be paid. Inflation rates increased dramatically.

Measures were taken by the government to overcome the crisis

- Monetary Measures
- Reforms in Industrial Policy
- The Industrial Licensing Act was repealed.
- To alleviate domestic supply constraints, steps were taken.
- To encourage investment, steps were taken.
- Reforms in Trade Policy
- The rupee was devalued by 20% to make exports more competitive.

- Controls on licensing and export laws have been loosened.
- Reforms in the Public Sector
- Foreign Direct Investment (FDI) was liberalized (FDI)
- Companies in the public sector have been given more operational flexibility so that they can grow and contribute more to the economy.
- Correction of the fiscal situation
- Export subsidies were eliminated.

- Imports were restricted.
- Fuel prices have risen.
- Bank rates were raised.
- The government was forced to reduce its spending.

- India had to secure a $2.2 billion emergency loan from the International Monetary Fund by pledging 67 tonnes of gold as collateral security.
- In May 1991, India sent 20 tonnes of gold to the Union Bank of Switzerland in Zurich, and in July, 47 tonnes of gold was given to the Bank of England, raising a total of $ 600 million.

India's Trade Policy

- **India's Foreign Trade Policy**

The foreign trade policy (FTP) outlines government strategies and steps to promote domestic production and exports to drive economic growth.

It is essentially a set of guidelines for the import and export of goods and services.

These are established by the Directorate General of Foreign Trade (DGFT), the governing body for the promotion and facilitation of exports and imports under the Ministry of Commerce and Industry.

Primary Focus Areas:

The Government, through the policy, primarily focuses on adopting a twin strategy of promoting traditional and sunrise sectors of exports including services.

- Further, it intends to simplify the process of doing business.
- While the trade policy covers both imports and exports, its primary objective is to facilitate trade by reducing transaction costs and time, thereby making Indian exports more globally competitive.

The policy aims to:

- Accelerate economic activity and make the most of global market opportunities
- Encourage sustained economic growth by providing access to raw materials, components, intermediates (goods used as inputs for the production of other goods), consumables and capital goods required for production
- Strengthen Indian agriculture, industry and services
- Generate employment
- Encourage stakeholders to strive for international standards of quality
- Provide quality consumer products at reasonable prices

- The policy duration is for five years.
- It is updated every year on March 31, and the changes come into effect from April 1.
- The present policy was flagged off in the financial year of 2015-16 and was remain effective until the 31st of March, 2020.
- But it was subsequently extended till 30th September, 2021, due to the prevailing Covid situation
- During this period, all the exports and imports of the country will be governed by the policy.
- While the six-year policy has been extended for another six months as India witnesses a second wave of the Covid-19 pandemic, a call on a fresh policy for 2021-2026 is also expected soon as the government continues discussions with stakeholders on the same.

MAJOR INITIATIVES UNDER THE FOREIGN TRADE POLICY

1. Niryat Bandhu Scheme

The Directorate General of Foreign Trade (DGFT) has come up with the Niryat Bandhu Scheme for mentoring budding exporters on the intricacies of foreign trade through counseling, training, and outreach programs.

Given the rise of small and medium scale enterprises and their role in employing people, MSME clusters have been identified for focused interventions to increase exports.

To achieve the objectives of the scheme, outreach activities are being organized in a structured manner with the assistance of Export Promotion Councils and other willing knowledge partners in academia and the research community.

Besides, for the optimal utilization of resources, all the stakeholders will be attempted to be associated with, including Customs, ECGC, Banks, and concerned Ministries.

2. Duty-Free Import Authorisation (DFIA)

- It is a scheme under which duty-free import of inputs, fuel, oil, energy sources, a catalyst which is required for the production of export goods is allowed.
- Against such duty exemption, the importer is required to meet certain export obligations wrt the finished goods.
- The minimum value addition of 20% is mandatory to be required to be achieved.
- This scheme is mainly used for imports of raw sugar to be used in producing an export product.

3. Export Promotion Capital Goods (EPCG)

- The objective of the EPCG Scheme is to facilitate the import of capital goods for producing quality goods and services and enhance India's competitiveness.
- EPCG manufacturing Scheme allows import of capital goods for pre-production, production and post-production at Zero customs duty
- To apply for an EPCG scheme, an IEC is required

4. Electronic Import exporter code (IEC)

- Import exporter code is an export permit is mandatory for carrying out exports and imports from/to another country.

- DGFT has facilitated the online filing of the IEC application.

5. Electronic Bank Certificate (e-BRC)

The initiative of e-BRC enables DGFT to capture essential details of the realization of export proceeds directly from the banks via secured electronic mode.

This paves the way for the implementation of various export promotion schemes without any physical interface with the stakeholders.

6. Exporter Importer Profile
7. Withdrawal of Seizure of Export Related Stock
8. Round-the-Clock Customs Clearance
9. Single Window Interface
10. Facilitating Export of Perishable Export Products
11. Time Release Study
12. Towns of Export Excellence (TEE)

Special Economic Zones (SEZs)-An Overview

- An SEZ is a part of a country that is usually duty-free (Fiscal Concession) and has its own set of business and commercial rules, with the goal of attracting investment and creating jobs.SEZs are also formed to improve the administration of these areas, making doing business easier.

Objectives of the SEZ Act:

- To generate more economic activity.
- To increase the number of goods and services exported.
- To create work opportunities.
- To increase both domestic and international investment.
- To develop infrastructure facilities.

Incentives and Facilities Available to SEZ

- Goods for the creation, operation, and maintenance of SEZ units can be imported duty-free or purchased domestically.
- Exemption from taxes such as income tax, minimum alternate tax, and others.
- External commercial borrowing by SEZ units up to USD $ 500 million per year through recognized banking channels, with no maturity restrictions.
- For approvals at the central and state levels, there is a single-window clearance

SEZs in India

- In 1965, Kandla, Gujarat, became Asia's first EPZ (Export Processing Zone).
- While these EPZs had a framework similar to SEZs, the government started establishing SEZs in 2000 under the Foreign Trade Policy to address the infrastructural and bureaucratic obstacles that were perceived as limiting EPZ performance.
- In 2005, the Special Economic Zones Act was passed. In 2006, the Act and the SEZ Rules went into effect.
- SEZs, on the other hand, were operational in India from 2000 to 2006.
- India's SEZs were structured closely with China's successful model.
- About 64 percent of the SEZs are located in five states – Tamil Nadu, Telangana, Karnataka, Andhra Pradesh and Maharashtra.

- The apex body is the Board of Approval, which is led by the Secretary of Commerce (Ministry of Commerce and Industry).
- The Ministry of Commerce and Industry formed a committee led by Baba Kalyani to evaluate India's present SEZ policy, and it published its suggestions in November 2018.
- It was established with the general goal of evaluating SEZ policies in order to make them WTO (World Trade Organization) compatible, as well as bringing in global best practices to maximise capacity utilisation and potential output of SEZs.

Challenges

- Unutilized Land

Due to a lack of demand for SEZ space and disruptions caused by the pandemic, unutilized land in SEZs exists.

- Multiple Models

Multiple economic zone models exist, including SEZs, coastal economic zones, the Delhi-Mumbai Industrial Corridor, the National Investment and Manufacturing Zone, food parks, and textile parks, all of which face issues in integrating the various models.

- Competition from ASEAN Countries

Many ASEAN countries have modified their policies in recent years to encourage global players to participate in their SEZs, as well as working on a developing set of skilling projects.

Benefits of Special Economic Zones

- They increase Foreign Direct Investment (FDI).
- Special Economic Zones increase foreign exchange earnings.
- They aid in employment generation.
- They help in experimenting with new policies.
- Special Economic Zones increase exports.
- They boost the economy.

- Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal), and Noida (Uttar Pradesh) are the eight operational SEZs in India. In addition, an SEZ in Indore (Madhya Pradesh) is now operational.
- The major goals of the SEZ Scheme are to generate more economic activity, promote exports of goods and services, promote investment from both domestic and foreign sources, and provide job opportunities while also developing infrastructure.

Conclusion

- Each government determines its own definition of a special economic zone. Above all, companies may also be offered tax vacations, in which they are allowed a period of cheaper taxation after establishing themselves in a zone. Companies are also bestowed tax vacations, in which they are allowed a period of cheaper taxation after establishing themselves in a zone. It is critical for the government. However, the advantages of an SEZ considerably outweigh the drawbacks, which are almost insignificant.