INSTITUTE OF DISTANCE EDUCATION
Rajiv Gandhi University

BAECO 302
INDIAN ECONOMY

BA (ECONOMICS)
5th SEMESTER

Rajiv Gandhi University
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INDIAN ECONOMY

BA [Economics]

Fifth Semester

BAECO-302

RAJIV GANDHI UNIVERSITY

Arunachal Pradesh, INDIA - 791 112

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About the University

Rajiv Gandhi University (formerly Arunachal University) is a premier institution for higher education in the state of Arunachal Pradesh and has completed twenty-five years of its existence. Late Smt. Indira Gandhi, the then Prime Minister of India, laid the foundation stone of the university on 4th February, 1984 at Rono Hills, where thepresent campus is located.

Ever since its inception, the university has been trying to achieve excellence and fulfill the objectives asenvisaged in the University Act. The university received academic recognition under Section 2(f) from the University Grants Commission on 28th March, 1985 and started functioning from 1st April, 1985. It got financial recognition under section 12-B of the UGC on 25th March, 1994. Since then Rajiv Gandhi University, (then Arunachal University) has carved a niche for itself in the educational scenario of the country following its selection as a University with potential for excellence by a high-level expert committee of the University Grants Commission from among universities in India.

The University was converted into a Central University with effect from 9th April, 2007 as per notification of the Ministry of Human Resource Development, Government of India.

The University is located atop Rono Hills on a picturesque tableland of 302 acres overlooking the river Dikrong. It is 6.5 km from the National Highway 52-A and 25 km from Itanagar, the State capital. The campusis linked with the National Highway by the Dikrong bridge.

The teaching and research programmes of the University are designed with a view to play a positive role in the socio-economic and cultural development of the State. The University offers Undergraduate, Post-graduate, M.Phil and Ph.D. programmes. The Department of Education also offers the B.Ed. programme.

There are fifteen colleges affiliated to the University. The University has been extending educational facilities to students from the neighbouring states, particularly Assam. The strength of students in different departments of the University and in affiliated colleges has been steadily increasing.

The faculty members have been actively engaged in research activities with financial support from UGC and other funding agencies. Since inception, a number of proposals on research projects have been sanctioned by various funding agencies to the University. Various departments have organized numerous seminars, workshopsand conferences. Many faculty members have participated in national and international conferences and seminars held within the country and abroad. Eminent scholars and distinguished personalities have visited the University and delivered lectures on various disciplines.

The academic year 2000-2001 was a year of consolidation for the University. The switch over from the annual to the semester system took off smoothly and the performance of the students registered a marked improvement. Various syllabi designed by Boards of Post-graduate Studies (BPGS) have been implemented. VSAT facility installed by the ERNET India, New Delhi under the UGC-Infonet program, provides Internet access.

In spite of infrastructural constraints, the University has been maintaining its academic excellence. The University has strictly adhered to the academic calendar, conducted the examinations and declared the results on time. The students from the University have found placements not only in State and Central Government Services, but also in various institutions, industries and organizations. Many students have emerged successful in the National Eligibility Test (NET).

Since inception, the University has made significant progress in teaching, research, innovations in curriculum development and developing infrastructure.

SYLLABI-BOOK MAPPING TABLE

Indian Economy

Syllabi	Mapping in Book
Unit I: Structure of the Indian Economy and Population Basic features of Indian economy; growth of national income, sectoral composition of national income; population size, and causes of its high growth; problems of rapid growth of population; measures to reduce population growth in India	
Unit II: Indian Agriculture Characteristics of Indian agriculture, causes of low productivity, land reforms - measures and evaluation; green revolution: Its causes and impact, Factors limiting the spread of green revolution.	
Unit III: Industry and Foreign Trade Large, medium, small-scale and cottage industries, basic characteristics of Indian industrialization, industrial policy 1991, Composition of India's exports and imports; problems of India's current account disbalance; India and WTO policies on agriculture and industry	
Unit IV: Planning and Economic Reforms India's five year plans, objectives, achievements and failures; Economic Reforms since 1991 and.its appraisal; World Bank its role.	

INTRODUCTION

Generally, an economy reflects the way of organizing and performing economic activities such as production, consumption and distribution. The differences in organization an operation of these activities give us different economic systems. Accordingly, we have national economy, regional economy or state economy if we consider the economic activities on the basis of a geographical or political boundary. Similarly, we have capitalist, socialist, and mixed economy on the basis of the significance of ownership of means of production while organising these activities. These economies also differ in their peculiarities from one nation to the other. For example the socialist economy of China is different from the socialist economy of the former Soviet Union. While the economy of China has agricultural base, the economy of Soviet Union had industrial base. An understanding of, say a socialist economy, may not capture the ground realities which exist in different countries. It is therefore necessary to discuss the economy of a nation or a region for a meaningful understanding. It is in this context that the course entitled. Indian Economy and the Economy of Arunachal Pradesh bear significance. The course has two sections, namely Indian economy consisting of six units and the economy of Arunachal Pradesh consisting of two units.

Unit-I discusses the nature and structure of Indian economy. Besides, it includes discussion on National Income and contribution of different sectors to its growth over the years.

In the process of development of a nation its population has a greater bearing. Development is meant for the people and people are the agents of development. That is why the study of population with its associated components such as literacy, sex ratio, occupational distribution are very important. This is the subject matter of Unit-II which also discusses the population policy adopted in India over the years.

India is an agricultural country; agricultures share in National Income is quite sizable. Hence the role of agriculture in Indian economy is very important. Unit-III discusses the nature and status of Indian agriculture and measures like land reforms and green revolution to raise agricultural productivity and thereby developing agriculture.

In the process of transformation of economy, Industries follow agriculture and foreign trade follows industries. Unit-IV discusses the industrial development of India after independence. It has described the pattern of industrialization as a result of different industrial policies. Besides, it has specially focused on the cottage and small scale industries in the economic development of India.

Unit-V discusses the foreign trade, its composition and nature. An important instrument in foreign trade, that is Balance of Payments has also been discussed in details. As international trade is directed by World Trade Organisation, the unit also discusses India's emerging role as a member country in World Trade Organisation.

India has adopted planned approach to development. As a matter of fact, India formulates plans for economic growth and social justice. Unit-VI discusses various five year plans and critically evaluates its performance. Consequent upon globalisation, India has also embarked upon economic reforms. The unit has made an appraisal of economic reforms in the process of economic development in India.

Unit-VII and Unit-VIII discuss the economy of Arunachal Pradesh with reference to the State Domestic Product, population, agriculture and industry. Unit-VII discusses domestic product, contribution of different sectors to it and the population along with its characteristic. Unit-VIII has discusses development of agriculture and industry with reference to traditional practices in these two sectors.

The course explains the economic behaviour of a nation and a state. In the process of explanation both theoretical and empirical explanations have been blend to present the systems objectively.

Contents

Unit-I
STRUCTURE OF INDIAN ECONOMY

Structure

1.0 Objectives

After studying this unit you will be able to:

- understand the nature of Indian economy;
- describe the important characteristics of Indian economy;
- learn about the national income of India;
- discuss the trends of growth of national income over the years; and
- know the contribution of different sectors to national income of India and its changes over the years.

1.1 Introduction

In an economy there are different agents involved in economic activities. These agents may be consumers or producers or both at private or government levels. The agents also may be individuals or institutions. The consumers and producers may be firms, industries or households. All these agents together are constituents of an economy. These agents and inter-relationship among them are what we call the structure of the economy.

The structure of the economy can also be viewed from its sectoral activities. There are mainly three sectors such as primary sector, secondary sector and tertiary sector. All these sectors produce output and services whose monetary value constitute national income. When we say structural transformation we mean that contribution of different sectors to the national income changes. For example - the contribution of primary sector may decline but that of secondary sector may increase in the process of economic development.

Primary sector activities relate to activities associated with land directly or indirectly. These include agriculture, livestock, forestry, mining and quarrying. Livestock, forestry are indirectly related to land and therefore, are called allied actives. The secondary sector activities are manufacturing activities; industries, construction etc. are included in this sector. Tertiary sector activities include services like banking, health, etc. All these sectors in terms of their contribution outline the structure of a national economy.

In this unit, the features of Indian economy are discussed as a mixed economy. Besides, the concept of national income and its composition are discussed to make you understand the nature of our economy as a developing economy.

1.2 Basic features of Indian Economy

Economics is a social science. It basically discusses activities like production, consumption, distribution and exchange which are called economic activities. These activities have many related aspects. One aspect is related to the ways of organization and management of these activities. The different ways of managing economic activities give us different economic systems/ economies. However, difference in the ways of managing activities is not the only basis of distinction between different economies. There are other features which distinguishes one economic system from the other.

Associated with the ways of management of economic activities there is an issue related to means of production or resources in production activities. Production in fact is the starting point of all economic activities. Means of production are either privately owned or state owned or owned by both the private and government sectors. Accordingly, the economies can be capitalist, socialist or mixed economies. In a capitalist economy, the means of production or resources are owned by the private sector as is the case in U.S.A. In a socialist economy, the means of production are owned by the government as was the case in former Soviet Union. Means of production, also called factors of production, are primarily land, labour, capital and organisation. In some other economies, the elements of both capitalist and socialist systems are present. These economies are known as mixed economies. India is a mixed economy. In India, means of production are owned by both private and government sectors.

There is also another way of looking at the economic system. It is a fashion to look at an economy on the basis of per capita income. Differences in per capita income distinguish between the economies also. Accordingly, an economy can be developed if the per capita income is high or underdeveloped if the per capita income is low. If the per capita income is not high but shows an increasing trend, the economy is called a developing economy. The term 'underdeveloped' has a relative meaning. In other words, there is no economy which is underdeveloped in absolute terms. The economy in which the process of development has not started or is very slow to make any change visible is called an underdeveloped economy. However, the term 'underdevelopment' is not very popular in its use. In developing economy the process of development is quite visible. Generally, those countries which have real per capita income less than a quarter of the per capita income of the United States are developing countries. According to the United Nations, the terms 'developing countries' mean that though still underdeveloped, the process of development has been initiated in these countries. India is an example of developing country, whereas U.S.A., Canada, Switzerland, Japan are developed countries/economies.

As has been said, the Indian economy is a mixed economy. Means of production are owned by both private and government sectors. For example, the land is owned by the government and the private people as well. India is also a developing economy as the process of development has been initiated in the country precisely with the beginning of the First Five Year Plan. There are certain characteristics of the Indian economy. A study of these characteristics will help us in understanding the nature of Indian economy both as a developing and mixed economy. The basic features of the Indian economy are explained as follows:

i. **Low per capita income:** The underdeveloped economies like India are characterized by the existence of low per capita income. Per capita income is the total national income divided by total population of a country. The per capita income of India is one of the lowest in the world. India's per capita income in 2002 was $480 whereas the same in Switzerland was about 79 times, in Germany about 47 times, in the USA and Japan 70 times the per capita income in India. Despite the fact that Indian economy has grown at a faster rate than the developed countries during 1990-2002, the difference in per capita income between India and the developed economies is very large.

ii. **Low rate of capital formation:** Another basic characteristic of Indian economy is the existence of low rate of capital formation. 'Capital' means produced equipment which helps in further production. The term 'capital formation, means the process of adding to the capital assets. An adequate amount of capital formation is very essential for initiating and accelerating the economic development of a country. The amount of capital per head available is low in India. Not only is the capital stock extremely small, but the current rate of capital formation is also very low. This low rate of capital formation is due to low propensity and capacity to save resulting from low per capita income as well as weakness of the inducement to invest. In such an economy the low level of per capita income limits the size of market for manufacturing output which weakens the inducement to invest. Low level of per capita income can not create sufficient demand for the products of manufacturing sector. The insufficient demand limits the growth of manufacturing sector.

iii. **Primary producing economy:** The Indian economy is basically a primary producing economy. A primary producing economy is one where agriculture and allied activities like forestry, animal husbandry, fishing, etc. are the main sources of livelihood for the majority of the population. Agriculture is considered as the backbone of Indian economy. This sector employs more than 60 percent of the total work force. Although the share of agriculture to gross domestic product of India has been declining it still constitutes 26 percent of GDP as per figures of 2001-02. The performance of agriculture greatly affects that of the other sectors through backward and forward linkages. To carry on agricultural production, various inputs are required like tractor, power-tiller, fertilizer etc. Thus, development of agricultural sector requires purchasing of various inputs from other industries. This is called backward linkage. On the other hand, agricultural products are sold to and used by other industries. Thus agricultural sector leads to development of agro-based industries by providing necessary raw materials. This is called forward linkage. As a source of livelihood and food security agriculture has special significance for the people of India particularly the poor and vulnerable sections.

iv. **Heavy population pressure:** India is the second highest populous state in the world after China. One of the main economic problems of India is the existence of a very high growth rate of population. This has resulted from a higher birth rate and a declining death rate. The rate of growth of population was about 1.31 per cent per annum during 1911-2001. The death rate has fallen from 49 per thousand during 1911-20 to 8.5 per thousand in 2000 whereas the birth rate has declined from about 49 per thousand to 25.8 per thousand in the corresponding period. The fast rate of growth of population necessitates a higher rate of economic growth in order to maintain a decent standard of living of people. Thus heavy population pressure has imposed a great economic and social burden in our country.

v. **Underutilization of natural resources:** Indian economy like most of the developing economies is rich in various types of natural resources. But in many cases such resources are either underutilized or unutilized due to various reasons such as their inaccessibility, shortage of capital, simple technology, etc. Vast forest and mineral resources remain unexplored.

vi. **Existence of unemployment and underemployment:** The rapid growth rate of population has resulted in a very high level of unemployment and underemployment in India. Unemployment is defined as a situation where a person does not get any gainful employment opportunity inspite of having capacity and willingness to work at the existing wage rate. A person is said to be underemployed when he gets employment, but less than his capacity to work. Since labour is an abundant factor, it is impossible to provide gainful employment to the entire working population. In India unemployment is structural in nature. In the agricultural sector, there is large scale disguised unemployment. That means a much larger number of labourers are engaged in production than are really needed. Disguised unemployment is a situation where there is surplus labour force and everybody seems to be employed. If we remove the surplus labour, total product will not be affected. The productivity of the surplus labour force is nearly zero. Disguised unemployment is the result of heavy pressure of population on land and the absence of alternative employment opportunities in the rural areas. On the other hand, lack of sufficient capital does not allow expansion of industries to such an extent that the entire labour force is absorbed.

vii. **Poor quality of technology and skills:** Another characteristic of Indian economy is the existence of primitive methods of production and inferior and less productive techniques. There is also a terrible dearth of skilled human capital. The labour force is regarded as 'human capital'. Skilled human capital refers to the labour force which is skilled in the sense of better education, training and thereby more efficient and productive. Poor quality techniques and lower skills result in inefficient production. The Indian economy suffers from technological backwardness which can be attributed to a very small amount of investment on research and development. The expenditure on primary to higher education and research and development in 1997 was about 3.2 percent of G.N.P as compared to 5.2 percent of G.N.P in U.S.A.

The above discussion on the features of Indian economy shows that India is basically a developing economy. It suffers from low per capita income due to a large size of population on the one hand and low rate of growth of national income on the other. The low level of capital formation is one of the factors responsible for slow pace of economic growth. Indian economy is a primary producing economy where agriculture and allied activities constitute the main source of livelihoods for the majority of the population. Although India is rich in various types of natural resources, most of these are unutilized or underutilized. Besides, there is large scale unemployment and underemployment. The quality of technology used and the quality of labour force employed are also poor. All these factors are responsible for slow rate of development of the Indian economy.

Check Your Progress-I

1. What do you mean by a socialist economy? Name a few socialist economies in the world.
2. Is India a mixed economy?
3. What do you mean by backward and forward linkages?
4. What do you mean by the term 'capital'?
5. Write the name of some developed economies.

1.3 National Income and its Growth

National income is the flow of all goods and services produced in an economy during a particular year. According to National Income Committee of India, "A national income estimate measures the volume of commodities and services turned out during a given period, counted without duplication". The flow of all the goods and services produced in a year is expressed in terms of money value to give a single measure to express the national income. It is because the goods and services produced are varied in shapes, sizes, qualities and in nature and they can not be added to give a single measure. We can not add up orange to apples or pens to services of teachers. Therefore, it is difficult to express the national income in terms of diverse goods and services. So, the national income is the money value of all the final goods and services produced during a year. Money being a generally accepted medium of exchange is used as a measure of value for estimating the goods and services. The year is known as financial or accounting year. In India the financial year is the period from 1st April of a year to the 31st March of the following year. For example, in India, the 1st April 2006 to 31st March 2007 is a financial year for all accounting purposes.

The goods and services to be included in national income are to be final goods and services. The goods and services used for final consumption are final goods and services and are distinguished from intermediary goods. Intermediary goods are used further in the process of production, but not to satisfy the consumer wants directly. For example, the portion of paddy used for consumption purpose is final good, but the portion which is kept for seed purpose is called intermediary goods. The insistence of the final goods and services is to make sure that we do not double count a good. For example, we do not intend to include the full price of the car as well as the price of tyres used in the car while calculating national income. Many parts of the car may not be manufactured in car manufacturing factory. Tyres are separately manufactured. If the price of the tyre is included in national income, its inclusion, while taking full price of the car, will lead to double counting. If we do so the value of the tyre gets counted twice.

National income is estimated both at current prices and at constant prices. National income at current prices refers to the money value of final goods and services produced during an accounting year in terms of prevailing market prices of that year. More accurately, national income at current prices is the sum total of the value obtained by multiplying quantities of goods and services produced in an accounting year with the prevailing market prices of that year.

National income at constant prices, on the other hand, refers to the money value of final goods and services produced during an accounting year, but expressed in terms of market prices of a base year, usually a past year of reference. It is the sum total of value obtained by multiplying the quantities of goods and services produced during an accounting year with the prices of a base year. A base year is generally a normal year without any war, without or with very insignificant natural calamities, political instability, etc. However, the base year shifts with the passing of time taking into consideration different policy measures of the government. But the new base year is also supposed to be a normal year of not from distant past. After Independence, 1948-49 was accepted as base year for national income estimates. In course of time, 1960-61, 1970-71, 1980-81and 1993-94 have been accepted as base year of reference. National income at current prices is called nominal national income, while at constant prices it is called real national income.

The national income of a country can be measured at three levels of the basic economic function, viz.

(a) as a flow of goods and services,

(b) as a flow of income, and

(c) as a flow of expenditure.

Accordingly, there are three methods of computing national income. They are:

(1) Product Method,

(2) Income Method and

(3) Expenditure Method.

In the product method, the total value of all final goods and services produced in a country during a particular year is calculated at market prices. According to the income method, the net income payment received by various factors in a particular year in terms of rent, interest, wage and profit are aggregated together to find out national income. According to the expenditure method, the total expenditure incurred by a country during a particular year is added together.

The national income of India was first calculated by Dadabhai Naoraji in 1868. After Independence, the National Income Committee was appointed in 1949. Later on the task of national income estimation was entrusted to Central Statistical Organisation (CSO).

In order to understand the process of economic growth, a study of trends in national income is necessary. An analysis of trend in national income over the last 50 years is relevant to understand the impact of planning in India.

Table - 1.1
Annual Average Growth Rate of national Income
(at 1993-94 prices)

Plan Periods	NNP at factor cost	Per capita NNP
First Plan(1951-56)	3.6	1.8
Second Plan(1956-61)	4.1	2.0
Third Plan(1961-66)	2.5	0.2
Annual Plan(1966-69)	3.8	1.5
Fourth Plan(1969-74)	3.3	1.0
Fifth Plan(1974-79)	5.0	2.7
Annual Plan(1979-80)	6.0	-8.3
Sixth Plan(1980-85)	5.4	3.2
Seventh Plan(1985-90)	5.8	3.6
Annual Plan(1990-91)	5.4	3.3
Annual Plan(1991-92)	0.5	-1.5
Eighth Plan(1992-97)	6.7	4.6
Ninth Plan(1997-2002).	4.6	3.0
2001-02	6.2	4.3
2002-03	4.2	2.4

Source: CSO, National Accounts Statistics, 2001 and 2003.

The annual growth rates of national income during various plan periods have been demonstrated in table 1.1. It shows that during the First Plan, annual average growth of Net National Product (NNP) was 3.6 per cent at 1993-94 prices, which rose to 4.1 per cent during the Second Plan. However, during the Third Plan annual average growth of national income and per capita income dropped to 2.5 per cent and 0.2 per cent respectively. This was largely because of a serious drought in 1965-66, which was followed by another drought year and also a business recession. However, during the three annual plan of 1966-69, the average annual growth rate of national income rose to 3.8 per cent and that of per capita income to 1.5 per cent. Again, average annual growth rate of national income and per capita income fell to 3.3 per cent and 1.0 per cent respectively during Fourth plan period (1969-74). The sharp increase in the price level during 1972-73 and 1973-74 and the shortfalls in production due to underutilization of capacity were some of the factors responsible for a lower growth rate during the Fourth Plan.

During the Fifth Plan (1974-79) the average annual growth in national income was 5.0 per cent and that of per capita income was 2.7 per cent. During the Sixth Plan (1980-85), national income of India grew by 5.4 per cent with a per capita income growth rate of 3.2 per cent. The national income of India registered a growth rate of 5.8 per cent per annum and the annual growth of per capita income was 3.6 percent during the Seventh Plan. The Eight Plan (1992-97) showed growth rate of national income at 6.7 percent per annum with .. per capita income growth of 4.6 per cent. During 2001-02 and 2002-03, growth rate of national income was 6.2 per cent and 4.2 per cent respectively.

1.4 Changing Sectoral Composition of National Income

An important aspect of the national income of a country is its sectoral composition. Sectoral composition of national income refers to the contribution made by various sectors of the country to its national income. Sectoral composition of national income is also known as distribution of national income by industries of origin. The process of economic growth greatly influences changes in the sectoral composition of national income. The sectoral composition of national income of India has been shown in table 1.2.

Table - 1.2

Sectoral Composition of National Income (at 1993-94 prices)

As Percentage of GDP

		1950-51	1980-81	2001-02
I.	**Primary Sector**	57.7	39.7	23.9
a)	Agriculture	50.2	35.8	21.9
b)	Forestry	6.7	3.0	1.1
c)	Fishing	0.9	1.0	1.0
II.	**Secondary Sector**	14.8	23.7	26.6
a)	Mining &Quarrying	1.5	2.1	2.2
b)	Manufacturing	8.9	13.8	16.8
c)	Electricity, gas & water supply	0.3	1.7	2.5
d)	Construction	4.1	6.1	5.1
III.	**Tertiary Sector**	**28.0**	36.6	49.5

a)	Transport, communication & Trade	11.9	18.4	23.5
b)	Finance and Real Estate	6.7	6.5	12.5
c)	Community and Personal Services	9.4	11.7	13.5
	Commodity sector	**72.0**	**63.4**	**50.5**
	Service Sector	**28.0**	**36.6**	**49.5**

Source: EPW Research Foundation (2002), National Accounts Statistics of India (1950-51 to 2000-01) and CSO, National Accounts Statistics(2003).

The distribution of national income by industrial origin is generally categorized under three broad heads-primary sector, secondary sector and tertiary sector. The trends in the changing sectoral composition of national income can be explained as follows:

1. The share of the primary sector which includes agriculture, forestry and fishery has declined from 57.7 per cent in GDP in 1950-51 to 23.9 per cent in 2001-02. Agriculture is the main source of livelihood for the majority of the population and it contributes the bulk to the primary sector. However, the share of agriculture in GDP fell from 50.2 per cent in 1950-51 to 36 percent in 1980-81 and 21.9 per cent in 2001-02. The share of fishing in GDP has remained stable at 1 percent throughout the last five decades. However, the share of forestry in GDP has shown a continuous decline from 5 percent in 1950-51 to 3 per cent in 1980-81 and finally 1.1 per cent in 2001-02.

2. The share of secondary sector which includes mining, manufacturing, construction, electricity, gas and water supply has shown a steady increase from 14.8 per cent in 1950-51 to 23.7 per cent in 1980-81 and to 26.6 per cent in 2001-02.

   The two major components of the secondary sector are manufacturing industries and construction. The share of manufacturing in GDP increased from 8.9 percent in 1950-51 to 16.8 per cent in 2001-02. Against this, the share of construction increased from 4.1 per cent in 1950-51 to 6.1 per cent in 1980-81, which declined to 5.1 per cent in 2001-02.

3. The share of tertiary sector which includes trade, transport, communication, banking, insurance, real estate, community and personal services improved from 28.0 percent in 1950-51 to 36.6 per cent in 1980-81 and to 49.5 percent in 2001-02. In the tertiary sector share of transport, communication and trade increased from 11.9 per cent in 1950-51 to 23.5 per cent in 2001-02. The contribution of finance and real estate increased from 6.7 percent in 1950-51 to 12.5 per cent in 2001-02. On the other hand, the share of community and personal services in GDP increased from 9.4 percent in 1950-51 to 11.7 per cent in 1980-81 and to 13.5 percent in 2001-02. Finally, in table 2, all the sectors have been categorized into two broad heads-commodity sector and service sector. It shows the contribution of commodity sector in GDP continuously declined over the years while the same for service sector exhibited an increasing trend.

Check Your Progress-II

1. What are the different sectors of Indian economy?
2. Why is national income expressed in money terms?
3. What do you mean by per capita income?
4. What do you mean by national income at current prices?
5. What are the different methods of estimating national income in India?

1.5 Let Us Sum Up

The above discussion of the structure of Indian economy shows that India is a developing economy. This is very much reflected in the features of the economy. One of the important features of the developing economy is its slow rate of growth. There are various factors like low per capita income, low rate of capital formation, heavy population pressure, underutilised natural resources, etc. responsible for this slow growth of Indian economy. A look into the changing sectoral composition of national income of India shows that the share of primary sector has been declining consistently whereas the shares of secondary and tertiary sectors have increased considerably. This is due to the fact that when an economy progresses the share of primary sector declines whereas those of secondary and tertiary sectors increase.

1.6 Key Words

Capitalist economy	:	Where means of production are owned by the private sector.
Socialist economy	:	Where means of production are owned by the state.
Mixed economy	:	A combination of the features of capitalist and socialist economies; some activities are carried out by the private sector whereas some other activities carried by the public sector.
Per Capita income	:	Total national income divided by total population, in other words, income per head.
Backward linkage	:	Where proportion of inputs are purchased from other industries.
Forward linkage	:	Where proportion of outputs are sold to other industries.
National income	:	Value of all the final goods and services produced in a country during a particular year.

1.7 Check Your Learning

1. Explain the salient features of the Indian economy.
2. Explain the characteristics of a developing economy with special reference to the economy of India.
3. What do you mean by national income? Examine the trend of national income of India.
4. Write a note on the changing sectoral composition of national income of India.

1.8 Suggested Readings

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Kapila,Uma (Ed.- 2001 Edition): Indian Economic Reforms, Academic Foundation. New Delhi.

Jalan, B. (1992) : The Indian Economy-Problems and Prospects, Viking, New Delhi.

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1.9 Hints/Answers to Questions in Check Your Progress

Check Your Progress-I

1. A socialist economy is one in which the means of production are owned by the government. Former Soviet Union, Cuba and China are socialist countries.

2. Yes.

3. In the process of production one industry depends on other industries for inputs. This type of link is called backward linkage. On the other hand, the product of industries may be used as input/raw materials in the production process of other industries. This type of link is called forward linkage. For example, development of agricultural sector requires purchasing of various inputs like fertiliser, pesticides, tractor, etc. from other industries. This is called backward linkage. On the other hand, agricultural products are sold to and used by other industries like sugar mills. Thus, agricultural sector leads to development of agro-based industries by providing necessary raw materials. This is called forward linkage.

4. Capital is produced means of production; for example, equipments which are produced to help in further production.

5. U.S.A., Canada, Japan, Switzerland.

Check Your Progress-II

1. Primary, Secondary and Tertiary sectors.

2. In an economy, millions of goods and services in different shapes and sizes are produced and their quantities are measured in different units. These heterogeneous goods and service with different measures can not be added up to give a single measure. That is why money value of all these goods and services taken and added up to arrive at a single measure of national income.

3. Per capita income refers to income (net national product at factor cost) per head on an average in a country. It is estimated dividing national income by total population.

4. National income at current prices refers to the money value of final goods and services produced during a financial year in terms of prevailing market prices of that year (current market prices). It is obtained by multiplying quantities of goods and services produced during the year with current market prices.

5. Product method, Income method and Expenditure method.

2.1 Introduction

Population growth is often said to be one of the main factors behind India's backwardness. India is clearly one of the most densely populated countries in the world. India's population has trebled since independence. It seems to be heading towards 1.5 billion by the middle of the twenty-first century. For any student of Indian economy, it is important to have a clear understanding of the size and growth of India's population, the reasons for the changes in growth rates of population as well as the government policies in this regard.

2.2 Population in India: Size and Growth

The population of India is the second largest in the world next only to China. About 17 per cent of the world's population reside in India, where as it accounts for only 2.42 per cent of the total world area. If availability of demographic data is an indicator of development, then India is above many underdeveloped countries of the world where paucity of demographic data still poses a serious concern for systematic demographic analysis. The size of population of India presents a history of erratic growth. It was from 1881 onwards that Census was conducted every ten years in the country. Data from 1901 onwards are considered to be more reliable. The size of Indian population decreased between 300 B.C. and 1600 A.D and similar decreases could be seen during the decades of 1871-1881, 1891-1901 and 1911-1921. The decline of population during the interval 1911-1921 is mainly attributed to the influenza epidemic of 1918 in which according to one estimate more than 15 million persons were killed.

According to the 2001 Census, India's population of 1027 million shows 21.34 percent decennial growth between the periods from 1991 to 2001 resulting in absolute increase in population of 184 million over the 1991 census population. The total population consists of 531.3 million males and 495.7 million females indicating a sex ratio of 933 according to the 2001 census. Though, there has been a marginal decline in growth rate of population from 2.14 per cent during 1981-91 to 1.93 per cent during the decade 1991-2001, yet the growth rate of population continues to be quite high in comparison to other countries of Europe and North America. The high rate of population growth in India with its large size of population has some advantages as well as disadvantage from the economic and social point of view. At the macro level it provides a large and growing labour force as well as a large market for goods and services. On the other hand, in an agrarian country with low savings and low capital formation, investment generation poses serious problems.

The population growth of India can be subdivided into four distinct periods. The first twenty years of the century from 1901 to 1921 witnessed a net addition of only 5.4 per cent, or 12.9 million persons to India's population, the next thirty years from 1921 to 1951 saw an increase of 43.7 per cent or an addition of 110 million people. It was from 1951- 1981 that India experienced an explosive population growth of 189.2 per cent or an addition of 322.2 million persons. The last two decades from 1981 to 2001 witnessed a high growth of population with some sign of slowing down. During this period the population increased by 343.7 millions.

Prior to 1921, population growth in India was sporadic and more or less stationary. Both birth rate and death rate were high during that period. The year of 1921, also known as the year of 'Great Divide', marks the difference in the growth pattern of population in India. The period between 1921 and 1951 saw rapid population growth, which was mainly because of decline in mortality and a large base population with little impact of family planning programmes, while the decade of 1951-1961 saw an explosive population growth, where 78 million persons were added to the Indian population. Between 1961 and 1971 about 109 million persons were added, while the next decade from 1971 to 1981 saw an addition of 135 million persons. Further, between 1981 and 1991 there was a net addition of 160 million persons and the last decade of the century from 1991 to 2001 saw an increase of 184 million persons. The significant point of the last decade was that India has entered a phase of Demographic transition characterized by declining fertility in some states and the increase in population has been primarily on account of a significant reduction in the death rate.

Table: 2.1
Population of India: 1901-2001

Year	Population (million)	Decadal Growth rate %	Average Annual Exponential Growth	Density Sq. km. Rate %	Sex Ratio
1901	238.4	-	-	77	972
1911	252.1	5.75	0.56	82	964
1921	251.3	-0.31	-0.03	81	955
1931	279.0	11.00	1.04	90	950
1941	318.7	14.22	1.33	103	945
1951	361.1	13.31	1.25	117	946

1961	439.2	21.64	1.96	142	941
1971	548.2	24.80	2.20	177	930
1981	683.3	24.66	2.22	216	934
1991	846.3	23.85	2.14	267	927
2001	1027	21.34	1.93	324	933

Source: Census of India 2001 Paper-1 of 2001, Registrar General & Census Commissioner, India

2.3 Population in India: Occupational Distribution

The work participation rate refers to the proportion of total workers to the total population expressed as a percentage. In general, the total work participation rate in India shows a rising trend since 1971. The trend is more pronounced in rural areas than in urban areas, where it has remained almost constant at 30 per cent. In the case of females there has been an increase in both rural as well as urban areas. But in the case of males, a slight decline is noticed between the period from 1981to 1991.

Table: 2.2
Work Participation Rate: 1971-1991

Census Year	Category	Persons	Males	Females
1971	Total	34.17	52.75	14.22
	Rural	35.33	53.78	15.92
	Urban	29.61	48.88	7.18
1981	Total	36.70	52.62	19.67
	Rural	38.79	53.77	23.06
	Urban	29.99	49.06	8.31
1991	Total	37.68	51.56	22.73
	Rural	40.24	52.50	27.20
	Urban	30.44	48.95	9.74

Source: Census of India, Paper 3 of 1991, pp.9.11, 103

So far as the occupational distribution of the workers is concerned, in the census, generally a nine fold classification is followed. The occupational categories covered are: Cultivators, agricultural labourers, livestock, forestry and fishing etc., mining and quarrying (all these are included in the primary sector), Household and non-household industries, construction (these two are part of the secondary sector), trade and commerce, transport, storage and communications, and other services (all are part of the tertiary sector). The broad trends in the sectoral composition of workers in India are discussed below:

(i) In 1951, 72.7 per cent of workers were dependent upon the primary sector. By 1991, it has come down to 67.4 per cent.

(ii) In 1951 only 10.0 per cent of the workers were dependent on the secondary sector, which increased to 12.1 per cent in 1991.

(iii) The share of the tertiary sector in total workers has gone up from 17.3 in 1951 to 20.5 in 1991.

(iv) At a more disaggregated level, the share of cultivators has declined from 50 per cent in 1951 to 38.4 per cent in 1991, while the share of agricultural labourers has increased from 19.7 per cent to 26.5 per cent during the same period.

2.4 Causes of Rapid Growth of Population

The main causes for an increase in population of a country are a high birth rate, a relatively lower death rate and immigration. In India, the population has rapidly increased due to a steady decline in the death rate, while the birth rate continued to remain high. There were many factors, which were responsible for the decline in the mortality rate. The foremost among them was the elimination of famines, control over epidemics, as well as spread of education and expansion of medical facilities. In spite, of a decline in the death rate, the birth rate continued to be high. This was mainly because of the economic and social factors. The compelling economic factors were that being primarily an agrarian society, additional children were never considered to be an economic burden. Rather they were considered to be economic assets. Further in India the pace of industrialization as well as the process of urbanization has been quite slow and hence it has failed to generate social force to bring down the birth rate. The social factors such as near universality of marriage, religious and social superstitions, joint family system, lack of education and lower age at the time of marriage have in their own way contributed to a high birth rate.

2.4.1 Causes of Decline in the Mortality Rate

It has been observed that the cause of death is not generally reported accurately and hence there is some difficulty in ascertaining the main causes of decline in mortality rates. Nevertheless the main factors for the decline in the mortality rate are as follows.

Eradication of famines: Since independence, the recurrence of famine, which was quite frequent during the British period, has been brought under control. Thus we see that the capacity of the government to cope with the drought situation has been greatly enhanced. In the 1987-88 drought, the government effectively tackled the situation without importing substantial food grains. Thus we see that in all probability the elimination of famine is the most important factor responsible for bringing down the mortality rate.

Control over epidemics: The complete eradication of small pox and control over cholera- the two main causes of epidemics prior to independence is the second most pressing factor responsible for the decline of mortality in India. As against 5 percent of all deaths due to cholera in 1925, this disease accounted for only 0.4 per cent of all deaths in 1966 and 1967.

Control over malaria and tuberculosis: There has been a drastic decline in death due to malaria and tuberculosis in the last four decades. In the 1930s when death rate was around 31 per thousand people, malaria accounted for 16 per cent of the total deaths. Inspite of a decline in the incidence of death due to the two diseases, they still remain a major killer in India.

Other factors: Apart from the above factors there are many other factors responsible for the decline of mortality in India. Factors like, spread of education, expanded medical facilities, immunization against various preventable diseases, supply of pure drinking water facilities in rural and urban areas, improvement in basic sanitation and hygiene facilities have also in some way contributed to the decline in mortality rate.

2.4.2 Causes of High Birth Rate

The birth rate continues to be very high in India. Excepting in the states of Kerala, Tamil Nadu and Goa, birth rate has not declined significantly during the last four decades as economic and social factors continue to favour high fertility.

Economic Factors

Economic factors have always played an important role in shaping human behaviour. Factors like extent of urbanization, spread of poverty and occupational distribution of population have an important bearing on the birth rate of the country and thus not allowing any significant decline in fertility.

Dominance of agriculture: Even today in India nearly two-thirds of the working population is employed in agriculture. It has been observed that in agrarian societies children have never been considered as an economic burden, rather they are considered to be economic assets who help the family in their farm activities. Parents do not have to support their children for a long duration as they start earning their own livelihood at a much younger age. Contrast is the case in case of industrial society where parents support their children for a longer duration and hence they prefer a small family. In India the process of industrialization has been rather slow and hence there has been no substantial decline in fertility rate.

Poverty: Poverty is another factor that has been responsible for a high fertility rate. It has been observed that at a lower income level of the family the benefit of having an additional child in a family exceeds the cost of upbringing the child. Hence people tend to have a larger family. The benefits, which the family expects from an additional child takes the form of expected services, income and social security. The only economic assets that the poor have are their own labour and additional numbers of earners in the family. The low survival rate reinforces the preference for more children. In India as the per capita income is very low and nearly 40 per cent of the population lives below the poverty line, this faction plays a very crucial role in determining the high birth rate. Thus we see that poverty acts as a hurdle in the adoption of family planning programmes by the poorer sections of the society.

Slow pace of urbanization: In spite of an increase in the urban population in India during the last four-decade from 17.62 per cent in 1951 to 25.72 percent in 1991 the pace of urbanization has been very slow. About 65 per cent of the population still lives in the rural areas where an additional child is considered as an additional set of working hands. Census data reveal that fertility rate is lower in cities than in the villages.

Social Factors: The role of social factors to the high birth rate is tremendous in India. Factors such as universality of marriage, religious and superstitious beliefs, joint family system, and lack of proper education are responsible for an ever-increasing rise in fertility rate.

Universality of marriage: Universality of marriage is to a great extent, a religious and social necessity in India. This has a negative impact on the fertility rate in the country and hence acts as an obstacle to population control.

Lower marriageable age: The relatively lower age at the time of marriage is another factor that acts as a constraint on population control and is believed to be responsible for high fertility rate in the country. In India since the average marriageable age for women is around 18 years, the fertility rate is bound to be high.

Superstitions: In India religious and social superstitions play a very important role in determining the fertility rate. People are governed by many irrational social and religious superstitions during the birth of a child. This is one of the crucial factors, which is responsible for the ever-increasing population.

Lack of education: In India there is widespread illiteracy. According to the 2001 census 55.30 per cent of the population was literate. It is education, alone which can change the attitude of the people towards family, marriage and birth of child and expose them to rational ideas.

Check Your Progress-I

1. What is the percentage of world population living in India?
2. What do you mean by sex ratio?
3. Why the year of 1921 is known as the year of great divide?
4. What are the stages of demographic transition?
5. Which stage is called the stage of Population explosion?
6. Which period in India is characterized as the second stage of demographic transition?

2.5 Population Policy

Population policies are policy measures that bring out required and desirable changes in the growth, composition and quality of population in any country. Though often it is narrowly defined to mean only family planning programmes, or programmes concerning the reduction of the growth rate of population, population policies, in the wider sense, encompass a whole gamut of issues concerning the quantity and quality of human population.

There has always been a debate regarding the desirability of family planning programmes. It is not easy to bring down the population growth rates of a country, because the only method to do so is through family planning, and the success of family planning programmes depends on the level of development of the country, particularly the level of education.

During the first decade of planning, family planning programmes was taken up on a modest scale with a clinical approach. In pursuance of this objective, clinics were opened in rural and urban areas, but the thrust on family planning increased after the publication of the 1961 census data which showed a more than anticipated growth rate. A full-fledged Department of Family Planning was created in 1966, and an extension approach was adopted under which male and female family planning workers were recruited to provide alternative contraceptive methods to the users. During the period 1966-69 the family planning programme was made target oriented and more funds were provided for it, but the achievements were not up to the desired levels. The fourth five year plan accorded a high priority to this programme and higher outlay was provided with an objective of reducing the birth rate from 39 per thousand to 25 per thousand in the next 10-12 years. In order to achieve this objective a concrete programme was carried out to provide adequate facilities for couples during their reproductive period. The emphasis of the programme was on group acceptance of small family norm, personal knowledge of family planning methods, and ready availability of supplies and services. The basic approach of the government was mix of clinical and extension approaches. Also, the programme was completely voluntary and the government relied on persuasion rather than coercion.

2.5.1 National Population Policy, 1976

The New National Policy of 1976 marked a departure from the earlier policies. While earlier policies were based on the understanding that, while government should continue to pursue the family planning policies, population growth would be effectively controlled by the process of economic development and improvements in literacy. But the policy of 1976 clearly declared that, "to wait for education and economic development to bring out a drop in fertility is not a practical solution. The very increase in population makes economic development slow and more difficult of achievement... We have to go out of the vicious circle through a direct assault upon this problem as a national commitment". The policy was a more proactive one and some direct measure like raising the legal minimum age of marriage to 21 for males and 18 for girls were adopted. While an all out effort was made to involve Zilla Parishads and Panchayat Samitis', all government departments were mobilized to motivate citizens to adopt responsible reproductive behaviour. During the emergency, compulsory sterilization and coercive family planning basically discredited the family planning programme.

In the period after emergency, again there was a revision in government policy towards family planning. While the targets were routinely revised and fresh goal post were agreed upon, the use of coercive methods were not envisaged in the subsequent policy pronouncements. During the seventh five year plan, the need for decentralized planning and implementation was emphasized. Relatively modest targets were fixed and the structure of incentives for adoption and disincentive for non-adoption of the programme was revised.

Critical Appraisal of Population Policies in India

Some of the main criticisms of the population pôlicy in India are as follows.

(i) Malthusian Fears: From the very beginning, some scholars have been questioning the assumptions behind the alarming attitude towards population growth in India. They point out that historically growth of population has always been accompanied by the development of the economy and making population growth responsible for India's backwardness is a simplistic view popularized by western countries and aid-agencies. The emphasis should be on developing the quality of life rather than creating exaggerated fears about numbers.

(ii) Overemphasis on Contraceptives: Critics have also pointed out that making the contraceptives available and popularizing their use has always been the thrust of government policies in India. Raising the standard of living have not been given due emphasis. Development, in fact, is the best contraceptive. The Kerala model of development has clearly shown that government investment in health and education is a far better option to reduce fertility.

(iii) Inappropriateness of Coercive Methods: The use of coercive methods during the emergency not only backfired, it was also a set back for the pogramme as a whole. And it took years to overcome the set back. Given India's socio-cultural ethos, diverse social and cultural practices and nature of governance such methods would only alienate people from family planning.

(iv) Targets and Achievements: The target approach adopted for many years put a burden on the field staff to show the results and so instead of genuinely convincing people about the need for family planning, the programmes ended up in scams and fiascos. Although the targets remained unfulfilled even on paper, the actual realizations were even worse.

(v) Neglect of the Gender Dimension: The family planning programme rested crucially on the acceptance and use of it by men and women. Clearly women's autonomy and decisison-making capabilities are linked to the success of such programmes. But Indian planners, by and large, assumed that there is no need to raise questions about gender justice and women's reproductive and other rights in a conservative society like ours. Thus, the programmes only aimed at maintaining the supply, but hardly anything was done to alter the basic framework of decision-making in households and communities.

In recent years, there have been some changes in the focus and implementation of the family planning programme.

Firstly, voluntary organizations, non-governmental organizations, civil society and community organizations have come to play a far more important role in the family planning programmes.

Secondly, the focus has shifted from family planning per se to Reproductive and Child Health (RCH), which is a more comprehensive approach for ensuring better health. There is far greater appreciation of the linkages between education, income and access to information with the family planning outcomes.

Thirdly, now it is widely accepted that the issue of family size is linked to the question of female's autonomy and gender justice. As long as women do not enjoy an equal status in terms of access to education, earnings and decision-making, the outcomes of population policies would be unsatisfactory. Patriarchal control over women's body and decision making prevents, women from deciding their appropriate reproductive choice.

Fourthly, although it is being recognized that population policies is very much linked to the overall well-being of the people, the gradual withdrawal of the state from providing cheap and basic health care to the people is likely to affect the reproductive health scenario adversely.

Check Your Progress-II

1 Discuss the trends of population growth in India.
2 Discuss the occupational distribution of population in India.
3 Critically examine the causes of population growth in India.
4 What are the factors responsible for a high growth of population?
5 What is the role of government policy in controlling population growth?
6 Critically examine population policies followed in India after independence.

2.6 Let Us Sum Up

Thus, we see that population growth is one of the main factors behind India's backwardness. There are many factors which are responsible for the rise in population growth. The most pronounced being the increase in high birth rate. The government has to implement the population policy in letter and spirit if the alarming growth of population has to be checked.

2.7 Key words

Demography	:	It is a branch of economics which deals with the study of population studies.
Work Participation Rate	:	It refers to the proportion of total workers to the total population expressed as a percentage.
Occupational Distribution	:	It refers to the different occupational categories of workers. For e.g. cultivators, agricultural labourers, forestry etc.
Mortality Rate	:	It refers to death rate.

2.8 Check Your Learning

(i) Discuss the trends of population growth in India.
(ii) Critically examine the causes of population growth in India.
(iii) Discuss the occupational distribution of population in India.
(iv) What are the factors responsible for a high growth of population?
(v) What is the role of government policy in controlling population growth?
(vi) Critically examine population policies followed in India after independence.

2.9 Suggested Readings

Visaria, Praveen M. 2003:	'Demographic Aspects of Development: The Indian Experience' in Kapila, Uma (Ed): Indian Economy since Independence, Academic Foundation (15th Edition).
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Misra, S.K. and V.K. Puri (1998) :	Indian Economy, Himalaya Publishing House, Mumbai.
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2.10 Hints/Answers to Questions in Check Your Progress

Check Your Progress-I

1 17 percent.

2 The ratio of the number of females per 1,000 males.

3 The year 1921 marks the difference in the growth pattern of population in India. Up to 1921, the growth rate was comparatively low due to high birth rate and death rate. After 1921 the population growth was rapid.

4 Three stages. First stage- high birth rate and high death rate; Second stage- high birth rate and low death rate: Third stage- low birth rate and low death rate.

5 The second stage.

6 1921-1951

Check Your Progress-II

1 You have to discuss about the size and growth of population of India from 1901 to 2001 emphasizing on the four distinct periods namely, 1901-1921, 1921-1951, 1951-1981 and 1981-2001.

2 Here you have to write about the distribution of workers in different sectors of the economy, i.e. primary, tertiary and secondary sectors and discuss about the work force participation rate from 1971-2001.

3 You have to discuss the main causes of population growth such as decline in mortality rate, causes for high birth rate and immigration etc.

4 Here you have to discuss the economic factors as well as the social factors that are responsible for high growth of population.

5 Here you have to discuss the population policies as policy measures that bring out the required and desirable changes in the growth, composition and quality of population in a country.

6 Here the main criticisms of the population policy in India have to be emphasized on.

Unit II: Indian Agriculture

Structure

3.0 Objectives

After reading this Unit you shall be able to learn and understand:

- the basic features of Indian agriculture;
- reasons for backwardness of Indian agriculture;
- land reforms - their need;
- land reform programmes; and
- green revolution - its achievements and failures.

3.1 Introduction

Agriculture is the backbone of the Indian economy. It not only provides livelihood to a majority o the population, it also is an important sector so far as the overall development of the economy is concerned The share of agriculture in national income has been declining from 56.5 per cent in 1950-51 to 24.2 per cent in 2000-01. Data from the census of India reveals that whereas 75.9 per cent of the total work force was engaged in agriculture in 1961, in 1991 the percentage of workforce engaged in agriculture declined to 64.9 percent.

During the process of economic development a predominantly agricultural economy gradually diversifies into an industrial economy. In this process, the agriculture sector provides surplus food manpower, raw materials and savings for the nascent industrial sector. An expanding agricultural sector also provides a market for the industrial goods. That is why, it is important to increase the levels of productivity in agriculture. Food is one of the basic needs of mankind. Unless enough food is produced in the economy, the goal of food self-sufficiency cannot be achieved. Thus, for a number of reasons, it is important to improve the performance of agriculture, particularly for a country like India, which is predominantly rural in character. Unfortunately the productivity levels in Indian agriculture, in comparison to many developed countries continue to be very low. As students of economics we must know the reasons behind such poor performance of Indian agriculture. Although from time to time, Governments have initiated several programmes to raise productivity of Indian agriculture ,it situation has only marginally improved. Why have these programmes failed to achieve the desired results?

3.2 Nature of India's Agriculture

At the time of independence, Indian agriculture was characterized by low productivity, predominance of subsistence agriculture, low levels of technological adoption and low levels of commercialization. In 1948-49, 49.1 per cent of the country's net national income was generated in agriculture and the allied activities. Over the last five decades or so, the face of Indian agriculture has changed substantially, although many of the features of backwardness continue to be prevalent in some parts of the country. While understanding the basic features of Indian agriculture, both the dynamic as well as the static aspects of agriculture need to be emphasized.

Feudal Relations of Production

At the time of independence large parts of agricultural land was under the control of zamindars, who were intermediaries between the state and the cultivators. During the British period this class showed little interest in improving agriculture, and charged exorbitant rents from the cultivators. Although zamindari was abolished after independence, in parts of the country, these landlords continued to dominate the rural scene. Exploitation of labourers through various types of bondage systems, exploitation of tenants through high rents and high interests on loans and lack of interest in reinvestment of surplus are some of the features of feudal relations of production in agriculture. Although such forms of exploitation and coercion are gradually weakening, in some parts of rural India the dominance of large landlords continues even today.

Small Holder Agriculture

The distribution of agricultural land in India continues to be unequal. But over the years the share of small and marginal farmers has been increasing. Because of the presence of large number of small and marginal cultivators, the basic character of Indian agriculture is that of smallholder agriculture. Increasing population pressure on land and fragmentation has made the average size of holdings very small.

Dualism

Because of uneven development, Indian agriculture is often characterized by various types of dualism. Dualism refers to a situation in which the growth oriented, technologically advanced; highly productive modern sector coincides with the traditional, backward agriculture.

Market Imperfections

Although increasingly Indian farmers have started producing for the market rather than for self-consumption, still a substantial portion of Indian farmers, particularly those living in remote areas do not produce for the market. Earlier farmers used to depend on non-market sources for various inputs such as seeds, labour, manures etc. With the development of commercial agriculture, farmers purchase seeds, pesticides, fertilizers, labour power, various tools and machines and even water from the markets and sell their output in the market. However, in many areas these markets are either not well developed or are characterized by a number of imperfections. For example, the market for credit is dominated by informal sources as a result of which farmers have to borrow at very high interest rates. Similarly, labour markets are characterized by various forms of bondage and labourers are tied to their employers in various ways.

Low Levels of Productivity

After the introduction of "Green Revolution technology" since the mid-sixties there has been tremendous growth of productivity in Indian agriculture, but this growth has been largely confined to few crops like rice and wheat and in few regions like Punjab, Haryana and Western Uttar Pradesh. In spite of the gradual expansion of the area under the improved seeds, productivity levels in Indian agriculture continue to be very low by global standards. One of the main reasons behind this low level of productivity is the use of outmoded farming techniques.

Instability and Fluctuations in Production

Indian agriculture is often called a 'gamble in monsoons'. Because of the lack of adequate irrigation facilities, a majority of farmers depend on rainfalls and thus crop outputs get heavily dependent on the monsoons. Even after the adoption of new technology and farming techniques the instability in production has not decreased. In fact the instability in production has increased in the post-green revolution period. Since the new technology is much more sensitive to variations in rainfall or moisture conditions, the use of such technology in adverse agro-climatic conditions increases the instability in crop production.

Regional Imbalances

Indian economy is characterized by a great deal of diversity. The level of agricultural development has been uneven across various regions and states of India. While the north-western states like Punjab, Haryana and western Uttar Pradesh have achieved spectacular agricultural growth in the post-green revolution period, the eastern and north-eastern states are characterized by very low levels of agricultural development. However, there has been a gradual diffusion of the new farming techniques to new areas and many traditionally backward areas have witnessed improvements in agricultural production.

3.3 Causes of low productivity

The levels of productivity in Indian agriculture are not only low in comparison to many other countries of the world, even within India there is a great deal of variability in the level of productivity as well. There are various causes of the abysmally low level of agricultural productivity. These factors could be clubbed under three broad headings: general causes, institutional constraints and technical causes.

3.3.1 General Causes

Social Environment

The general social environment of an Indian village, according to some authors, discourages individual entrepreneurship, innovativeness and dynamism. The social attitude of the average Indian farmer is generally described as conservative, with little aptitude for risk taking. The stagnation and lack of technological change in Indian agriculture is generally attributed to these socio-cultural factors. However, a number of economists have drawn attention to the fact that given their resources and constraints the Indian farmers take their decisions judiciously and rationally.

Population Pressure on Land

India is one of the densely populated countries of the world and a majority of Indians continue to depend on agriculture for their livelihood. The continuous population pressure on land has resulted in a steady decline in the per capita availability of cultivable land. Though additional land has been brought under cultivation since 1901, per capita cultivated land has declined from 0.444 hectares in 1921 to 0.219 hectares in 1991.

3.3.2 Institutional Causes

Agricultural development requires a favourable institutional support. The most significant component of institutional framework in agriculture is the system of land tenure. It has a powerful bearing on agricultural transformation. We inherited a land tenure system from the colonial rule which was not favourable to introduce measures to raise agricultural productivity. The major concern after Independence has been to reform the system of land tenure. This section discusses the land tenure system along with other elements in institutional framework having bearing on agricultural productivity.

Land Tenure System

The land tenure system or the conditions under which land is owned and operated affects the possibility of increasing productivity. One of the main reasons for low productivity in agriculture is the continuing hold of the feudal relations of production in some parts of the country. The zamindari system introduced during the British rule created an intermediary class who took little interest in increasing productivity in agriculture but claimed a significant portion of the produce. Although the zamindari system was abolished after independence, the dominance of the large landlords continued for many years. In many villages few big landlords owned large proportion of cultivated area, and the tenants were forced to pay exorbitant rents on land. This was often accompanied by extraction of high interests on loans advanced to small peasants and other weaker sections, different forms of bondage and other extra-economic exploitation of the peasants. Such a situation not only resulted in impoverishment of a large section of the peasantry, but also slowed down the diffusion of improved technology because of the lack of productive investment by the land-owning classes.

Rural Indebtedness and Credit Market Imperfections

It is well known that adoption of new technology requires investment. Since the majority of the farmers cannot invest out of their own savings, they need credit to finance the agricultural operations. The agriculturist needs credit for a variety of purposes and for different periods. Firstly, s/he needs short-term finance for the purpose of purchasing seeds, fertilizers, pesticides, electricity, etc. Secondly, s/he needs medium-term credit to buy cattle and implements, to undertake minor irrigation works, etc. Finally, s/he requires long-term finance for purchasing land, farm machinery or for making permanent improvement of land.

However, the rural credit markets are not well developed and are generally characterized by the dominance of the informal sources of credit. Because of non-availability of banks within villages, cumbersome procedures, and most importantly lack of any collateral to offer, villagers generally borrow from moneylenders at very high interest rates. Over a period of time they become heavily indebted and often lose their land. Because of this they do not like to take the risk of adopting new technology by borrowing money. On the other hand, provision of dependable, timely and low-interest bearing loans have facilitated the adoption of more advanced agriculture in many parts of the country.

Agrarian Structure

The agrarian structure in India is dominated by the preponderance of the small sized holdings. Due to various reasons, including land alienation, subdivision of holdings etc., the average size of holdings in India is gradually declining. As per NSS data, 52 per cent of holdings in 1961-62 were of less than 2 hectares size. In 1990-91, 78 per cent of holdings fell under this category. Not only are these holdings small, they are also divided into a number of tiny plots, which makes introduction of new technology much more difficult. While some economist are of the opinion that smaller holdings, due to labour intensive methods of cultivation, are generally more productive than the larger ones, others point out that the uneconomic size of holdings in India is a major barrier to the adoption of a number of new technologies.

3.3.3 Technology and Related Issues

Traditional Farming Techniques

The farming techniques adopted by the average Indian farmers are basically traditional in nature. The spread of the new farming methods has been less than satisfactory. One of the main reasons behind the low productivity of Indian agriculture is said to be the slow diffusion of available and known technology. There have been very few success stories in terms of innovation of new, improved and locally relevant farming techniques.

Inadequate Irrigation Facilities

Irrigation is important not only for higher yields but also for more stable yields. A number of studies have shown that irrigation is one of the most crucial prerequisites for adoption of intensive farming techniques. Green revolution has been successful only in areas with relatively better irrigation facilities. But in 1993-94 only 36.7 per cent of the gross cropped area in India was irrigated. In recent years the expansion of area under irrigation has been very slow.

Thus, increasing productivity of Indian agriculture requires a multi-prong strategy. On the one hand the institutional barriers have to be addressed and on the other new and improved technology have to be made available to the farmers. Adoption of the improved techniques of production would obviously require efficient and timely credit and insurance support, but at the same time such support has to be supplemented by information and marketing support as well. Given the significant relation between education and adoption of new technology, there is a need to improve the educational attainments of the farmers.

3.4 Land Reforms: Objectives, Measures and Evaluation

Although there are lots of differences in the way land reforms programmes have been designed and implemented in various countries, it is generally accepted to mean the redistribution of property or rights in land for the benefit of the landless, tenants and farm labourers. However, a broad set of programmes aiming at improvements in land tenure and agricultural organization are often termed as land reforms.

As it has already been discussed, the land tenure system in India during the colonial period was marked by the dominance of a class of landlords, exploitation of the ordinary cultivators and tenants and inefficient methods of cultivation (See Box-I).

The government has defined the objectives of land reforms as follows:

(i) removal of impediments to increase agricultural production so as to arise from the agrarian structure inherited from the past; and

(ii) elimination of all forms of exploitation and social injustice within the agrarian system, to provide security for the tiller of the soil and assure equality of status and opportunity to all sections of the rural population.

In the specific context of India, land reforms measures included the following set of policy measures.

(i) Abolition of the Intermediaries
(ii) Ceiling on Land Holdings and Land Redistribution
(iii) Tenancy Reforms
(iv) Agricultural Reorganisation

Box-I

System of Land Tenure during Pre-Independence India

The system of land tenure in India during the pre-independence period was characterized by a great deal of variability and regional variations. For example, in many parts of North East India including the area that constitutes Arunachal Pradesh, the traditional land tenure systems of the tribes were left unaltered. But so far as the vast majority of the country's area is concerned there were basically three different types of land tenure systems in India- the zamindari system, the mahalwari system and the ryotwari system. The basic difference among these was regarding the mode of payment of land revenues. While in the zamindari system it was the responsibility of the zamindar to collect land revenue from the peasants and to submit the same to the government, in the mahalwari system it was the village headman who was to collect and deposit the revenue on behalf of the whole village and in ryotwari system the individual farmer was responsible for payment of revenue directly to the government.

The zamindari system was created by the East India Company in 1793, when the 'permanent settlement' was introduced by Lord Cornwallis. Under this system the landlords, called zamindars, were declared full proprietors of large areas of land and were entrusted with the task of collecting rent from the farmers. Thus a class of intermediaries was created between the state and the farmers. The share of the government in total rent was fixed at 10/11th, the balance going to the zamindars as remuneration. At the time of independence, this system was prevalent in West Bengal, Bihar, Orissa, Uttar Pradesh, Andhra Pradesh and Madhya Pradesh. The zamindari system suffered from a lot of drawbacks. Firstly, the landlords, without participating in the production process claimed a substantial share of the produce. This was detrimental to the process of capital formation in agriculture. Secondly, since the system conferred unlimited and arbitrary rights on the zamindars to extract as much rent as possible, it often led to exploitation of the peasants. In many areas the tenants were subjected to many different forms of extra-economic exploitation like forced labour and compulsory gifts.

Abolition of Intermediaries

Soon after independence steps were taken to abolish the zamindari system. In fact in some states, legislations were in place for their abolition before 1951. However, in most of the states the task of enactment of laws and their implementation were done during the first five-year plan. In temporary settled areas like Uttar Pradesh and Madhya Pradesh, where the land records were relatively well maintained, it did not encounter much problem, but in many other areas, such as the zamindari areas of Orissa, Bengal and Bihar and in areas of jagirdari settlements, such as Rajasthan and Saurasthra, the land records and the administrative structures have to be built from the scratch. Even then, zamindari abolition was one of the relatively satisfactory measures undertaken under the land reforms programme. The only troublesome aspects was the exemption given to land under 'personal cultivation', which was used as a pretext for retaining large chunks of land by the zamindars.

Tenancy Reforms

As the system of landholding in colonial India had created a large group of intermediaries, the actual farmers were cultivating land under various forms of tenancy. Tenants can be classified into:

(i) occupancy tenants, i.e. those who enjoy permanent tenancy rights like the owners and do not face the fear of eviction as long as they pay the rent regularly;

(ii) tenants-at-will; and
(iii) sub-tenants. The condition of the last two categories of tenants was really precarious, a they could be evicted at the will of the landlords.

Under tenancy reforms the following three measures were given importance.
(i) Regulation of Rent
(ii) Security of Tenure
(iii) Conferment of Ownership Rights on Tenants

Regulation of Rent

During pre-independence period, the rents charged by the zamindars were exorbitant. To contr this various land control laws were passed by the state governments. The first five-year plan stated th rent should be at one-fourth or one-fifth of the total produce. In many states it has been fixed at this rat However, there have been gross violations of these laws mainly because of the strong political power the rural landlords. Since most of the tenancy contracts are oral or informal, legal provisions rema unimplemented.

Security of Tenure

The legislation for security of tenure basically aimed to save the tenants from ejectment and gra them permanent rights in land. It had three important objectives

(i) ejectments should not take place except in accordance with the provisions of law;
(ii) land may be resumed by the owner, if at all, for 'personal cultivation' only;
(iii) in the event of resumption, the tenant is assured of a prescribed minimum area for cultivatior

However, as pointed by P.S. Appu, the degree of real protection provided to the tenants unde this act in any area depended upon :

(i) the definition of the term 'tenant',
(ii) the circumstances under which the landlord is allowed to resume tenanted land for cultivation
(iii) the definition of the term 'personal cultivation', and
(iv) status of land records. In practice, the right of resumption along with flaws in the definition o personal cultivation rendered all tenancies insecure. In fact, the fear of losing land to the tenant, led the land owner to evict the tenants and many landowners compelled their tenants to give up the land 'voluntarily'. Similarly the non-availability of reliable and up to date land records in many parts of the country made the law virtually ineffective.

Ownership Rights for Tenants

Although it has been repeatedly emphasized that the ownership rights over the land should be conferred on the tenants, who actually cultivate the land, the progress on this front has been far from satisfactory. In the states where the tenants could be politically mobilized, tenancy acts were effectively enacted and implemented. Under 'Operation Barga', 14 lakh sharecroppers have been recorded in West Bengal. Similarly, the progress in Kerala was also remarkable. But in large parts of the country, owing to the political and social power of the landlords, weak bargaining power of the tenants, poor land records, informal nature of the tenancy contracts, and ineffective administrative agencies at the grassroots level the implementation of this programme was very poor.

Ceiling on Land Holdings and Land Redistribution

Another important part of land reforms, which was very controversial from the beginning, was the imposition of ceiling on land holdings and redistribution of surplus land. There are various arguments in favour of and against ceilings on land holdings.

Arguments in favour of Ceilings

The basic argument is that since land is the most important productive asset in an agrarian economy, and there are large numbers of claimants over it, its concentration in few hands is socially unjust.

Land redistribution in favour of the poor is an effective strategy for poverty reduction.

Since, there is some evidence that small farms are more productive than large farms; such a policy of distribution would enhance the overall productivity in agriculture.

Such a redistributive measure, historical evidences suggest, increases the size of the aggregate demand in the economy and hence, would also provide a larger market for goods and services in the economy.

Arguments against Ceilings

Breaking up of large holdings would adversely affect the economic efficiency and productivity of the large holdings.

It may affect growth of output and employment in the long run, mainly because of a decline in savings and investment. The small farmers are more likely to consume a greater portion of their income and hence savings would decline.

Reducing the size of the large holdings would reduce the scope for the use of some mechanized technologies.

Although, several rounds of legislations have been carried out by state governments to impose a ceiling on land holdings, the outcome has been very disappointing. Firstly, there are variations in prescribed ceilings on land holdings in different states, though in most cases, separate ceilings were announced for irrigated and unirrigated lands. Poor enforcement has been the main reason behind the failure of these legislations.

Since inception of the ceiling laws on agricultural holdings, according to reports received upto 30th September, 1998, the total quantum of land declared surplus in the entire country was 73.74 lakh acres, out of which about 65.11 lakh acres have been taken possession of and a total area of 53.05 lakh acres have been distributed to 55.37 lakh beneficiaries, of whom around 36% belong to the Scheduled Castes and around 14% belong to the Scheduled Tribes. It is evident from the above data that there is a large gap between the annual targets and actual achievements. Unfortunately such gaps are increasing every year. While the implementation of present ceiling laws in undoubtedly tardy, it is unfortunate that an environment is sought to be created lately for giving exemption from ceiling laws to industry and large farmers. Some State Governments have already given relaxation without seeking Government of India's permission.

Box-II

Prevention of Alienation and Restoration of Alienated Tribal Land

Article 46 of the Constitution enjoins an obligation upon the States to promote the interests of the Scheduled Castes and Scheduled Tribes and to protect them from social injustice and all forms of exploitation. The State Governments have accepted the policy of prohibiting the transfer of land from tribals to non-tribals and for the restoration of the alienated land to the tribals. The

States with large tribal population have enacted laws prohibiting alienation of tribal land and for restoration of alienated land. The legal provisions are however, generally applicable to the tribals living within the Scheduled and notified areas. Though some results have been forthcoming in the efforts undertaken by different States for restoration of tribal lands, the task still remains unfulfilled.

Agricultural Reorganisation

Another aspect of the agrarian structure that has received the attention of the policy makers is t rapid fragmentation and subdivision of holdings. There are many reasons for the gradual subdivision a fragmentation of agricultural holdings.

(i) The law of inheritance in India allows all children to have an equal share of the land. So far holdings get split up with every passing generations.
(ii) The population pressure itself has acted as a reason for gradual fragmentation of holdings.
(iii) The break up of the traditional Hindu joint family system has aggravated the problem subdivision of holdings.
(iv) Farmers often offer land as a guarantee against loans, and when they cannot repay it ba ownership over that portion of land is lost. This has led to alienation of land and conseque fragmentation.
(v) Psychological attachment to ancestral land is very strong in India, and hence every son war have a share in father's land, even if it is uneconomic to do so.
(iv) Sharecropping as a method of cultivation also contributes to fragmentation as often the landlo prefer to lease out their land in small parcels.

The ill affects of such fragmentation and subdivision are many.

(i) There is a tremendous wastage of land because the plot size becomes so small that it becom impossible to cultivate in it. A good portion of land is lost in boundaries and bunds to demarc each plot.
(ii) Technological modernization becomes extremely difficult on such land.
(iii) Some times plots of land are not only tiny but are also dispersed in far flung areas. It leads various management problems.

In order to over come these problems, the programmes for consolidation of holdings have be initiated, under which farmers are encouraged to have their plots at one place rather than in differ patches. Initially the programme was started on a voluntary basis but later on it was made compulsory. far, the bulk of the land consolidation has been in Punjab, Haryana, Uttar Pradesh, Maharastra, Bihar a Orissa. However, the differences in the quality of land, emotional attachment of farmers to their land, nc availability of land records, manipulation by the stronger and better off sections of the rural populati has led to poor implementation of the programme.

To sum up, historical evidences, from Japan, South East Asia, China and many other countri very clearly suggest that land reforms are a pre-requisite for broad based economic growth. However, la reform measures generally results in significant alteration in the power structure in the rural areas. It h generally been successful, under conditions of strong and/or authoritarian states. The speed of such refor has been one of the determinants of its success. The strong hold of the rural landed elites over the count side, and the willingness of the lower rungs of administration to collaborate with them, have resulted ineffective implementation of land reform measures. Wherever, the poor peasants and tenants have be able to organize themselves and have exercised collective political power, these measures have been successful at least to a limited extent.

3.5 Green Revolution - Components and Impacts

Green Revolution refers to a set of technological innovations used to improve productivity in agriculture. On the basis of the recommendations of a team of experts sponsored by the Ford Foundation, Government of India introduced an intensive agricultural development programme in the mid-1960s.

Some of the Key features of the new technology and the broad framework of the green revolution were as follows.

(i) Green Revolution basically was an attempt to raise productivity through use of a variety of improved inputs.

(ii) It was a package technology. There were two distinct components of the technology
   (a) a bio-chemical component, that included HYV seeds, chemical fertilizers, pesticides etc; and
   (b) a mechanization component, that included the introduction of tractors, thrashers, pump sets etc.

(iii) The HYV varieties of wheat developed in Mexico and the HYV rice varieties developed in Philippines were the corner stone of the package technology.

(iv) The package technology was very much sensitive to the availability of irrigation and hence, it was started initially in the areas which already had the required infrastructure.

(v) The strategy followed a gradualist approach. The initial emphasis was on a few districts and a few crops.

(vi) Although, it was claimed by the scientists that the technology was scale-neutral, i.e. it could be used both in small and large plots, in practice it required a substantial amount of purchased inputs.

(vii) The technology increased the productivity of agriculture at least three times, but it made agriculture highly energy intensive.

(viii) The forward and backward linkages of this kind of intensive agriculture were very strong with industries. Many of its essential ingredients like chemical fertilizers, tractors and pump sets were products of industries.

The programme was launched at a time when India was facing a serious food shortage. Many commentators had categorized India as a doomed state in Malthusian terms, meaning there by that India would never be able to keep its food production growth above the population growth. It was a strategy, which relied less on institutional support, but more on technological adoption. However, it is important to note that the supply of new varieties of seeds and fertilizers at subsidized prices were supplemented by

(i) credit support to the farmers, and

(ii) price support in the form of a minimum support price declared by the Food Corporation of India.

Impact of Green Revolution

The impact of green revolution has been so far reaching that in a sense, it has affected the trajectory of growth of the entire economy. Some of the major implications of green revolution have been discussed below.

Increase in Production and Productivity

There was substantial increase in food grain production and productivity as a result of the adoption of ne technologies. In particular states such as Punjab and Haryana and for particular crops such as wheat an rice the growth in production and productivity was nothing less than spectacular. The rate of growth wheat was 3.98 per cent per annum during 1949-50 to 1964-65, but it increased to 4.72 per cent per annu during 1967-68 to 1995-96. When we compare the growth of food grains in the pre and the post gre revolution period, another significant difference is that while in the earlier period most of the improveme in production was on account of expansion of area under cultivation, in the second phase, it was large because of improvements in productivity.

Regional Inequalities

Since the green revolution was started in few pockets and with few crops it had an inherent possibility increasing regional inequalities. The technology required irrigation as a precondition, and since most the already irrigated areas were agriculturally advanced, the technology reinforced such inequalities. Whil the developed belts of Punjab, Haryana, and western Uttar Pradesh achieved spectacular success agriculture, the states of Eastern and Central India, by and large, were by passed by this revolution. Howeve in the 1980s, there was some evidence to show that green revolution was spreading to new areas and stat like West Bengal could achieve a very high rate of agricultural growth.

Inter-Personal Inequalities

Since, the green revolution package required substantial access to finance to purchase the inputs, be risks and adopt the innovation it was expected that large farmers would be in a better position to reap i benefits. Secondly, at least one component of it was labour displacing in nature, so it was expected create problems for the agricultural labourers. Given the skewed distribution of assets and income in rur India, such a massive increase in productivity, it was argued, would benefit the richer and larger farme more than the poor. Studies conducted in the early period of green revolution, by Pranab Bardhan, Franci R. Frankel, G.R. Saini and others confirmed this suspicion. However, later studies, particularly those l G.S. Bhalla and G.K. Chadha, point out that 'the advent of green revolution in Punjab has brought over prosperity to its peasantry'.

Labour Absorption

Fears were also expressed in the beginning that mechanization of production in agriculture would displa labour from agriculture and would increase misery for the agricultural labourers. In fact, some studies report a significant decline in employment elasticity in crop production in general and in cereal producti in particular, but in recent years, more and more evidences have come to show that although, mechanizati has displaced labour in some activities, the intensification of agriculture has increased the demand f labour manifold. As a result of over all rise in productivity in agriculture, the rural-non farm sector h expanded considerably. Hence, the overall impact of the green revolution has led to higher employme opportunities for rural labour.

Environmental Degradation

The environmental impact of green revolution has come into focus only recently. The various adver impacts of the intensification of agriculture are as follows

Increase in mono-cropping

(i) Loss of bio-diversity, particularly crop diversity.
(ii) Reduction of Pasture lands and forests.
(iii) Depletion of ground water.
(iv) Water logging and increase in soil salinity.
(v) Pollution of rural water bodies because of excessive use of harmful pesticide and chemicals.
(vi) Health hazards.

Thus, not withstanding the various positive aspects of the green revolution, it had many adverse impacts on the society and the ecology. In fact, in recent decades the productivity growth of food grains in India's traditional green revolution belt has slowed down. There is a need for a second green revolution, which is regionally more dispersed and ecologically more sustainable.

Check Your Progress-I

1 What are the basic features of Indian agriculture?

2. What are the causes of low productivity of Indian agriculture?

3. Why is Indian agriculture called 'backward'?

4. What is meant by land reforms? Why is it needed?

5. What has been our experience with the land reforms programmes?

6. What is green revolution? What are its key components?

7. What are its achievements and failures of green revolution?

3.6 Let Us Sum Up

Thus we see that agriculture is the backbone of the Indian economy. It not only provides livelihood to majority of the population but is also an important sector which contributes in the over all development process. In spite of the fact that it contribution to the national income has declined, but its importance cannot be undermined. The government must initiate programmes so as to enhance the productivity of agriculture in a big way.

3.7 Check Your Learning

1. What are the basic features of Indian agriculture?
2. What are the causes of low productivity of Indian agriculture?
3. What is meant by land reforms? Why is it needed? What has been our experience with the land reforms programmes?
4. What is green revolution? What are its key components? What are its achievements and failures?

3.8 Key words

Dualism	:	It refers to co-existence of modern and traditional sectors in an economy.
Agricultural Productivity	:	Agricultural Production per hectare of land.
Zamindari System	:	The zamindari system was introduced during the British rule,

		where the landlords acted as the intermediary class.
Land Tenure	:	It was a system in which the conditions under which land w owned and operated affected the possibility of increasing productivity.
Tenancy	:	It refers to the system of using land by paying rent to the la owner.
Intermediaries in Agriculture:		Zamindars were considered intermediaries or middlemen betw the state and the tenants.
Rent	:	User charge paid for the use of land.
Land Ceiling	:	Restriction on the possession of land.

3.9 Suggested Readings

Kapila, Uma (Ed) : 2003, Indian Economy since Independence, Academic Foundati (15th Edition) [All articles in agriculture section]

Kapila, Uma: 2003, : Understanding the Problems of Indian Economy, Acader Foundation [Chapters 13-16]

Soni, R.N.: 2000, : Leading Issues in Agricultural Economics, Shoban Lal Nag Chand & Co, Jalandhar [Chapters 24-26].

3.10 Hints/Answers to Questions in Check Your Learning

Check Your Progress-I

1. The main features of Indian agriculture - like feudal relations in production, small hold agriculture, dualism, market imperfections, Low levels of productivity, instability in producti and regional imbalances should be discussed.
2. Here the causes of low productivity has to be dealt with i.e. the general causes, Institution causes, technology and related issues has to be highlighted.
3. The reasons for the backwardness of Indian agriculture has to be discussed.
4. The basic objectives of land reforms has to be discussed. The system of land tenure duri pre-independence India has to be highlighted so that some light can be thrown on the need land reforms after independence.
5. A critical evaluation of the land reforms in India has to be presented. The merits as well as failures have to be highlighted.
6. Green revolution refers to a set of technological innovations used to improve productivity agriculture. The key features of the new technology and the broad framework of the gre revolution has to be highlighted.
7. The impact of green revolution on the growth of the entire economy has to be highlighted. impact on production, productivity, regional inequality, inter-personal inequalities, lab absorption and environmental degradation has to be dealt with.

Unit III: Industry and Foreign Trade

Structure

4.0 Objectives

After reading this Unit the learners should be able to:

- know about the theoretical debates concerning the pattern of industrialization;
- learn the pattern of industrialization in Indian economy;
- familiarise with the policies that determined the industrial development; and
- know the role and significance of small and cottage industries in Indian economy.

4.1 Introduction

Industries play a very significant role in the development of an economy. It provides, not only the commodities demanded, but also generates income and employment, besides providing for trade.

Industrialisation is largely influenced by policies that an economy follows. Of course, it may also have its own ethos and constraints. Obviously, an economy more often has its own pattern of industrial development, taking the local environment and population of the country into consideration. In industrial pattern of an economy, small scale and cottage industries posit varied weights in the process of industrialization. In this Unit development of industry in India after Independence has been discussed.

4.2 Role of Industries in Economic Development

The entire economy can be divided broadly into three sectors; primary, secondary and tertiary. Industry falls in secondary sector and is vital to the economy. It provides goods and services demanded by the population, despite providing productive employment of resources. It sustains the process of development by productively employing the resources and serves as engine to growth. Productive employment of resources strengthens the process of development further. In agrarian country like India, industrialisation induces growth and generates income by providing mass employment. Over all development of LDCs can be attained only if industrialisation process is accelerated. The general role of industries is discussed below:

4.2.1 Income Generation

The immediate role of industrialization is to raise the income per capita. There is positive correlation between levels of industrialization and per capita income - higher the level of industrialization higher will be the per capita income. Industrialised nations with greater proportion of national output from industries also have relatively higher per capita income, while developing nations (LDCs) with lower level of proportionate output from industries have lower per capita income.

Table 4.1 reveals that industrial output for industrialised nations are: 31% in USA, 32% in UK and 40% in Japan, but only 24% in India, which is a LDC. Correspondingly, the advanced nations have higher per capita income: $ 25,880 in USA, $ 18,340 in UK and $34,630 in Japan while it is very low in LDCs e.g. only $320 in India.

Table-4.1

Country Specific Per Capita Income, Sectoral Contribution and Workforce Engaged

Country	Per	Agriculture			
	Capita Income (in US $)	Contribution to GDP(%)	Work Force Engaged(%)	Contribution to GDP(%)	Work Force Engaged(%)
USA	25,880	2	2	27	36
UK	18,340	1	2	25	48
Japan	34,630	7	5	32	40
India	320	26*	58	24	11

Figures are for 1997 except * representing year 2001. Source; Sundaram, KPM. & Dutt, Ruddar. , Indian Economy 2000 & 2005.

4.2.2 Employment

Industries provide productive employment to resources, both human and material. In DCs industries provide productive employment and protect the economy from vagaries of market, while in LDCs it provides massive employment to untapped resources and initiates a sustained growth process.

Generally, LDCs are labour surplus economy, due to which, there is overcrowding in agriculture. This, in turn, results into underemployment of resources. But the surplus labours can be productively transferred to industrial sector. Transfer of labour to industries increase the per capita output in agricultural sector, which in turn, change the motivation of farmers. A process of commercialisation in agriculture, thus, begins and consequently results in higher incomes of farmers. Increased income induces the farmers to demand more of industrial output, thereby increasing the incomes of industrial workers. This again, increases the industrial workers' demand for agricultural commodities. Thus, a process of productive employment in both the sectors perpetuates further. Industrialisation assures employment not only to skilled labourers, rather it creates a host of employments avenues, even for the unskilled ones.

Table No. 4.1 reveals that industries provide productive employment to majority of workforce in DCs. It is 31% in USA, 48% in UK and 40%in Japan. Comparatively only 2% of total workforce in these countries are employed in agricultural sector. But in LDCs, like India, majority of workforce is engaged in agricultural sector (58%), while industries provide employment to only 11% of total workforce. Thus, surplus of workforce engaged in agricultural sectors of LDCs can be employed productively by transferring them to industrial sector.

4.2.3 Self-Reliance

In case of certain goods and services self-reliant becomes inescapable, particularly industries producing output which are strategic and security concerned. In the process of development certain strategic commodities are required for further development. Supply of strategic output-like iron and steel, machinery, and other producers' goods etc. cannot be relied on foreign suppliers alone. Therefore, establishment of such industries becomes imperative to be self reliant so that development process is unhindered. Speedy industrialisation in India was possible only due to secured supply and availability of producers' goods by key industries in the early years of its industrialisation.

Even in case of security concerned manufactures, like arms, ammunitions, dependence upon foreign suppliers cannot be relied upon. Further it also hurts the nation's prestige. In this regard, setting up of Indian Ordinance Factory in India, for instance, has not only assured regular supply but also saved the prestige of the nation.

4.2.4 Sustained Development

One of the distinctive features of industrialisation is its self-sustenance over the period of time. Industrial sector has a high propensity to save and invest. Therefore, once the process is initiated, it goes on recurring itself through self-finance. In other words, industrialisation initiated with proper impetus becomes a self sustaining process. This recurring process not only perpetuates industrialisation but also broadens the industrial base through diversification.

Check Your Progress - I

1. Why is the development of industrialization a self perpetuating process?
2. Self reliance in certain areas of production is but essential. What are those areas in Indian context?

4.3 Pattern of Industrialization

Importance of industries in economic development is undisputed. However, disagreements arise on the issue of pattern of industrialisation proper. Some advocate proper pattern of industrialisation on the basis of the size of industry, while others on the basis of technology. Still, others argue on the basis of nature of produces that industry produces.

Those favouring size argue that proper pattern of industrialisation initially promotes small scale industries; while in later stage of its maturity it promotes large scale industries. Advocates favouring technological basis argue that capital scarce nations should opt for labour intensive technology. Conversely labour scarce nations should opt for capital intensive (labour saving) technology for industrialisation.

But industrialisation depends upon a host of factors like capital accumulation, skills and technology acquired, etc. Capital formation is integral to industrialisation, which in turn, varies from nation to nation, thereby revealing diverse pattern of industrialisation. Pattern of industrialisation is referred to as industrial base evolved over the period of time. Proper pattern of industrialisation however is referred to as the scheme of industrialisation that an economy ought to follow for sound and accelerated industrialisation. Recently debates concerning proper pattern of industrialisation emerged in different camps, each justifying its own standpoint.

4.3.1 The Theoretical Debate

Often the experiences of industrialisation in DCs are considered as the model of proper industrialization. Accordingly, proper pattern of industrialisation is considered as evolutionary in nature. This process can be stipulated into three stages.

First Stage represents the development of those industries producing or processing resources of primary nature, such as milling, mining, smelting etc. Second stage represents the development of industries producing consumers' durables and semi-durables e.g. clothing, footwear, food processing, etc. The third stage represents development of industries producing capital or the producers' goods e.g. plant, machinery, etc. Demand for producers' goods is a derived demand; it is not demanded directly by consumers, but by producers of consumers' goods and services.

The evolutionary pattern of industrialization is generally found in countries favouring free capitalist enterprises, but it is not found universally in every economy. Under regulated and planned economies, the general trend is to shift from first stage to third stage directly. Further, certain factors detrimentally operate in specific countries and industrialisation deviates from the proper evolutionary pattern. Despite these general observations, variation exists due to country specific factors which are multitude in case of LDCs with their peculiar historical background. In view of the above, economists suggest the following alternatives:

4.3.2 The Alternatives

LDC, in general, suffers from dearth of capital. It is, therefore, argued that it should opt for labour intensive-small scale industrialisation. But capital is pre-requisite for industrialisation and beyond a point it cannot be escaped. The problem is not of economizing capital utilization but to increase its supply through accumulation. LDCs with scarce capital have low industrial base. Hence, in the initial stage of industrialization it has to rely upon imports of capital, which requires foreign exchange reserve. Since foreign exchange reserves are inadequate in LDCs, these need to be increased. Economists suggest three alternatives to increase the supply of foreign exchange reserves.

Firstly, the supply of foreign exchange reserves can be increased by exporting primary output. The foreign exchanges so realized can be then used to import capital goods for industrialisation. But, exchange earning through primary exports has limited scope to finance industrialisation. Generally, the terms of trade for primary exports in international markets are unfavourable and un-remunerative. This leads to inadequate realisation of foreign exchange reserves required to import capital goods.

Secondly, export based industries can be established to meet both the objectives of industrial development as well foreign exchange earnings. The foreign exchange reserves realized through exports can be then used to import capital goods. This argument, though valid on theoretical plane, lacks practicality. Setting up export based industries compatible with those of DCs appears doubtful. Developed industrial nations relatively have greater comparative cost advantages of production due to superior technology, specialization, and large scale of production. Therefore, LDCs may not be able to stand the cut throat competition despite wasting the valuable resources. Hence, foreign exchange earnings through export promotion by LDCs will be either limited or else unreliable.

Finally, third alternative is to establish imports substitute industries with a fine blend of restriction and barriers to imports. This policy may curb the propensity to import, while spontaneously, inducing the domestic consumers to consume the import substitutes produced domestically. It may realise the required foreign exchange by curbing imports despite meeting the objective of industrial development as well. In other words, curbed propensity to import limits the expenses on imports, thus, making available the valuable foreign exchanges. These can be then used in import of capital goods for industrialisation.

Hence, import substitution industrialisation seems a more reliable alternative amongst the three. Export based industrialisation depends upon international markets which is not as much as reliable as the import substitution industrialisation which depends on domestic market. Hence, it is more favoured than others.

Despite the above, pattern of industrialisation also depends upon political ideology, social factors, economic condition, country specific resource endowment and a host of other factors.

Both the alternatives for establishment of export promotion and import substitution industries have similar outcomes - realization of more foreign exchanges.

Check Your Progress - II

1. What are the stages of industrialization in the evolutionary process of industrialization?
2. How does the pattern of industrialization under democratic setting differ from that of under the controlled planned regime?
3. The LDCs have their own pattern of industrial development specifically with reference to their peculiar economic settings. Justify.

4.4 Pattern of Industrialization in India

Since ancient times, India traded with the rest of world with a sound industrial base. It produced some surplus to export abroad after meeting the domestic requirements. It was this reason which attracted the rest of the world towards India; even British came to trade looking its riches. Indian manufactures - iron and art wares, handicrafts, woollen clothes, silks and other textiles etc. - were in great demand world over. Indian industries prospered during the time with sound base of production. However, industries of that time were simple, traditional, and less capital intensive. In fact, industries were of traditional labour intensive household industries. The pattern of industrialization in India can be discussed as below:

4.4.1 Industrial Development Prior to Planning

Prior to the advent of British, India had a prosperous industrial sector. But with the advent of the British, specially after industrial revolution in England (1890's onwards), industries in India were systematically destroyed. Indian industries should have been swift enough to adopt the advances in technology during the time but this was not possible. This was partly due to unorganized nature of Indian industries, and partly due to low capital formation. Of course, a lot more was due to the differentiated policy approach by British Indian government. They were interested protecting their home industries back in England through supply of cheap raw materials from India. On the other hand, India was made an assured market for their cheap manufactures. Nothing was done to upgrade, protect or capitalize the industries in India. India served both as cheap source of raw materials and as potentially vast market for the cheap machine based manufactures. This eventually disintegrated the Indian industries.

Thus, after independence, India's condition was of a backward, poor and stagnant economy with low industrial base. Hence, the first Industrial Conference immediately called on December 1947. The conference worked out a tripartite agreement (provincial governments, industrialists and labourers) to ensure a better relationship between the management and labourers. Further, to promote industrial development, tax concession was granted for the period 1947-48. In the subsequent year, the Industrial Policy Resolution, 1948 was enacted which contemplated the mixed economy structure. This period of industrialisation, prior to adoption of planning, reveals a pattern of industrialisation which can be summarized as below:

4.4.1.1 Low Capital Intensity

After independence, prior to adoption of planning, capital intensity in Indian industries was very low. No doubt, Indian industries prospered prior to industrial revolution. But after industrial revolution there were rapid strides for technological advances in industrial front around the world. Indian industries could not survive the stride due to low capital accumulation resulting partly due to household nature, and partly due to lack of institutional support which British Indian government failed to provide. Thus, when rest of the world was capitalizing their industries, Indian industries did not do so and failed to operate on higher scale required to minimise the production cost. Indian industries, therefore, could not compete with the rest of the world and eventually disintegrated. The low capital involvement was found, in general for almost all Indian industries.

4.4.1.2 Imbalanced Industrial Structure

Pattern of industrialisation during this time was imbalanced and lopsided one. The lopsided nature of industrialisation is revealed by imbalanced employment structure of workforce in different industries. Workforce concentrated in small household industries with small production base, while a good proportion of work force were engaged in big factories representing big industrial houses. A proper middle class enterprise with significant proportion of medium sized industrial base was absent during the time. But for proper industrialisation, it is necessary that a broad based medium class entrepreneurs with sound base of medium scale industries do exists. Lack of middle class enterprises with prospective base of medium scale production revealed absence of competitive production.

4.3.1.3 Imbalanced Output Mix

In addition to imbalanced industrial structures, output composition too was imbalanced. Output combination was non-corresponding to market demand and supply. For decades preceding adoption of planning, there was over production of consumers' goods while producers' goods were underproduced. Industrial index of consumers' good for the decade preceding adoption of planning exceeded actual demand by 10%, while in producers' goods industries there was a shortfall of 18%. In a nut shell, industrial pattern prior to adoption of planning was that of a low capital intensity, and imbalanced industrial structure and output mix. Consequently, capital formation stagnated due to low returns and out produced were independent of market forces.

4.4.2 Industrial Development under Planning

Industrialisation accelerated in India after adoption of planning in 1951. The pattern of industrialisation that developed was a regulated and controlled one. Later, precisely after 1980s, the Industrial Policy, 1980 started the liberal approach in industrialisation. Though planning still influences the pattern of industrialisation, it does not strictly determine industrial development as it did before the policy of 1980. Therefore, the pattern of industrial development since 1980s is analyzed separately.

Prior to the analysis of the pattern of industrialisation under planning, it is instructive to mention some of the important provisions of Industrial Policy Resolution, 1948. The policy resolution determined in a large way the pattern of industrialisation during planning era. It contemplated a mixed economy structure in India and classified the areas of industrial development into four broad categories:

i) Industries exclusively under the monopoly of Central Government.

ii) New undertakings to be progressively undertaken by the state.

iii) Key industries which the Central Government feels necessary to regulate and plan for its de velopment.

iv) The remaining industries were left open for private individuals, co-operatives and others.

Upon these arrangements, industrialisation under planning followed a mixed economy structural setting. Since investments determine the pattern of industrialisation, investment behaviour under various plans provides a better insight. The outlays in various plans are discussed below:

4.4.2.1 First Plan (1952-56)

First plan had nothing much for industrialization, it largely emphasised on developing the infrastructures which would facilitate the industrial development further. A modest amount of Rs 800 crores were allocated for industrialisation, out of which Rs 94 crores were allocated for industries under public sector and rest for new projects, replacement cost and modernisation of existing plants. However, actual investment was far less than allocation. Only Rs 57 crores were actually invested in public sector industries and of the remaining amount only Rs 340 crores in development of new projects, replacement and in modernising the existing plants. First plan did not, therefore, make any significant effort in industrialisation; rather it is marked by under-investment of even modestly allocated resources.

4.4.2.2 Second Plan (1956-61)

Industrialization during second plan was largely influenced by Industrial Policy Resolution, 1956. A noteworthy feature of this policy was the emphasis upon village and small industries (VSI). Second plan witnessed diversification of industries and emphasised on establishment of key and basic industries like heavy engineering, producers' goods industries and industries of national importance.

The total investment was Rs 1,810 crores, of which Rs 870 crores were invested in public sector, Rs 675 crores in private sector and another Rs 265 crores for village and small industries (VSI's).

It established the following industries in terms priorities:

i. Establishment of iron and steel industries to increase the production and supply thereof. During this Plan period three major steel plants were established at Rourkela (Orissa), Bhilai (Madhya

Pradesh), and Durgapur (West Bengal).

ii. Establishment of heavy engineering and capital goods industries. This plan undertook the programmes to develop and establish manufacturing base of electrical and machinery equipments e.g. expansion of the Hindustan Machine Tools (HMT), Hindustan Shipyard and Chitranjan Locomotive Factory, etc.

iii. Capacity expansion of consumers' goods industry to meet the requirement of increasing demands for mass consumption goods.

4.4.2.3 Third Plan (1961-66)

Third plan was continuation of the earlier plans. It envisaged accelerating the rate of investment for speedy industrialisation and technological change. Third plan envisaged the development of public sector and assigned in them the key role to perpetuate further industrialisation. The objective was to make industrialisation self-perpetuating by producing domestically the producers' goods at cheap prices. During third plan, allocation amounted to Rs 3000 crores, of which Rs 1700 crores were invested in public sector and Rs 1300 crores in private sector.

4.4.2.4 Fourth Plan (1969-74)

Fourth plan continued with the projects undertaken earlier in previous plans. It emphasized on capacity expansion of export based industries in general and of the import substitute industries in particular. It also embarked upon development and expansion of Village and Small Industries (VSI's).

A total outlay of Rs 3050 crores was allocated for public sector; however, actual investment was only Rs 2700 crores. Of the actual investment, around 75% i.e. Rs 2025 crores were in core or basic industries - like iron and steel, coal, petroleum and petro-chemicals, etc. A significant proportion of the amount, around Rs 190 crores, was kept reserved for village and small industries (VSI's) under public sector.

4.4.2.5 Fifth Plan (1974-78)

Fifth plan envisaged the objectives of self-reliance and social justice. Hence, it accelerated industrialisation of core sectors in addition to export promotion industries. Further, industries capable of diversification and rapid growth were encouraged. To enlarge the production base of consumers' goods industries and to promote small industries exclusive reservation of 124 items was made for their production. It aimed to develop a series of ancillary industries to feed the larger industries. It also took many bold steps to remove the rigidities and restrictions in industrial front-e.g. restrictions posed to the private sectors, monopolistic undertakings and foreign investments in India, etc.

The revised outlay was around Rs 1,135 crores for both organized and mining industries. The actual investment in public sector was, however, Rs 9,600 crores. Significant proportion of Rs 535 crores was invested in village and small industries.

4.4.2.6 Sixth Plan (1980-85)

The sixth plan emphasised on overall economic development. It specifically focused on structural diversification, modernization, and self reliance in industry. To meet foreign exchange requirements it promoted exports based on engineering and industrial outputs. Further, it emphasised to develop, modernise and import technology and encouraged innovation through research and development. To avoid industrial congestion in urban settlements, it envisaged the development of industries in backward regions.

Total outlay during sixth plan, inclusive of small and village industries, was Rs 22,200 crores, beside exclusive allocation for energy development programme - Rs 4,300 crores for coal industry and Rs 2,870 crores for petroleum industry.

4.4.2.7 Seventh Plan (1985-90)

Seventh plan committed itself for social justice, and productivity growth in Indian industries. It aimed to ensure adequate supply of consumers' goods through fuller utilization of existing capacity in plants. The objective was to restructure and enhance productivity by technology up gradation. To be self-reliant, an integrated policy of industrial development was evolved. Industries having large domestic market with export potentials were given priority. A large number of industries with high growth potential (called sunrise industries) to meet the required demand were encouraged.

Seventh plan allocated Rs 22,460 crores for industries, of which Rs 19,710 crores were to develop the medium and large scale industries. Around Rs 2,750 crores were allocated to develop the village and small industries.

Seventh plan specifically emphasised to remove the infrastructural and structural rigidities in the economy. It emphasised in greater way to make power available through establishment of power stations; both thermal and nuclear. Modernization of obsolete technology (in sugar, textiles and other industries), and setting specific productivity target enhancement were other important provisions.

4.4.3 Generalization of Industrialization under Plan Regime

Pattern of industrial development that evolved under planning was peculiar to Indian economy. Though it exhibited industrialisation as under controlled regimes i.e. it jumped directly from first to third stage of industrialisation, but certain features were exclusive and distinct to India alone. The pattern of industrialisation that materialized under planning regime can be generalized as under:

4.4.3.1 Development of Core Industries

The strategy of industrialisation adopted by planners shifted directly from stage one - from primary produces - to the third stage - development of basic, heavy and core industries. It was realized that unless the basic industries assured adequate supply of producers' goods economy would not grow. But this pattern requires the development and availability of technology with proper engineering base. Hence, emphasis to develop engineering wings was initiated since early years of planning and industrialisation. The engineering wing was entrusted with catalytic role for industrialisation.

4.4.3.2 Import Substitution and Restrictions

Along with emphasis on basic industries, plans envisaged import substitution industrialisation. It was realized that industrialisation in initial stage of take off requires adequate supply of foreign exchange reserves to import capital goods. But import of consumers' goods diminishes these valuable exchange reserves. Imports were, therefore, deliberately curbed by promoting import substitute industries. It benefited in two ways: first, demand for foreign exchange was reduced by degrees so that it could be used to import capital goods. Second, it encouraged the domestic industries producing substitutes by paying higher prices. In fact, promotion of import substitution was followed by a host of import restrictions thereby curbing import to desired level and releasing foreign exchanges for import of capital.

4.4.3.3 Diversification of Industries

The pattern of industrialisation during planning regime was diversified with broad spectrum of industrial base ranging from consumers' goods to intermediate and capital goods industries. Diversification of industries are exhibited by tremendous increase in production of important goods-like textiles, chemicals and petro-chemicals, heavy engineering and electrical equipments, mining and metallurgical, etc.

Structural transformation in Indian industries was more in favour of basic and capital goods industries - nearly 50 % of productive capital was employed in these industries which rose to 70 % by 1980s. Nevertheless, other industries-consumers' goods, capital goods and intermediate goods industries- did prosper during the period, but major emphasis was upon basic industries.

4.4.3.4 Development of Village and Small Industries

The striking feature of industrialisation during planning era was the significance attached to develop Village and Small Industries (VSIs). Since third plan onwards, planners realized that industrialization without productively employing the resources (inclusive of human power), would not provide a sound economic base. Large capital intensive industries have limited employment absorption capacity due to skill based specialised nature of production. Contrarily, most of work forces in India are rural based and illiterate with limited skills. Hence, the alternative lies in developing village and small industries, which are not only labour intensive but also require limited skills. Development of village and small industries not only meet the objectives of employment and industrialisation but also the equi-distribution of income.

Since third plan, importance was given to develop village and small industries, which is evident from the fact that during third plan Rs 190 crores was allocated for the purpose while 124 items were reserved exclusively for their production during fourth plan.

4.4.3.5 Dominant Public Sector

Throughout the planning era public sector played a dominant role. Greater effort was made by the government to develop the public sector industries. However, the effort was to develop those areas which were of strategic importance and security concern. The core and basic industries requiring heavy investments were developed under public sector firstly. The outputs of these industries were made available at cheap prices domestically and this helped further industrialisation. Public sector enterprises grew from just 5 undertakings under central government in 1951 to 47 in 1961 and to 244 in 1990 with corresponding investment of Rs. 29, 950 crores and Rs. 99, 330 crores respectively.

4.4.4 Industrialization in the Globalization Era

Till today planning influences the pattern of industrialisation but the degree of influence has been greatly lessened, particularly due to sea change brought about by liberalisation. Earlier policies of industrialisation had inherent rigidities, like licensing, permit approval, and a host of other limitations posed by FERA and MRTP regulations. The rigidities resulted in underutilization of plant capacity, unnecessary controls and restrictions, and inefficient allocation of resources. Consequently, there was macro-economic maladjustment, instability and distortion of market mechanism. Keeping this in view, Industrial Policy 1980 brought sea change by introducing liberal measures and these accelerated particular pattern of industrialisation.

Pattern of industrialisation after 1980 was largely influenced by the provisions of Industrial Policy, 1980. The policy liberalized capacity expansion of plants by permitting automatic approval as a result of which industries wishing to operate on higher scales of production benefited. Further, automatic capacity expansion up to 49% of plant size was granted to those industries modernizing themselves through technology up gradation and productivity enhancement.

The asset limits of MRTP companies were raised from Rs 20 crores to Rs 100 crores. As a result, to which 112 companies came out of MRTP clutches. Industries not falling under MRTP and FERA regulation were excluded from licensing thereby reducing the number of companies requiring compulsory licensing from 56 to 26. As a continuance to this liberal measure, 23 industries were de-licensed from MRTP and FERA companies, provided they were located in centrally declared backward areas. An important provision of the policy was broad banding of products which assured greater flexibility to producers in adjusting their product mix. A single license now automatically allowed the production of broad band of items enlisted under it without requiring individual license for a product.

The thrust area of Industrial Policy 1980 was, however, the industrialization of backward areas. A tax relief up to 20% of corporate profits for 10 years and an income tax relief of 25% for a period of 8 years were granted.

The Industrial Policy, 1980 led to a changed attitude for industrial development and a very different pattern of industrialisation developed. Liberalization began from 1980, whereas globalization concerning global integration began from 1991 onwards. Liberal measures of 1980 failed largely due to continual deficit financing, controls and regulation and the resultant structural disequilibrium. These maladjustments ultimately necessitated a comprehensive reform. Thus, in 1991, liberalization assuring proper market orientation was initiated. Deregulation, privatisation and globalization become milestones for the economy. The aim was to induce competitive elements of a market economy for efficient allocation and utilization of resources.

The eighth plan (1992-97), formulated under new environment envisaged practically achievable quantitative targets and indicative planning, rather than merely directional. Relative role of public and private sectors was reviewed and inefficiency in allocation due to over emphasis on public sector was sorted. The dominant role of public sector in industrialisation was relatively diminished due to its poor performances. The licensing policy which distorted producers' response to market dynamism hindered scale operation in industries. The time was ripe to unshackle the unnecessary controls and introduce competitive elements in determination of resources allocation as per the market mechanism. Relatively private sector was to determine the industrialisation in greater way thence.

During eighth plan, the total outlay was Rs 38,083 crores at 1991-92 prices but the actual outlay was only Rs. 31,382 crores. i.e. 82% of the planned investment.

4.4.4.1 Generalization

Liberalization and economic reforms in India are not matured enough though analyses capturing some of the general trends can be at least visualized. The period marks a pattern of industrialisation, entirely different from one under planning. A liberal strategy of industrialisation devoid of unnecessary controls and regulations was initiated. The pattern of industrialization developed during this phase is discussed below.

4.4.4.2 Liberal Approach

Liberalisation mainly removed the structural and institutional rigidities hindering industrialisation. Pursuance of this objective required de-licensing of industries. Liberal licensing was provisioned under Industrial Policy, 1980 which was altogether abolished (de-licensed) by New Industrial Policy, 1991. Except a short list of industries under public sectors, reserved exclusively for strategic and security reasons, all others were de-licensed. These accelerated the entry and growth of private firms along with many multinational companies. Automatic capacity adjustment according to market demand resulted into fuller utilization of plant capacity. Deregulation and increased asset limits of FERA and MRTP companies increased the scale operation and benefiting there from. Liberalization induced industries to modernize themselves by upgrading technology and thereby enhancing productivity and efficiency.

4.4.4.3 Dilution of the Public Sector

One of policy implications of liberalization was the dilution of public sector industries and gradual diminution of key role entrusted in public sector. Self-reliance and self-sufficiency coupled with import substitution industrialization resulted into mounting losses. The protective measures enjoyed by public sector resulted in inefficient resource allocation. But after liberalization, the nature of competition between private and public sector changed and the relative share of public sector, except for few financial services, declined. This is true for the manufacturing industries. A significant cause of declining share of public sector is the increasing privatization of public sector enterprises through disinvestments and auctioning.

4.4.4.4 Increasing Private Participation

Diminishing role of public sector favoured relatively more to private sectors. The unprofitable and sick industries were either shut down or were referred to Board of Industrial Finance and Reconstruction (BIFR) to evolve strategy for revival. To ensure efficiency, public participation by disinvesting government's shareholdings was effected. Still more of public sector industries are brought under private ownership through auction and disinvestments.

With shift in emphasis from public to private sector, government became facilitator rather than a competitor. Abolition of licensing liberalised the entry barriers for domestic and foreign firms. Many new firms, 656 manufacturing, 394 chemicals, 338 machinery, 285 food and beverages, and 251 textiles rushed in after 1985 due to liberalisation. The rush of new firms has been equally responsible for diminishing role of public sector.

4.4.4.5 Increasing Participation of Foreign Capitals

After liberalization, foreign participation increased particularly in the manufacturing sector. Openings up of the economy resulted into increasing flow of foreign capital investments. Industries with foreign shares - with more than 10 % of foreign equity- witnessed accelerated growth due to increased foreign direct investments. Except for few selected industries - like pharmaceuticals where foreign participation declined - foreign participation increased substantially.

4.4.4.6 Productivity Growth and Consumers' Goods Industries

Total Factor Productivity Growth (TFPG) during the first half of 1980s was one of important source of accelerated industrial growth. Particularly, TFPG growth in consumers' goods industries was significant and this further expanded the industrialisation. TFPG was 7.5 % for the first half of 1980s i.e. at the rate of 3.5 % per anum. The TFPG was largely due to significant increment in labour productivity, facilitated by modernization of production technology, which in turn was consequence of liberalisation.

The leader in productivity growth was the consumers' goods industries. Consumers' non-durable sector with a weight of 33% of total value added, experienced a productivity growth of 5.2% per annum during first half of 1980's. Consumers durable with a weight of only 4% in total value added recorded a productivity growth of 6.6% per annum. Thus, even within consumers' goods industries, industries producing consumers' durable recorded a higher productivity growth. Intermediate goods industries recorded low productivity growth and continued to remain so, while productivity growth in capital goods industries was not significant statistically.

Check Your Progress - III

1. What was the pattern of industrialization during the period preceding planning?
2. Mention the priority of the government of India regarding industrialization.
3. Does public sector play any dominant role in the era of globalization?
4. When was emphasis given to the proper development of small and village industries?

4.5 Industrial Policies

After independence, in view of providing a secured economic environment for stimulating investment, it was essential to frame an adequate and sound policy for industrial development. Policies concerning industrialisation are requisite guideline for industrialisation to be determined. In perseverance to it the Industrial Policy Resolution, 1947 was enacted in 1948. The important provisions of the policy resolution have been already discussed in section 4.4.2.

Upon the broad guidelines provided by Industrial Policy Resolution 1947 industrialisation took place prior to adoption of planning. Initiation of planning, since 1951, necessitated a more directional policy for industrialisation. Hence, in April 1956 the Industrial Policy Resolution 1956 was enacted.

4.5.1 Industrial Policy Resolution, 1956

Industrial Policy Resolution 1956 was but an extension of Policy Resolution, 1948, in a more definitive and directional manner. It clearly demarcated the areas of operations for different industries under differing ownership and organisational set up. The important provisions are discussed below:

4.5.1.1 Re-classification of Industries

Industrial Policy Resolution 1956 re-classified the earlier division of industries into three schedules with more definitive demarcations. The state assumed a broader role and coverage. Schedule (A) comprised seventeen industries, which were to be dealt exclusively by the state. Under schedule (B) were enlisted twelve industries which were to be progressively owned by the state. The private sector was expected to supplement the effort of the state in this regard. Under schedule (C) were those industries which were not mentioned under either schedule (A) or (B). These areas were left open for private enterprises, but their development had to be in terms of socio-economic objectives of the government of India. Industries under schedule (C) were subject to the control and regulation of Industries (Development and Regulation) Act, 1951.

4.5.1.2 Encouragement of Private Enterprises

For healthy industrialisation, infrastructure like power, transport and communication along with appropriate fiscal and monetary measures are rather a pre-requisite. To pursue these provisions, Industrial Policy Resolution, 1956 suggested the state to continue its effort in fostering institutions to provide financial support to industries. Emphasis was also given to provide special assistance to enterprises organized on co-operative basis. Equally, emphasis was given by the state to develop both private and public enterprises within an industry.

4.5.1.3 Emphasis upon Village and Small Industries

Keeping in view the large magnitude of unemployment, the policy aimed to productively employ those resources. Hence, priority was given to village, cottage, and small industries capable of employing larger section of rural based population. To promote village and small industries restrictions were put on volume of production by larger industries despite introducing such measures as differential taxation, and subsidies. In addition to it, to promote competitive strength amongst small scale industries, the policy suggested to improve productivity by modernising the production techniques.

4.5.1.4 Working Environment

Since India embarked upon socialist democratic set up, it recognized the work force as partner in development and management of industries. Therefore, the Policy Resolution, 1956 emphasized to raise the standard of working environment. This provision not only provided security to health but also enhanced efficiency. Particularly, the working environment preventing hazardous effect to health was emphasised upon. It also focussed on the progressive association of the workers and technicians in management.

4.5.1.5 Balance Industrial Growth

Disparity in income distribution and assets holding as well industrialisation was well recognized by the planners. Hence, it envisaged to reduce regional inequity. The policy, therefore, promoted a balanced and coordinated development of industry and agriculture, so that a higher standard of living is achieved. To remove regional disparity emphasis upon inter-sectoral development: both agricultural and industries, in both rural and urban areas was emphasised.

4.5.1.6 Foreign Capital

The need for securing foreign participation especially, capital and enterprises in industrial front was well recognised. The government emphasised, particularly, on technology and knowledge transfer by foreign firms for industrial development. However, it was made clear that ownership and effective management of such industries should be in Indian hands. Thus, in modernizing Indian industries, the need for foreign capital was recognized and emphasised upon but the policy also insisted upon progressive Indianisation of industrial concerns.

Check Your Progress - IV

1. Mention the schedules into which the industries have been classified in the Industrial Policy Resolution 1956.
2. Specify the steps taken for the development of village and small industries?
3. What is the attitude towards foreign capital in the Industrial Policy Resolution 1956?

4.5.2 Need for Reforms

The process of de-regulation and liberalization in India started by 1980s, and got a dramatic boost in 1991. During the entire planning regime (from 1950-1980), the economy grew comparatively at a low rate of 3.5 %. This low growth was consequence of the inward development strategy, which finally necessitated a comprehensive reform. The balance of payment crisis in mid-1991 provided the occasion to undertake such reforms. The factors responsible for reforms are discussed below:

4.5.2.1 Import Substitution Industrialization

The consequence of inward looking developmental strategy resulted in promotion of import substitution industrialisation with export pessimism. Import substitution seemed a sensible policy in the initial stage as it provided opportunity to for domestic manufacture of imports substitutes which curbed imports and released foreign exchanges. These foreign exchanges were used in import of capital goods. Further, the objective of self reliance led to reduction in import contents rather than reducing the domestic production cost. In fact, when world trade was growing enormously due to export optimism, India pursued export pessimism and contained herself to import substitution industrialization. These limited the trade content and thus deprived India of the gains from the trade.

4.5.2.2 Heavy Industries First

In addition to import substitution, the strategy to develop heavy industries first led to mounting economic and social costs. Heavy industry requires lumpy investments and has high capital-output ratio with long gestation periods. Despite long gestation, the lack of infrastructure, experience and skills further stretched the gestation periods. These factors escalated the cost structures which spread across all industries using the output produced by it (import substitution industries).

To protect the interest of high cost domestic industries, imports restriction through tariff and quantitative restrictions were followed. Alternatively, to stimulate investments in these high cost industries, capital requirements were subsidized through cheap credit. Consequently, it distorted relative factor prices resulted in choice of capital-intensive industrialisation; inappropriate for India with abundant labour supply and mass unemployment.

4.5.2.3 Political Determination of Locations

Balanced industrial development as an ideal under planning regime was realised by establishing public sector enterprises. It was argued that this process would foster and stimulate development of other related industries in those areas. But in most cases, locations were politically determined without any economic considerations. This incurred huge economic and social cost and not even half of such enterprises were capable of stimulating investment in related industries. For example, the states of Bihar and Jharkhand with rich resource base have a number of public sector industries but none of these states was able to stimulate investments in related industries. These states still remain as the most industrially backward states.

4.5.2.4 Balance of Payment (BoP) Crisis

Final jolt to outburst the controlled tradition was provided by Balance of Payment (BoP) crisis of mid-1991. The crisis shattered the confidence of international financial community on India's ability to meet its debt obligations. The seed to crisis was, however, sown partly by inward strategy of development during planning regime and partly due to continual deficit financing of 1980s. Despite the unavailability, deficit financing was carried on by the Government which eventually landed the economy into crisis.

4.5.3 The New Industrial Policy, 1991

After pursuing decades of inward looking policy, a comprehensive reform measure to integrate the economy into global economy was initiated in 1991. The industrial policy 1980 experimented with internal liberalisation, was later extended to external sector in 1991 as a part of economic reform. The policy change of 1991 aimed at unshackling the unnecessary controls, regulations and rigidities in the structures of economy. The policy intended to do away with structural rigidities through such instruments as liberalization, globalization and privatization. The important provisions of New Industrial Policy 1991 are given below.

4.5.3.1 De-licensing and De-reservation

During planned regime, India followed the licensing policy, particularly after enactment of Industrial (Development and Regulation) Act, 1951. The licensing policy was altogether abolished by New Industrial Policy 1991. Of course, a short list of eighteen industries was reserved for license approval; however, this short list of industries did not apply to industries intending to operate on small-scale. Entrepreneurs were not required to seek prior approval; rather an Industrial Entrepreneurs Memorandum (IEM) to the Secretariat for Industrial Approval (SIA) was to be submitted for acknowledgement.

A list of 8 industries, previously 17 industries, were reserved for public sector due to strategic and security purposes, but in 1993, item 5 and 6 were deleted from the list and by 1998 again item 3 and 4 were de-reserved. Finally in 2001 item 1 too was de-reserved from the list of reservation (Box 4.1).

4.5.3.2 Dilution of Public Sector

In addition to de-reservation, new industrial policy also adopted the strategy of diluting the role of public sector. Only such establishments either requiring heavy investments or where private investments are inadequate, the public sector would perform. Government assumed the role of a facilitator rather than an owner.

BOX 4.1

List of Industries requiring Compulsory Licensing for Public Sectors

1. Coal & Lignite
2. Petroleum and distillation
3. Distillation of Alcohol and brewing
4. Sugar
5. Animal fat and oil
6. Cigarettes and tobacco products
7. Asbestos
8. Plywood's and Veneers
9. Hides, skins and patented skins
10. Patented furskins
11. Motor cars
12. Paper and newsprints
13. Aerospace and Defense equipments
14. Explosive and detonators
15. Hazardous chemicals
16. Drugs and pharmaceutical
17. Entertainment electronics
18. White collar goods

List of Items Reserved

1. Arms and ammunition
2. Atomic energy
3. Coal and lignite
4. Mineral oil
5. Mining of iron ore, manganese, sulphur, gold and diamond
6. Mining of copper, lead, zinc, tin, molybdenum
7. Minerals specified in the Schedule of atomic energy (control of production and use order), 1953 and
8. Railway transport

For industries requiring import of capital goods, the new policy suggested automatic clearance up to 51% of foreign equity holdings, if such projects added to availability of foreign exchange reserves. The policy emphasised on development of public sector in providing essential infrastructure and institutional framework only.

In selected industries under public sector, a part of government share holding was disinvested to discipline the enterprises in accordance with market principles and to ensure greater public participation. Chronically sick industries were closed down and those potential of revival were referred to Board of Industrial Finance and Reconstruction (BIFR). The New Industrial Policy 1991 thus diluted the role of public sector enterprises and paid greater significance to private concerns on the rationale that efficiency is promoted.

4.5.3.3 Foreign Direct Investment

The new policy paid attention on foreign participation in industries. Accordingly, any project importing capital and making foreign exchange available was provided automatic clearance. In other cases, however, it required clearance from the SIA (Secretarial of Industrial Approval). Automatic approval was also provided up to 51% of Foreign Direct Investment (FDI) in highly prioritised industries. The payment of royalties and fees was equal for both domestic and foreign industries but the payment of dividends was to be channelled through RBI (Reserve Bank of India) so that BOP (Balance of Payment) is monitored.

Equity holding up to 51% was approved automatically for the companies promoting Indian export in international market. In case of technology import, automatic approval on technology agreement on highly prioritized industries within specified parameters was provisioned. No approval was required to hire foreign technicians.

4.5.3.4 MRTP (Monopolies Restrictive Trade Practices) Act

Earlier polices declared any firm having asset more than 100 crores (since 1985) as MRTP firms, and allowed them to enter only selected industries on a case-by-case basis. Selective approval was given to new MRTP firms in any areas of investments, in addition to which, it also required licensing approval. Thus, MRTP Act restricted the entry of large firms, thereby forbidding operation of scale production and externalities thereof. The new industrial policy, however, altogether abolished these restrictions requiring prior approval in investments in the de-licensed industries. The act emphasized to prevent and control monopolistic, restrictive and unfair trade practices rather than restricting the firms.

4.6 Cottage and Small Scale Industries

Theoretically, distinction of industries as small, medium and large depends upon the size of capital and workforce involved. Hence, such differentiations are not universal, but vary from one nation to the other. Also depending upon the country and its economic development, even the capital and workforce involvement vary across industries. Besides, the small and cottage industries also differ on other grounds. Generally, small-scale industries are independent production unit mechanized fully or partly with workers employed from outside household i.e. labour market, whereas cottage industries are those where industrial activities are relegated to secondary position. It is usually associated with agricultural or allied activities; it draws the family labour force for the pursuit.

4.6.1 Position and Status

Small-scale and cottage industries play significant role in an economy by providing employment to resources, by generating incomes and producing outputs that consumers demand. Nevertheless, promotion of small scale and cottage industries has been a conflicting objective in India. Small scale and cottage industries, for example, are labelled economically not viable. In spite of this label, they been promoted and pursued. The industries are, rather, considered to be an important force which has contributed to development and income generation in India.

4.6.1.1 Emphasis since Early Days of Industrial Development

With the enactment of Industrial Policy Resolution, 1956, the need to develop small scale and cottage industries has been recognized. Industrial Policy Resolution 1956 stressed upon the "the role of cottage and village and small-scale industries in the development of the national economy".

Even in later years, government issued two policy statements and both reflected the continued effort to develop small-scale and cottage industries. The Industrial Policy Statement 1977 states that "The main thrust of the New Industrial Policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. In addition, Industrial Policy Statement 1980, states that "government is determined to promote such a form of industrialization in the country as can generate economic viability in the villages. Promotion of suitable industries in rural area will be accelerated to generate higher employment and higher per capita income for the villages in the country without disturbing the ecological balance." Thus, promotion of cottage and small-scale industries was the set objective of industrial policies in India.

In papers every objective received equal importance, though in practice, special emphasis was given to develop the basic and heavy industries rapidly. However, priorities of industrial development have never been mentioned, either in early plans or policies. Only after 1960s, formulation of strategies to reduce skewed industrial development was given serious thoughts. Reduction of regional disparity and resultant income inequality were the focus in the promotion strategy of small and cottage industries.

4.6.1.2 Facilitative Set Up

Many facilitative set up to promote small and cottage industries have been initiated in recent decades. A number of establishment, agencies and organizations render various services either free or at nominal charges to promote small and cottage industries. Many organizations provide support to these industries, beginning from setting up of industry to the final stage of product sales. Some of important organizations, for instance, are NSIC (National Small Industries Centre), SFC (State Financial Corporation), AIHHB (All India Handloom Handicraft Board), CSB (Central Silk Board) etc. In addition to it, commercial banks are under obligation to provide credit to these undertakings as priority sector.

4.6.1.3 Concessions and Reservations to Small-Scale and Cottage Industry

Despite various agencies rendering services of various types, fiscal concessions like relaxation of excise duties, tax grant, etc. are given to small scale and cottage industries by the government. Also, provisions for producing and procuring machinery either on easy finance or on hire-purchase basis have been facilitated. Land allotment at nominal price, despite exemption from various clauses of labour and factory laws, are provisioned under various laws. Exclusive reservation of 800 items for small and cottage industries are also provisioned.

4.6.1.4 Low Priority

Small and cottage industries do not suffer from policy angle but they suffer relatively in allocation of outlays and investments. Following the broad guidelines of industrial policies and five year plans government pursued a protective policy despite promoting small and cottage industries. Of the total outlay, the allocation in public sector industries during first plan was 5% of which small scale and cottage industries had only 2%. After second plan, industry became the king pin of economic growth and retained its position by forming 20% to25% of total plan outlays. However, the small and cottage industries continued having small proportion of plan outlays, forming only 1.5% to 4% of the total during three successive plans. The 6th and 7th plan, focused on infrastructure and the outlay on industry was reduced to 16% and 13% respectively. Corresponding to it, small and cottage industries had relatively lower amount of the total outlay, only 1.8% to 1.5%. Under planned regime small and cottage industries got an outlay as low as 1.5% to 1.4% of total outlay in public sector during 1951-1995 and only 1.5% to 2.1% since 1966.

4.6.2 Role of Cottage and Small-Scale Industries

Small-scale industries played a vital role in India. It spearheaded the industrial development by providing employment and realized a high growth rate for the economy as a whole. Small-scale and cottage industries in India had grown rapidly since independence and over the period of time it grew from 36 thousand units in 1960 to 32 lakh units in 1999-2000. Still the Government follows the similar line of exclusive reservation of items for small scale and cottage industries. The major roles played by small scale and cottage industries are discussed below:

4.6.2.1 Employment Generation

It is argued that small scale and cottage industries have greater capacity to generate employment. As small scale and cottage industries require limited capital, it can be easily set up with the available local capital. Thus, it provides employment to valuable resources available in the society. In India, the small scale units employed more than 18 million people till 2000-01. Within the manufacturing sector itself small scale industries and decentralized sector contributed about 80% of employment. In between 1972 to 1988 combined employment of all sectors (large, medium and small scale industries) grew by 2.21%, but it grew comparatively more by 5.42 % per annum in small scale and cottage industries. Small-scale industries alone generated employment for about 2 million people till 1987-88. Thus, given the unemployment problem in India, productive employment of resources, both man and material, will depend upon the development and expansion of small scale and cottage industries. As far as future prospects are concerned, development of cottage and small scale industries in rural areas will crucially provide effective employment despite meeting the local demands.

4.6.2.2 Export Promotion

Small-scale industries in India played catalytic role in export promotion. Substantial increase in exports by small-scale industries was observed in textiles, processed foods, woollen clothes and hosiery, etc. The value of exports increased from Rs. 1,643 crores in 1980-81 to Rs. 53,975 crores in 1999-2000. One of striking feature in exports of small scale industries is their increasing share in qualitative non-traditional exports. This has been made possible by efficient production, resulting from efficient management and monitoring despite fuller utilization of plant capacity, which is possible in small scale industries. Still the small scale industries play eminent role in export promotion. This is visualized by the fact that nearly 33% of India's total exports during 1999-2000 was from small-scale industries.

4.6.2.3 Equitable Distribution of Income

Of all arguments the most prominent is the equitable distribution of income that small scale and cottage industries ensure. Due to its small and dispersed nature, equity in income distribution is realised through establishment of small scale industries. Since most of large industries are located in urban areas, small scale and cottage industries if located in semi-urban or rural areas will provide better income through productive employment. Thus, distributional justice can be achieved more readily through small and cottage industries.

4.6.2.4 Mobilization of Resources

Small scale enterprises are capable of mobilizing the latent resources, like hoarded wealth, entrepreneurial ability etc. Small scale enterprises by pooling local resources discourage hoarding of wealth. It also encourages small entrepreneurial class who through innovation and entrepreneurial abilities induces dynamism in industrial sector. In spite of all, small scale industries provide a growing network of feeder and complementary firms which induce further industrialisation. Under such environment the latent resources - innovation and cost saving measures - are realized and these give rise to specialized production. The growth of large number of small firms after independence in India provided consistent growth of the economy, which in turn, helped tapping the latent resources.

4.6.2.5 Balanced Industrial Development

Generally, large-scale industries concentrate in few urban centres having greater availability of workforce and infrastructural facilities. This in turn, acts as pull factor and initiates migration towards these centres from rural areas. Concentration of industries on the other hand aggravates urban problems like congestion, slums, housing, health, civic amenities and a host of other problems. Crucially enough, concentration of industries in urban centres of India results into imbalanced industrial growth. The concentration effect has resulted into structural maladjustments in the economy. Hence, small scale and cottage industries, despite meeting the local demands act as counter weights to urban problems by providing productive employment.

Thus, the role of small scale and cottage industries is immense and multitude. Particularly in Indian context, the development perspectives and growth experiences suggest that economic prosperity rests on development and promotion of small scale and cottage industries. Though much has to be done, more has to be done to the effect that small scale and cottage industry provide the basis of economic growth.

> **Check Your Progress - V**
>
> 1. Name some of the agencies serving the cottage and small industries.
> 2. What are the problems created by the concentration of large scale industries in major cities?

4.7 Let Us Sum Up

We have come to know that industries played a vital role in shaping Indian economy and sustaining the growth process. Major portion of industrialisation in India was carried under planning model of development, and the pattern developed reflects all features of controlled, regulated and public sector biased industrialisation. Even within public sector, core and basic industries were dominant. With the initiation of internal liberalisation in 1980s, and particularly after globalisation in 1991, the pattern of industrialisation changed. Globalisation has resulted into competitive outcomes with more and more of industrial houses coming up. Consequently, the objectives of equity and economic justice have been threatened by competitive corporate entities. Though promotion of small and cottage industries seem to be unviable, their possibility of survival is not at danger, provided they are managed and supervised efficiently.

4.8 Key Words

Disguised unemployment	:	A situation where the factor contribution (or marginal productivity) is zero or negative
De-licensing	:	Lifting up the regulation of license approvals.
Globalisation	:	Process of integrating the domestic economy with rest of the world, i.e. opening up of the economy.
Industrialisation	:	Process of industrial development.
Liberalisation	:	Relatively easier terms and condition, openness.
Per capita income	:	Income per head.

Sustained Development	:	Continual and recurring process of development.
Total Factor Productivity	:	Productivity inclusive of all factors.
Underutilization	:	Not utilized efficiently or to the existing capacity.
Differential Taxation	:	Tax levied upon a homogeneous group with different principles of taxation.
Import substitution	:	Substitution of cheap imports through costlier domestic production.
Export pessimism	:	Outward looking policy or the practice of promoting export based production lines.
Core and basic industries	:	Industries central to the further industrialisation and development of economy.
Heavy Industries	:	Industries requiring lumpy investments or huge fixed cost.
Gestation Period	:	The time lag between investment and realization of output.
Tariff	:	A kind of tax levied upon the goods and services produced outside the home country or for others in the domestic county: import tariff or export tariff.
Quantitative restrictions	:	Restrictions on quantitative flow of goods and services. Eg. Quota, dumping, etc.
Cheap Credit	:	Credit policy with low rte of interest to promote specific objectives.
Unfair Trade practice	:	Unjust and unequal trade practice distorting the competitive environment and thus restraining the flow of goods and services.
Externality	:	Benefits or adverse effects of one's activity running into domains of others.
Disinvestment	:	Process of disowning an asset by opening up the share equity for other players (private or any one else).
Sick industries	:	Non-profit earning/non-cost recovery industries.
Inward looking policy	:	Policy suggesting self reliance where even the available imports are substituted through domestic production.
Capital intensive/labour saving	:	Technology or method of production using more capital and less labour per unit of production.
Labour intensive/Capital Saving	:	Technology or method of production using more labour and less capital per unit of production.
Broad Band	:	A list/basket of homogeneous products.
Directional Policy	:	Policy merely suggestive of the directions without strictures, directives for compliance without any legal sanction.
Scale of Operation	:	The level of output response in relation to the input proportions.
FERA	:	Foreign Exchange Regulation Act.
MRTP	:	Monopolies Restrictive Trade Practices

4.9 Check Your Learning

1. Discuss the role of industries in economic development of a country.
2. What do you mean by proper pattern of industrialisation? Whether the evolutionary pattern a universal phenomenon? Justify your answer.
3. Discuss the pattern of industrialisation prior to adoption of planning.
4. Pattern of industrialisation developed under planning was biased towards public sectors. Justify.

5. New industrial policy led to an era of liberal pattern of industrialisation. Discuss.
6. Discuss the major provisions of Industrial Policy Resolution, 1956.
7. What are the factors, which necessitated the introduction of economic reforms in 1991? Discuss the major provisions of New Industrial Policy, 1991.
8. Discuss the role and status of small and cottage industries.

4.10 Suggested Readings

Agrawal A.N.	:	Indian Economy: Problems of Development and Planning, Wishwa Prakashan, New Delhi (Latest Edition)
Datt Ruddar and Sundharam KPM	:	Indian Economy, S. Chand and Company Ltd. Ram Garh New Delhi-10055 (Latest Edition)
Mishra S.K. and Puri V.K.	:	Indian Economy, Himalaya Publishing House, New Delhi (Latest Edition)
Kapila Uma (edt.)	:	Indian Economy since Independence, Academic Foundation, New Delhi (Latest Edition)

4.11 Hints/Answer to Questions in Check Your Progress

Check Your Progress - I

1. Hints: In addition to income and employment generation the industrialization perpetuates development. Since, industries have high propensity to save, invest and re-invest and once an impetus is given to it the industries have the general tendency to develop itself as well the other sectors through self finance (See 4.1.4).

2. Hint: Areas of strategic importance and areas of security concerns (See. 4.1.3).

Check Your Progress - II

1. Hint: Three stages (see 4.2.1)

2. Hint: Under the democratic setting the industrialization process is evolutionary and moves from the first stage of primary industries to second stage of manufacture of consumers' goods and finally to third stage of producing capital goods. But under a planned and controlled industrial development the general tendency is to shift from first stage to the third stage directly. (See 4.2.1)

3. Hint: Since the developing countries has dearth of capital industrialization of its economy in the initial stage requires import of capital goods. The developing countries can import capital either by exporting primary produces, by import substitution or by export promotion so that required foreign exchange is realized. (See 4.2.2)

Check Your Progress - III

1. Hint: The pattern of industrialization during the pre- planning period was that of low capital intensity with imbalanced industrial and output structures. (See 4.3.1)

2. Hint: Despite the development of import substituting industrialization, development of the heavy and core industries was the major priority of government of India. (See 4.4.8.5)

3. Hint: Immediately after globalisation the role of public sector in Indian economy was reduced.

4. Hint: From the third plan (1961-66) onwards the development of village and small industries were being emphasized on a greater priority. (See 4.4.3)

Check your Progress - IV

1. Hint: The Industrial Policy Resolution 1956 reclassified industries into three schedules, namely Schedule 'A' comprising 17 industries, Schedule 'B' comprising 12 industries and Schedule 'C' wherein all the remaining industries not mentioned in the above schedules were included (See 4.5.1.1)

2. Hint: For promotion of village and small industries the policy resolution 1956 suggested the restriction of volume of production in larger industries and introduced measures of such nature as differential taxation and subsidies etc. (See 4.5.1.3)

3. Hint: The participation of foreign capital and enterprises in industrial front, particularly in the field of technology and knowledge for fostering industrial development was recognized but the policy resolution suggested that ownership and effective management of such industries should be in Indian hands (See 4.5.1.6).

Check Your Progress - V

1. Hint: NSIC (National Small Industries Centre), SFC (state financial corporation), AIHHB (All India Handloom Handicraft Board), CSB (The Central Silk Board) etc. (See 4.8.1.2).

2. Hint: Large-scale concentration of industries in few cities and metropolitan settlements results into migration of rural population towards those centres creating a multitude of problems, congestion, slums, housing problems and host of other problems like health, civic amenities etc. One of the crucial problems, in this regard is the differential in industrial growth, leading to unbalanced industrial and structural development within the economy.

Structure

5.0 Objectives

In the preceding unit you have gone through industrial development and learned many theoretical concepts. You have also learned about the applicability of those concepts in Indian context. Advances in industries are followed by development of trade and commerce. Industries produce outputs and trade provides the outlets for those output to reach the consumers. Thus, trade is a natural sequence to industrial development. In this unit you will learn about foreign trade.

After going through this unit, the learners should be able to:

- know the role of foreign trade in economic development;
- know the magnitude, composition and direction of foreign trade in India;
- understand dimensions of Balance of Payments;
- study the factors which contributed to the crisis in 1990s; and
- learn the objectives and functions of WTO and India's emerging role in the WTO as a member nation.

5.1 Introduction

The importance of foreign trade has been realized since the beginning of modern economic thinking. Classicists believed that international trade benefits the trading nations. It increases national wealth and also enhances consumers' welfare. Foreign trade is vital on three counts:

(i) It contributes to the development of resources through competitive production.
(ii) It assures production more than domestic requirements and thus contributes towards achieving higher scales of production.
(iii) Trade provides for division of labour by promoting efficient production lines. This, in turn, provides, for specialization in production in the long run thereby making prices of goods and services at least competitive price. Specialization in production assures greater economies and the fruits of technological advances are made accessible by foreign trade.

In addition, trade provides the link between developed and developing nations which sustains growth in developed countries and facilitates development in developing countries.

5.2 Role of Foreign Trade in Developing Countries

Foreign trade plays a vital role in country's growth and development; rather it serves as the engine of growth. The role of foreign trade becomes more important in developing economies, as it facilitates the required impetus of growth and development. Trade contributes through expansion of output and employment. For developed industrial countries foreign trade acts as the outlet for disposal of surplus in commodity production. Thus, foreign trade in developed countries keeps the economy away from glut in production and employment.

The following section emphasis is on the role of trade in economic development of developing nations.

5.2.1 Import of Capital

In the initial stages of take off, developing economy requires adequate amount of capital goods for its development, particularly for industrial and infrastructural development. But developing economies cannot supply such capital goods adequately. Hence, it has to import capital goods from abroad. In this respect foreign trade provides the link between capital exporting and capital importing countries. However, the amount of capital that a country can import depends upon a host of factors including the magnitude of foreign trade. Therefore, larger the volume of trade, greater is the scope for import of capital.

Capital requirement for development is inescapable, though it is scarce in developing countries. It is pertinent therefore, that commodities (or value of domestic factors) be exported and resources so realized be used in import of capital.

5.2.2 Prevention of Monopolies

Foreign trade prevents the rise of monopolistic elements, particularly the domestic monopolies. Given the scope of foreign trade, a country can procure the deficient commodities at least competitive price without increasing the domestic prices. In this run for competitive production amongst trading nations, only those with specialised production can survive. Specialised production makes the commodity available at least competitive price. In addition to it, the continual surge for competitive production amongst trading nations will automatically prevent the domestic producers from monopolistic practices.

Cynics believe that large multi-national corporations with higher scale operation may dominate the market and give rise to industrial imperialism. Proponents of foreign trade, however, argue that given the voluntary exchange mechanism, monopolistic behaviour of firms may be automatically relegated through competition.

5.2.3 Mutual Cooperation

International trade, also, encourages mutual co-operation among nations. In fact, rich nations invest their capital in developing or poor countries, where resources are abundant without adequate capital. Such investments benefit the poor developing nations by initiating and sustaining the growth process. This also overcomes the dearth of capital in poor countries. This interdependence, in turn, provides the scope for mutual cooperation. Countries entering as trade partners become interdependent, and any unfavourable fluctuation within an economy is likely to produce same repercussion in the other. Hence, to avoid such unfavourable fluctuations, trading partners cooperate mutually during contingency and overcome the hurdles.

5.2.4 Global Welfare

Countries trade and produce simply because they have comparative cost advantage in that line of production. Given the continual surge for competitive production each country will produce only those where it is most efficient. Efficiency or specialisation in production incurs minimum cost of production thereby making available the commodities at least price. Provision of commodities at least price implies increased welfare and prosperity. In addition to it, the reduction in economic waste due to specialisation in production assures sustainable development. Thus, foreign trade assures welfare not only within the economy but also across border globally.

5.2.5 Division and Specialisation of Labour

Production of commodities in accordance with the comparative cost advantage results in division of labour amongst trading nations. Division of labour in the long run, in turn leads to specialisation in production. Since factors are immobile even within an economy, the product mobility assured by foreign trade substitutes these imperfections. Thus, product mobility overcomes the rigidities posed by factor immobility. The division of labour amongst nation on the basis of efficient production lines give rise to specialisation in production. Specialisation results into increasing returns or economies of scale of production, and internationalisation in division of labour ensures greater employment of resources.

Check Your Progress - I

1. Why do the developing nations require capital goods in the initial stage of its development?
2. Foreign trade prevents the rise of domestic monopoly. True/False
3. Division of labour in the long run leads to specialisation. True/False

5.3 Magnitude of Foreign Trade

No nation gains in isolation. Foreign trade as seen above is an eminent sector within economies world over. India is not an exception to it, hence, it is pertinent to analyse the magnitude and trend of foreign trade in India. As a matter of fact, the volume and value of India's foreign trade increased since 1950s. The magnitude of trade increased after the adoption of import substitution industrialisation which required heavy import of capital goods. Of course, import of food grains to meet internal shortages also increased the magnitude of trade. Along with imports, magnitude of trade was also increased due to increased exports. Exports increased manifold largely to meet the increased foreign exchange requirement to pay off the huge import bills.

5.3.1 Huge Turnover

One of striking features in India's foreign trade during post independence period was the phenomenal increase in turnovers (value of export and value of import). The total value of foreign trade in 1950-51 was Rs. 1,214 crores which increased to Rs. 3,169 crores in 1970-71 and to Rs. 5, 76,342 crores in 2004-05. The magnitude of foreign trade increased in absolute terms by 475 times since independence. The total value of trade was as low as Rs. 1,200 crores in 1950-51, which increased to Rs. 1,764 crores in 1960-61 and to Rs. 576342 crores in 2004-05.

5.3.2 Enormous Growth of Imports

The increase in magnitude of foreign trade was contributed more by the imports than exports. Import grew enormously by an absolute value around 450 times in between 1950-51 to 2004-05. The average value of import was Rs. 608 crores during 1950-51 which increased by to Rs. 12,549 crores during 1980-81and reached to the figure of Rs. 3, 33,907 crores during 2004-05. In all corresponding years the value of import was more than exports. This is revealed by the fact that balance of trade remained negative through out these periods. Further, except 1950-51 the magnitude of negative trade balance was enormous, it was Rs. (-2) crores during 1950-51 which increased to Rs. (-480) crores during 1960-61. Of course it reduced to Rs. (-99) crores during 1970-71 but it increased enormously to Rs. 27,302 crores during 2000-01, which further increased to Rs. (-91,472) crores during 2004-05.

Table 5.1 India's Foreign Trade (Rs. in Crores)

Year	Imports	Exports	Total value of Trade	Balance of Trade
1950-51	608	606	1214	- 2
1960-61	1122	642	1764	- 480
1970-71	1634	1535	3169	- 99
1980-81	12549	6711	19260	-5838
1990-91	43198	32553	75751	- 10645
2000-01	230873	203571	434444	-27302
2004-05	333907	242435	576342	- 91472

Source: Economic Survey 2004-05

Factors which led to growth of imports enormously are:

(a) Import of capital goods: Industrialisation of heavy import substitution industries was one of the ideals of the planning in India. This in its early phase required lumpy import of capital goods incurring heavy investment. Heavy import of capital began from second plan onwards and this contributed to increasing magnitude of foreign trade with negative balance.

(b) Import of food supplies: Till 1960s adequate food supply was not assured by the unproductive agriculture, hence, the internal shortages were met by importing food articles from abroad. This incurred heavy expenditures resulting into negative trade balance. In addition to it, the rising price of food grains imported from U.S. under PL 480, further deteriorated the condition.

(c) Hike in oil price: One of the crucial factors which affected the entire gamut of production is the oil price. Hike in oil price increased the production cost which is eventually carried over to trade front. Hike in oil price during early 1970s and during early 1990s due to gulf war increased the value of imports.

5.3.3 Modest Growth of Exports

Another contribution to the magnitude of foreign trade was provided by the exports. Though exports increased modestly, it too contributed to the growth of foreign trade. Exports increased by an absolute term of around 400 times in between 1950-51 to 2004-05, less than the absolute increase in import.

The average value of export was Rs. 606 during 1950-51 which increased to Rs. 6,711 crores during 1980-81 and further to Rs. 2, 42,435 crores during 2004-05. Slow growth of exports was due to several factors and many of them actually originated in developed capitalist countries. Indian exports were hindered either due to recessionary pressures in developed economies or else due to protectionist's measures of the counterparts.

Further, the export composition itself was one of limiting factor. India's export comprised largely traditional items having low price elasticity of demand. Hence, the terms of trade remained almost unfavourable through out. In addition to it, export pessimism and import substitution policy led to negligence of broadening the export base. Thus, when the world was switching over to export optimism, India remained silent and took upon import substitution which resulted into comparative disadvantage and perpetuated the inefficient production lines with gross misallocation of scanty resources, Culmination of these factors made India a traditional exporter and resulted into underdevelopment of the export base.

Check Your Progress - II

1. What was the value of foreign trade during 1950-51 and 2004-05?
2. In addition to the import of huge capital goods and food articles what was the other factor that increased the value of imports?
3. Was the growth in exports robust?

5.4 Terms of Trade

Terms of trade refers to the rate of exchange of exports to imports between domestic economy and the rest of the world. It gives us the rate in which the domestic commodities are exchanged with that of rest of the world. One of the disquieting facts of India's foreign trade is the deteriorating terms of trade since its early years of development.

Though the magnitude of trade is increasing on an average, the term of trade has been a deteriorating one. It reveals a picture where the value added is less than the quantity actually exported. Thus, despite the manifold increase in magnitude of trade the net real gain from trade has been a deteriorating one and the amount exported actually fetched less than proportionate values in real terms.

The table 5.2 reveals that quantity index for export rose from 59% during 1970-71 to 108.1% during 1980-81 and to 194.1% during 1990-91. It was 721.6 % during 2002-03. Correspondingly, unit value index rose from 45% to 108.5% and to 292.5% respectively, while it was 619.6% during 2002-03. The rate of change in quantity index was 0.45% for the period 1970 to 1981, while it was 0.44% for the period 1980 to 1991 and it was 0.73% for the period 1991 to 2003. The corresponding rate of change in unit value index was 0.59% for the period 1970 to 1981 while it was 0.63% for the period 1981 to 1991 and 0.53% for the period 1991 to 2003. Thus the rate of increase in quantity of exports has been to as high as 0.73% but the unit value index increase to only 0.53%. In fact, rate of unit value index which initially increased to 0.63% slide back to 0.53% but the rate of quantity index went on increasing from 0.59% to 0.73%. However, to fetch adequate resources the rate of unit value index should also gradually increase.

Declining rate of unit value index to increasing quantity value index imply that we are exporting more than what we get in return. In case of the imports the volume index was 67.2% during 1970-71 which rose to 137.9 during 1980-81and to 802.4% during 2002-03. On the other hand, the unit value index of import was 35.3 during 1970-71 and 134.2% and 545.6% during 1980-81 and 2002-03 respectively. The rate of change in quantum index of import for the period from 1970 to 1981 was 0.51% and for the period 1981 to 2002-03 was 0.83%, while the rate of unit value index increased at the rate of 0.74% during 1970 to 1981 and was 0.75% during 1980 to 1991. Here too, the unit value index increased more than the quantum value. Greater rate of increase in unit value of import implies that monetary burden exceeded physical import, thereby causing limited import but greater expenses. The serious matter of concern is the behaviour of terms of trade. For most of the years since 1950s there was large fluctuation in terms of trade but more prominent was the deterioration of terms of trade. The terms of trade either in gross terms of trade, or net terms of trade or income terms of trade all have been fluctuating over the period of time.

The income terms of trade were 69.6 during 1969-70 and remained below 100 for the whole period preceding 1976-77. It increased marginally to 106.2 during 1977-78 which again fell back to 100 during 1978-79. Only after 1980-81 it remained, though marginally, but consistently above 100. Recently since 1990-91 income terms of trade was favourable and remained practically above the figure of 200. It was 212.2 during 1990-91 which increased to 446.0 during 1994-95 and to 732.0 during 2000-01. Thus, the term of trade was fluctuating since early and this produced an effect on an average which led to deteriorating terms of trade. The internal liberalisation of 1980s did effect the terms of trade favourably, but final jolt was given by the external sector liberalisation brought by economic reforms in 1991. Hence, the terms of trade in recent years can be seen as favourable.

Check Your Progress - III

1. The term of trade for India is favourable. True or False.
2. Is the term of trade increasing or decreasing one?
3. Declining unit value index in relation to increasing vale of quantum index imply more returns than actual exports. True or False.

Table-5.2 Index Number of Foreign Trade (Base : 1978-79=100)

Year	Unit Value Index		Volume Index			Terms of trade	
	Exports	Imports	Export	Import	Gross	Net	Income
1	2	3	4	5	6	7	8
1969-70	44.0	35.2	55.7	64.9	116.5	125.0	69.6
1970-71	45.0	35.3	59.0	67.2	113.9	127.4	75.2
1971-72	46.0	32.8	59.2	80.6	136.1	140.2	63.0
1972-73	51.2	34.2	66.5	76.7	115.3	149.7	99.6
1973-74	62.2	48.9	69.5	87.2	125.4	127.2	88.4
1974-75	78.0	84.5	73.7	77.2	104.7	92.3	68.4
1975-76	83.9	99.1	81.7	76.0	93.0	84.7	69.2
1976-77	89.4	96.3	96.8	76.1	78.6	92.9	89.9

1977-78	100.3	88.0	93.2	100.0	107.3	114.0	106.2
1978-79	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1979-80	105.4	114.1	106.2	116.4	109.7	92.4	98.1
1980-81	108.5	134.2	108.1	137.9	127.6	80.8	87.3
1981-82	124.1	133.1	110.1	150.6	136.8	93.2	102.6
1982-83	132.0	136.3	116.7	154.6	132.4	96.8	113.0
1983-84	151.0	125.8	113.0	185.4	164.1	120.0	135.6
1984-85	169.8	161.7	120.8	156.1	129.2	105.0	126.8
1985-86	170.8	158.8	111.3	182.3	163.8	107.6	119.8
1986-87	179.4	139.4	121.3	212.3	175.0	128.6	156.0
1987-88	195.4	160.0	140.0	204.8	146.3	122.1	170.9
1988-89	232.2	185.5	152.1	124.2	147.4	125.2	190.4
1989-90	276.6	228.4	174.9	227.8	130.2	121.1	211.8
1990-91	292.5	267.7	194.1	237.7	122.5	109.3	212.2
1991-92	369.5	309.1	208.6	228.0	109.3	119.5	249.3
1992-93	421.5	331.0	222.9	282.0	126.5	127.3	283.8
1993-94	474.1	327.2	257.5	329.1	127.8	144.9	373.1
1994-95	494.6	324.6	292.7	408.3	139.5	152.4	446.0
1995-96	484.2	351.0	384.3	-514.8	134.0	137.9	530.0
1996-97	504.7	399.8	411.8	511.8	124.3	126.2	519.7
1997-98	589.4	404.2	386.0	562.1	145.6	145.8	562.8
1998-99	611.7	407.8	399.2	644.2	161.4	150.0	598.8
1999-00	604.5	450.5	461.0	704.8	152.9	134.2	618.7
2000-01	624.3	487.5	571.4	697.7	122.1	128.1	732.0
2001-02	618.0	492.9	592.7	732.8	123.6	125.4	743.2
2002-03	619.6	545.6	721.6	802.4	111.2	113.6	819.7

Source: Economic Survey 2004-05

5.5 Composition of Trade

Composition of trade indicates what has been traded with rest of the world so far. It signifies the categories of different goods and services that are being traded so far. Imports indicate incapability of a nation in producing those commodities. In addition, it also exhibits how much and to what extent a deficient nation has to procure it from other sources.

Contrarily, export reveals nation's capacity to produce surplus and offer for trade. Composition of trade, therefore, also reflects the capacity of production base and level of development of a nation. Industrialised nations may export capital and industrial outputs to rest of the world, while developing nations may export primary and traditional outputs.

India embarked upon planned process of development in 1950s. Objectives of planning were to develop the heavy and basic industries. Hence, it required import of lumpy capital. Trade being a sequel to industrial production influences the composition of trade significantly. Composition of India's trade is discussed below:

4.5.1 Imports

In the import front there has been successive increment in value of trade both in quantitative and qualitative terms. However, the dominating components within the imports are discussed below:

4.5.1.1 Capital Intensive Imports

Rapid industrialisation and infrastructural development was one of the major objectives of Planning in India. Therefore, it had to import huge amount of capital goods. This largely comprised manufactured metals, non-electrical apparatus and appliances as well electrical machinery. The value of capital import increased from Rs.283 crores in 1960-61 to Rs. 337 crores in 1970-71 and further to Rs. 8796 crores in 1990-91. It was Rs.20, 928 crores in 1990-91 and increased to Rs. 32,908 crores in 2003-04.

Another significant composition was that of transport equipments. It practically increased from Rs. 72 crores in 1960-61 to Rs. 472 crores in 1980-81. It further increased to Rs. 1670 crores in 1990-91 and to Rs. 4353 crores in 2000-01. It was Rs. 14,833 crores in 2003-04.

The industrialisation based on import substitution necessitated heavy import of capital goods. Industrialisation, in turn, requires development of infrastructural facilities. Hence, the import of capital goods inclusive of transport equipment was and is still an important import component.

4.5.1.2 Raw Materials and Intermediate Manufactures

The industrialisation based on import substitution necessitated the import of raw materials and intermediate manufactures. Prominent among it were crude rubber and synthetic, pearls, semi-precious and precious stones, and non-precious metals.

Import of crude and synthetic rubbers was 36.2 thousand tonnes in 1960-61 which decreased to 7.8 thousand tonnes in 1970-71 but increased gradually thereafter. It was 26.2 thousand tonnes in 1980-81 which increased to 105.1 thousand crores in 1990-91 and eventually to 218.7 thousand tonnes in 2003-04.

Precious, semi-precious stones and pearls which had an import value of Rs. 1 crore only in 1960-61 increased to Rs. 25crore in 1970-71. It increased exorbitantly to Rs. 417 crores in 1980-81 and then to Rs. 3738 crores in 1990-91. It was Rs. 32,757 crores during 2003 -04. Import of non-ferrous metals too increased from a value of Rs. 47 crores to Rs. 119 crores from 1960-61 to 1970-71. This further increased to Rs. 477 crores in 1980-81 and to Rs. 1102 crores in 1990-91 and Rs. 2462 crores in 2000-01. It was Rs. 35,866 crores in 2003-04.

4.5.1.3 Food Articles and Consumers' Goods

Food articles constituted a significant proportion of imports since early years. Imports of foodgrains and consumer', goods accounted nearly 40% of total imports during early 1950s but it gradually declined over the period of time. It accounted around 2% of total import during 1990-91. However, significant increase in import increased by 1990s due to heavy imports of edible oil comprising vanaspati, animal fat and other edible oils. Though cereal and cereal preparation was imported the total quantity imported during 2003-04 was only 34 thousand tonnes accounting only 1% of total imports.

4.5.1.4 POL (Petroleum, Oil and Lubricant)

Petroleum, Oil and Lubricants ranked high in India's import since early days of industrialisation. The quantity imported during 1960-61 was 800 thousand tonnes which increased to 29,359 thousand tonnes in 1990-91. It was 99495 thousand tonnes during 2003-04 which incurred an expenditure of Rs. 94520 crores.

4.5.2 Exports

In case of exports, a noteworthy feature is the declining significance of traditional items. It signifies an industrial base which is diversified and capable of importing surpluses. The compositions of exports are discussed below:

4.5.2.1 Substantial Exports of Tea and Coffee

Tea and Coffee constitute important item of India's export. The combined export earning during 1960-61 was Rs. 131 crores which increased to Rs. 640 crores during 1980-81. During 1995-96 the export earning from tea and coffee was Rs. 2674 crores and by 2003-04 it increased marginally to Rs. 2,703 crores.

4.5.2.2 Significant Exports of Ores and Minerals

Significant contribution to export composition was provided by the exports of ores and minerals. Significant amount of iron ores were exported abroad. Exports of iron ores were 3.2 million tonnes in 1960-61 which increased to 21.2 million tonnes in 1970-71 and to 20161.4 million tonnes in 2000-01. In 2003-04 the earning from exports of iron ore was Rs. 5173 crores, which is a significant amount.

4.5.2.3 Exports of Garments and Handicrafts

The above exports constitute traditional exports of India. In recent decades however, India has begun to export non traditional items too. Significant among them are garments and handicraft as well the capital goods.

In recent years, the exports of garments and apparel have significantly improved. The Indian export of garments which was only Rs. 9 crores during 1970-71 increased to a record level of Rs. 18,300 crores during 1998-99.

Exports of handicraft assumed significance since early times. However the amount exported increased manifold in recent years. The value of export was Rs. 70 crores during 1970-71 which increased to Rs. 29,330 crores in 1998-99. Important among the handicrafts were the pearls and the semi-precious and precious stones. The value of export was around Rs. 3,100 crores during 1985-1990, which during 1998-99 alone increased to a level of Rs. 29,330 crores.

4.5.2.4 Capital Goods

Capital goods like machinery, transport and other metal manufactures significantly contribute to export base of India. This category also includes electronic goods and software gadgets. This category of export is gaining importance in recent times. Even by 1980-81 export of capital goods was only Rs. 800 crores but during 1990-91 it increased to Rs. 3870 crores. By 2000-01 it further, increased by more than Rs. 18,500 crores, accounting around 13% of total exports.

Check Your Progress - IV

1. What was the value of imports for capital goods during 1960-51 and 2003-04.
2. India was always a food surplus country; it never imported food articles. True or False.
3. Which item ranked highest in value of imports?
4. India exports only traditional items. True or False.
5. What amongst handicraft is the most important item of exports?

4.6 Direction of Trade

Direction of trade implies the flow of exports and imports from rest of the world to domestic country and from domestic country to rest of the word. In order to study the direction of trade, we classify the countries of the world OECD, OPEC, Eastern Europe, and Other countries.

4.6.1 Direction of Exports

Direction of trade changed remarkably since independence. The largest share of Indian exports went to OECD countries. But it gradually declined from 66.1% of the total exports in 1960-61 to 46.6% in 1980-81. It further declined to 46.4% in 2003-04. A significant part of India's export also went to Eastern Europe. However, the share of exports from India to Eastern Europe increased from 7% in 1960-61 to 22.1 % during 1980-81 but declined thereafter. It was only 2.4% of total exports during 2000-01 which declined further to 1.8% of total exports during 20003-04.

A note worthy feature of exports from India is the increasing share of OPEC nations. It increased from 4.1% of total exports in 1960-61 to 11.1% of total exports during 1980-81. During 2003-04, the share of India's exports to OPEC nations was 15% of the total exports. The developing world too ranked high in sharing Indian exports. It was 22.8% during 1960-61 which increased to 34% during 2000-01. It further increased to 36.8% during 2003-04. Thus, the significance of traditional partners of India's exports is relatively declining, while other newer destinations are finding more significance.

4.6.2 Direction of Imports

In the import front too, the direction of trade changed remarkably. Though imports from OECD nations are still prominent, India's share in imports from OECD nations is declining relatively. India imported 78% of the total imports from OECD nations during 1960-61 which declined to 54% during 1990-91 and further to 37.8% during 2003-04. Of course, the share of imports from OPEC nations too, declined. The share of imports from OPEC nations which was 4.6% during 1960-61 increased to 27.8% during 1980-81 but it declined significantly to 5.4% during 2000-01. During 2003-04 India's imports from OPEC nations increased marginally to 7.2%.

Imports from Eastern Europe which was 13.5% in 1970-71 declined to 10.3% during 1980-81 and to 7.8% during 1990-91. It declined drastically thereafter to 1.4% during 2000-01 and to 1.3% during 2001-02. Imports from other developing world however, increased significantly. During 1960-61 the share of India's import from developing nations was 14%, which increased to 16.2% during 1980-81. Since 1990-91 India's import from developing nations increased manifold, it was 21.9% during 1990-91 which increased to 53.5% of the total imports during 2000-01. During 2003-04 India's import from developing nation increased further to 53.4% of total imports.

Thus, even in import front traditional partners are losing relative significance, while the newer partners, mostly developing nations are gaining importance. In fact, the overall dependence on import itself is declining. It is largely due to the capacity to produce adequate amount of import substitutes within the economy itself consequent upon the Import substitution industrialisation. The relatively declining significance of traditional partners reveals the capacity of diversification.

Check Your Progress - V

1. Which nations ranked high in India's share of exports?
2. Is the share of India's export to Eastern Europe increasing or decreasing after 1980-81. What was India's share of export to Eastern Europe during 2003-04?
3. The share of India's export to OPEC nation is declining. True or False. What was its share in India's share of exports in OPEC nations during 2003-04?
4. What is the share of India's import from developing countries during 2003-04?
5. India's import during last decade increased in OPEC nations, True or False.
6. What was the share of India's import from Eastern Europe during 2001-02?

5.7 Balance of Payments

BoP (Balance of Payments) is usually a record format which states the annual monetary values of all transactions in a country with rest of the world. The Indian format divides the entire transactions into two broad categories : current account and capital accounts.

It is the annual statement of final goods and services transacted between a domestic nation and the rest of the world. It is a list of items, inclusive of the visible and invisible goods and services which is imported and exported during a year. It is noted that balance of trade differs from balance of payments, and should not be confused with. Balance of trade includes only the visible items which are traded during a year and do not the invisibles like factor services.

Balance of payments is further classified into current and capital accounts. The current account includes the balance of trade and the net invisibles, the summation of which gives the current account of balance of payments. The net value of visible and invisible items or the net value of goods exported and imported and the net value of receipt and payments on invisibles constitutes the current account. The capital account, on the other hand, systematically records the capital transactions, both short and long term, private and governmental capital flows. Capital flows comprise foreign investments, loans, net banking profits, rupee debt service and other capital flows. The format may, however, differ from country to country.

5.7.1 Trends of BoP in India

The Balance of Payments (BoP) situation in India, prior to independence was favourable one. However, since 1950-51 the BoP situation became sharply unfavourable. There is enormous deficit in the Balance of Payments, which increases continuously. The major factors contributing to this fact are:

5.7.1.1 Current Account

One of the reasons of deficit in BoP was the serious deficits in the current account beginning right from the adoption of planning 1950-51. The rise in deficit was almost un-interrupted which accelerated over time and culminated into crisis in 1990s. During the first plan the deficit in balance of payments was Rs. 32.5 crores which was, of course, manageable. But by second plan, it increased to Rs. 344.7 crores, ten times compared to first plan. It went on increasing subsequently during third, fourth and the fifth plans. During third plan it was around Rs. 615 crores; three times of second plan. By fourth plan period it increased to Rs. 792 crores which further rose during fifth plan to a figure of Rs. 834.9 crores. However, even a sharper rise in deficit in current account took place during 6th and 7th plan period. The deficit increased to Rs. 3,062 crores and to 4,985.2 crores in each respective plan.

The current account deficit was Rs. 17366 crores during 1990-91 and Rs. 11,598 crores during 2000-01. But since 2001-02 current account witnessed positive balance. The positive balance was Rs. 16426 during 20001-02 and Rs. 30660 during 2002-03. The positive current account surplus further reached to the figure of Rs. 47,952 during 2003-04. Thus, till 2001-02, there was current account deficit but it improved thereafter. Deficit in current account shows that the country incurs huge loss in trade front.

5.7.1.2 Capital Account

Earlier, during planned regime, capital account too suffered deficit till 1989-90. However, as a part of economic reforms, the capital account deficit was corrected by liberal measures. The capital account recorded robust increase since 1990-91. It was around Rs.12, 895 crores during 1990-91 which increased to Rs. 48,101 crores during 1999-2000. It further increased robustly to Rs. 39,238 crores during 2000-01 and to Rs. 96,042 crores during 2003-04. The robust capital account surpluses after 1990s have resulted into current account surplus. In fact, the increased capital inflows have been a major factor in evening out the deficit in current account. During 1990-91, the current account deficit was Rs. 17,366 crores and the capital account surplus was Rs.12, 895 crores, resulting into an overall deficit of Rs. 4,471 crores. But during 1997-98, the deficit in current account was evened out positively due to robust inflow of capital. This is reflected by the fact that, while current account deficit was Rs. 20,883 crores, capital account surplus increased to Rs. 37,536 crores resulting into a surplus overall balance of Rs. 16,653 crores. During 2000-01, the surplus in overall balance was Rs.27, 640 crores i.e. capital account surplus (Rs.39,238 crores) less current account deficit (Rs. 11,598 crores). Since, 2001-02 the current account too had surpluses and the overall balance increased thereafter. During 2003-04, current account surplus was Rs. 47,952 crores while the capital account surplus was Rs. 96042 crores, thus yielding a surplus overall balance of Rs.1, 43,994 crores.

5.7.1.3 Contribution to Deficit

The Balance of Payments deficit originated in almost all fronts in current account and capital account since 1950s but it improved during 1990s. The major contribution to deficit in BoP was inflicted by the unfavourable balance of trade (the net merchandise exports or net value of visible exports). Balance of trade reminded negative through out the major part. In case of net invisibles also, it had remained a negative item, implying more payments than the receipts. These added up to overall deficits in BoP account. However, deficit in net invisible was for fewer years and remained marginally positive for most of the years. During certain times it increased sizeably to even out the deficits in BoP. Net invisibles have been, therefore, a helpful element in reduction of BoP deficit of current accounts. Similarly, capital transactions, though minimal, helped the reduction of deficits generated by the unfavourable balance of trade (net merchandise exports).

5.7.1.4 Deficits in Trade Balance

Unfavourable balance of trade persisted, long back since 1951. With the passage of time, it increased substantially and perpetuated even till recent years. Deficits in trade balance have been thus a major contributing factor in the creation of over all deficits in BoP.

During first plan, the balance of trade was negative with a deficit of Rs. 541 crores i.e. the import exceeded the export by Rs. 541 crores. The deficit or negative balance of trade went on increasing to Rs. 2,339 crores in second plan and to Rs. 2,384 crores in third plan. During fourth plan, negative trade balance was reduced to a substantial amount which too was however large, Rs. 813 crores. The balance of trade during 5th, 6th, 7th and 8th plan period remained negative at Rs. 4,049 crores, Rs. 2, 8,242 crores, Rs. 38,688 crores and Rs. 88,066 crores respectively. During the 9th plan the deficit in balance of trade was Rs. 45,854 crores. Thus, even after liberalisation deficit in trade balance was intact, rather it increased in an increasing rate.

The deficit or negative balance of trade during 2000-01 was Rs. 56,737 crores while during 2001-02 it was marginally reduced to Rs.54, 955 crores. Balance of trade was reduced marginally but remained negative during 2002-03 at around Rs. 51,697 crores, which again rose to a figure of Rs.71, 335 during 2003-04. Thus the deficit in balance of trade throughout the years resulted into unfavourable situation in overall BoP.

Check Your Progress -VI

1. India never had a negative BoP., True or False.
2. From which year the current account in BoP earned surplus?
3. What was the amount of current and capital account surpluses during 2003-04?

   Did the BoP enjoy surplus?
4. What contributed most to the deficit?

5.7.2 Problems created by Balance of Payments

The continuing deficit in Balance of Payments led to a situation of crisis in 1990s. Adding fuel to the fire, the gulf crisis and resultant hike in oil price further increased the general price world over. Resultantly the value of imports and exports increased due to increased production cost, and expanded further the deficits in Balance of Payments. The value of import in oil rose from a modest Rs. 499 crores in mid July to Rs. 1221 crores by September and so for the successive five months. Correspondingly the Balance of Payments deficit expanded from Rs. 619 crores per month to Rs. 1990 crores during the same period. In addition to it, the remittance from gulf stopped and led to foreign exchange crisis creating further difficulties in Balance of Payments.

In addition to it, the planned process of development with inward orientation was one of the major factors that had substantially implicated the crisis. Developmental finances relying on deficit budget not only proved inflationary but also led to huge cost in debt servicing. The culmination was but obvious, and the liquidity crisis of 1991 was a natural outcome. International institutions and agencies lost their confidence due to India's debt liability and the Washington institutions pressed on to carry out a comprehensive policy reforms. This resulted in the economic reforms in 1991. The serious problems posed by enormous deficits in Balance of Payments affected the economy's performances adversely. The problems created are discussed below:

5.7.2.1 Enormous Size of Deficits

The serious problem posed by deficits in BoP was its enormous size. The deficit as a proportion of GDP was as high as 3% for most of the years. This culmination resulted into huge amount in debt re-servicing and India was running out of foreign exchange reserves. As a consequence, even the IMF and World Bank lost their confidence in India's economic performances, not to speak of other institutions. Comparatively the export performance remained comparatively low at around 5% of GDP annually, but against it import as a proportion to GDP was as high as 12% of GDP. Practically the import exceeded by a wide margin than exports and surpluses generated were as low as 1 to 2 percent of GDP. Though low, it helped in evening out the deficits in some years but this surplus too was found only in case of invisible trades.

5.7.2.2 Reduction of Foreign Exchange Reserves

Large deficits in BoP exhorted immense pressure upon the scarce and valuable foreign exchange reserves. Depletion in exchange reserves resulted into unfavourable terms of trade due to relatively larger demands in meeting the obligations. Hence, required foreign exchange had to be managed from other sources on different terms and conditions. The reserves comprise foreign currency with RBI, Gold holdings of RBI and SDR (Special Drawing Rights) provisioned by IMF. Consequently, the reserves were reduced drastically even below the minimum level requirement. Though the rights to draw from IMF are reserved freely by a nation, prudence lies in keeping some proportion reserved to meet the normal fluctuation of trade and for contingencies arising in trade. Further, some reserves must be kept as minimum to meet the merchandise imports at any time, which was not the case with India. Moreover, reserves owned by international agencies are tied with interest repayments and penalty imposition on defaults. Keeping these in view, foreign exchange reserves should be adequately utilised with minimal demand for it, but the Indian scene was just contrary. Quite often, the reserve was too small, inadequate to provide even a reasonable amount of imports or in meeting debt obligation on current account. Even more critical was the fact that, for years there was no addition to exchange reserves which resulted in precarious situations many a times.

5.7.2.3 Indebtness

The adverse BoP situation resulted into the state of indebtness. The huge Balance of Payments liability could only be met only by borrowing from external agencies, donor countries as foreign aids and at most from commercial sources of credits. Of these the major debt assistance was in the form of external assistance from the agencies. External debt during 1980-81 was $ 23.5 billion around 14.3% of GDP during the time. This debt increased to $ 98.4 billion in 2000, an increase by 4 times which was 21.9% of the GDP in 2000. The burden of debt services assumed a serious proportion; it was 10.2% of GDP in 1980-81 which increased to 16% in 1999-2000 GDP. In addition to it, debt servicing and repayments require foreign exchange reserves rather than domestic currency, which was not adequate in amount.

The adverse BoP increased the debt burden unreasonably high and resulted in loss of confidence in India's debt liability. Thus, liquidity crunch of the economy shattered the confidence of international agencies providing debts, grants and aids.

Check Your Progress - VII

1. What the size of deficit in BoP?
2. Deficits in BoP do not affect the foreign exchange reserves of a country, True/False.
3. What was the proportion of debt servicing to the GDP during 1999-2000?

5.7.3 Causes of Adverse Balance of Payments

Continually adverse Balance of Payments resulted into numerous factors operating interdependently in exclusive ways. Prior to independence, BoP situation was favourable but immediately after 1951 onwards, it started deteriorating. The factors causing adverse BoP situation are discussed below:

5.7.3.1 Sharp Rise in Imports

Since second plan onwards, there was manifold rise in imports of developmental goods-capital goods- particularly due to industrialisation and infrastructural development. In the initial stages of development the capital goods comprising machines, tools, equipments and plants, required to establish heavy industries resulted in sharp rise BoP deficits. Later, since mid-1960s, imports largely constituted of maintenance goods-spare parts, lubricants, and other services, etc. Both these factors led to enormous deficit due to non-corresponding exports. Again after 1985 onwards, India took upon massive import of latest technology and modern equipments to upgrade the domestic industries, which too, added to sharp rise in BoP deficits.

5.7.3.2 Population Growth and Food Requirement

Rapid growth in population threatened food security up till 1960s and the country had to import substantial amount of food articles to meet the internal shortages. The import of food grains reached the peak level of 10 per cent of total requirement during 1960s; this incurred heavy expenses on import which adversely affected the BoP situation. Further, with a large population base, the overall growth rate of population which remained practically above the average of 2% per annum quintessentially meant enormous imports of food articles. In this regard, the import of cereal and cereal preparation, and edible oils, which had been an important import till late 1980s incurred enormous amount and contributed to adverse BoP situations. The new policies on oilseed production taken up later in 1985 reduced the import of oilseeds substantially, though it still forms quite sizeable amount of imports.

5.7.3.3 Unfavourable Balance of Trade

India's exports mainly comprise the primary produces and traditional items, while its imports comprise non-traditional industrial items. The terms of trade in case of the primary produces are often unfavourable. Further, in case of traditional exports too, the terms of trade remained almost unfavourable. Thus, the country despite exporting substantial amount of outputs could not realise adequate returns to repay the imports. This resulted into inadequate foreign exchange reserves and deficit in Balance of Trade, and finally to deficit in overall balance of payment (BoP). Even in the last few years the terms of trade for Indian goods have declined considerably, the net and gross terms of trade sharply declined by about 25% (net terms of trade). Such deterioration in terms of trade resulting into unfavourable Balance of Trade was one of the prominent contributors to adverse BoP situations.

5.7.3.4 Oil Price

One of the factors which increase the value of all trades is the hike in oil prices. A hike in oil price leads to hike in cost, both of production and transportation, which is carried over to trade front thereby causing increment in the value of BoP. However, the burden becomes more pronouncing in developing nations, as they largely export primary produces, unaffected proportionally by hike in oil prices. Further, developing countries also have low foreign exchange reserves which cannot withstand such fluctuations of trade. India surpassed exactly these situations. The hike in oil price during 1973 led to huge import bills as prices rose by 8 times that of 1950-51. In addition to it, 1973 was an abnormal year for India (due to war against Pakistan), hence, the oil crisis of 1973 could not be withstand. During post gulf crisis in 1990s, the oil price soared up again, increasing enormously the price level from 3 to 7 times, thus widening the deficit in BoP. Thus, in the light of limited foreign exchange reserves the hike in oil price adversely inflicted the BoP situations in India.

5.7.3.5 Modest Export Growth

Huge imports would not have been a trouble and deficit generating one, if export base was broadened simultaneously and substantially, if not equally. No doubt, export has been increasing since early days, but it is limited to primary and traditional produces which either fluctuates in quantum or else do not fetch adequate foreign exchange. Thus, inadequate foreign exchange base and huge imports widened the adverse BoP situations even more. Hence, the modest growth of exports could no tone down the big magnitude of deficits.

Recently, the non-traditional items like, engineering, iron and steel, chemical and allied products started figuring in exports. Though shortly, some improvements in BoP is therefore taking place. Further, the devaluation of rupee firstly in 1966 and later in 1991 boosted up Indian exports to some extent and thereby increasing foreign exchange reserves.

5.7.3.6 Small Export of Invisible Items

The earnings from services or invisibles helped in reducing the BoP deficits in the initial years of development and played a significant role to even out the deficits. But this was to limited extent without surplus generation. In the recent years, contributions of invisibles in reducing deficits has declined largely and have resulted into weakening capacity of invisible earnings to even out deficits in BoP. During the sixth plan, the net earning from invisibles was capable to offset 60% of deficit in trade balance but this has greatly been reduced in recent years. In fact, the ratio of earnings from invisibles to wipe off deficit in trade balance itself shrunk to 57% in 1984-85. It shrunk further to 32% in 1987-88 and by 1992-93 it was reduced substantially to a low level of 9%.

5.7.3.7 Capital Account Deficit

One of the major sources of deficit in Balance of Payments is the rising obligations in meeting overdue payments on capital transactions. Of the number of sources, namely private and government capital transaction, amortisation payments, purchase of currencies and banking capitals, the major source of deficit was the rising obligation to meet amortisation payments. Amortisation payment required lumpy foreign exchange reserves to pay off the loans and interests thereon. In addition, capital transactions by the government and banks too added to deficit in BoP. Private capital transactions have, however, witnessed surpluses since 1980s. Hence, the private capital transactions have helped, to some extent, in reducing deficits in BoP. Deficit in BoP would have been much more pronouncing had the private capital transfer, not earned surpluses.

Check Your Progress - VI

1. During early years of planning India imported only food grains.True or False.
2. The term of trade for primary produces are always favourable. True or False.
3. What was the extent of rise in general price during post gulf war?
4. What other than capital inflows caused deficit in capital account of BoP?

5.7.4 Policies Initiated by Government

To over come these problems of continual deficit in country's BoP, the government undertook several measures. Some of the significant measures, undertaken to do away with the adverse BoP are discussed below:

5.7.4.1 Crisis Proofing

One set of policy measures initiated during early part of 1990s to deal with the BoP crisis was crisis proofing. It was expected that it would immediately do away the adverse BoP situations. The crisis proofing basically included three set of actions, one, the gold available in the country's stock was used to meet the debt repayment obligations. In fact, 20 percent of confiscated gold under the possession of state governments was sold by government of India to Swiss Bank in May 1991. Of course, the sold out was carried under the condition to repurchase it back. Another 47 tonnes of gold was sold out to Bank of England in July 1991, against equivalent amount of foreign exchange which was raised from England and Japan. These two transactions enabled the government to raise 600 million dollars.

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Two, the demand for foreign exchange requirement was reduced by compressing import. A cash margin on imports was imposed on every import, except capital goods which too had to be sourced from foreign credit agencies. In fact, RBI imposed a cash margin (deposit) of 50% on imports other than capital goods by October 1990, which was raised to 133.3 percent in March 1991 and by April 1991 to 200 percent. Imports of capital goods were allowed only against those which were sourced from foreign credit sources. A surcharge of 25 percent of the cost on petroleum products, except domestic gas, was imposed by December 1990 along with the rise in ancillary custom duties. In May 1991, the RBI imposed a surcharge of 25 percent interest on bank credits used in imports.

Three, in order to meet the immediate and future BoP needs and to relax the restrictions on imports, finances were sought from Financial Institutions like, IMF, World Bank and ADB (Asian Development Bank) and the donor countries. Besides, government of India also introduced two schemes; India Development Bond and Immaturity Scheme, for repatriation of the funds abroad, and to encourage foreign capital inflows.

5.7.4.2 Devaluation

The other important measure to correct the BoP deficit was devaluation or downward adjustment of exchange rate of rupee. The reduction in exchange rates of rupee or devaluation was done to a sizeable extent; rupee was devalued to the extent of 18 to 20 percent in terms of major currencies like Dollar, Pound-sterling, Yen etc. in two successive phases during 1991. This step was to boost up Indian export by making the international price of Indian exportable less than the international price so that the deficit in BoP is evened out.

5.7.4.3 New Trade Policy

A new trade policy was introduced to remove the administrative controls, controls exhorted due to exports regulations, rigid exchange rates and custom procedures. By March 1993 full convertibility of rupee on trade account was permeated. Moreover, it permitted full convertibility of rupee in current account of BoP by March 1994. A new mechanism of free exchange rate was introduced to balance the trade deficits. Under this mechanism, the exchange rate was to be determined by demand for and supply of foreign exchanges in free market. Thus, a self balancing factor was introduced wherein the import would automatically be restricted if foreign exchange reserves are not available.

5.7.4.4 Industrial Liberalisation

The government also introduced, as a part of economic reforms, a new strategy for industrialisation. The objective was to induce the competitive market forces to stimulate efficiency in domestic industries. Licensing was done away, in case of most of the industries and the reserved areas for public sector were successively narrowed down. Greater encouragement was attached to private capital participation in industries. The liberalisation encouraged increased foreign capital investments and the increased capital inflow relaxed the burden of adverse BoP situations.

These policies adopted by government, have yielded some results. There is some improvement in the BoP situations. The assistance extended by international financial institutions and donor countries also increased manifold. Moreover, the foreign exchange reserves improved to a lot; as on November 2005 the foreign exchange reserve with India was Rs.5, 73,812 crores equivalent to US $128,226 million. However, the situation is still sensitive as most of the reserves come through loans and borrowings. The lasting solution, therefore, lies in the expansion of country's export base within specific time frame, so that adequate foreign exchange reserves are created.

Check Your Progress - VII

1. How many sets of actions were taken under crisis proofing?
2. What is devaluation?
3. The crisis led to rigid control of exchange rates. True or False?

5.8 WTO (World Trade Organisation)

The WTO or World Trade Organisation came into being on January 1995, as a consequence of 8th round of GATT (General Agreement on Tariffs and Trade), also referred to as Uruguay Round. The 8th round of GATT was held at Punta Del Este in Uruguay during 1986. This round continued for another 8 years to arrive at conclusion and a draft known as Dunkel Draft, was finally prepared and approved on 15th April 1994. The draft provided for formulation of a new institution called the World Trade Organisation. The approved draft was functional from 18th January 1995 with 77 member countries. By 1996 the member countries increased to 127 and to 148 by 2003.

Often WTO is considered as an extension of the GATT which is not true. WTO completely replaces the GATT which was, in fact a general agreement without legal status. WTO is rather an institutional organisation, established by an international agreement and ratified by the respective legislatures of the member countries. Thus, being ratified by the governments of respective member countries, WTO has a legal basis. Further, the GATT was concerned with visible items of trade and not with the invisibles trade or services, whereas WTO is concerned with both the nature of trade-visible and invisible goods and service. In addition, WTO takes care of Trade Related to Intellectual Property Right (TRIPS) and Trade Related Investment Measures (TRIMS), which GATT did not envisage.

5.8.1 Structure of WTO

WTO is a well defined structural organisation with various councils, committees and panels. The highest authority in WTO is held by the Conference of Ministers or else also known as Ministerial Conference of Member countries. The conference is held at least once, after every 2 Years.

There is also a General Council which is a body responsible for the functioning of the organisation. It comprises the representatives from member countries. Within the General Council, there functions three different council's namely, i) Council for trade in goods, ii) Council for trade in services, and iii) Council for trade related intellectual property rights. Further, disputes amongst member countries are settled and taken care of by the General Council and by the Committee for Review of Trade Related Policies.

5.8.2 Objectives

The objective to World Trade Organisation can be summarised as below:

1. To ensure and raise the Standard of Living of member countries through full employment, expanding production base and trade in goods and services.
2. To develop a multilateral trading system in an integrated, viable and sustained basis.
3. Sustainable Development of member nations through efficient resource allocation and utilisation
4. To ensure welfare and prosperity by parting income shares from the growing international trade to developing economies
5. To reduce trade impediments and discriminatory treatment in international trade between member countries
6. To ensure proper linkages between trade policy and environment and assuring a sustainable development.

5.8.3 India and WTO

As a result of World Trade Organisation a new system of multilateral trade was introduced internationally. Global perception of trading system is supposed to benefit the developing countries more by linking the developed markets with the developing world. This process is not an exception to India, hence, it is pertinent to discuss the emergence of India in the WTO.

No other issues in recent time, than the new international economic order have generated so much of scholarly interest. The likely repercussion of new international economic order, in the light of global trading system, led to emergence of enormous debate in India. The debate concerned much about the content and pace of reforms rather than its oppositions. The Uruguay Round and consequent outcome of WTO was expected to bring out substantial gains in the world trading system. The multilateral trading system demanding increased openness was supposed to increase the incomes of member nations. Greater market access, export opportunities and better predictable environments for trade was supposed to increase efficiency in allocation and production. Ultimately such efficiency will result in gains from trade. However, critics vehemently opposing the global integration argue that, the developed nations that would benefit more and developing ones will operate in the peripheral areas with limited gains.

Whatever be the outcomes, disadvantages always crop up along with advantages. The bottom line lies in the commitment that India has to make as a member country and the relative outcomes of such commitments. In this section we analyse how the global integration impacted upon the Indian economy as a whole.

As a member nation of WTO, India commitments are discussed below:

5.8.3.1 Reduction in Trade Impediments

As the WTO framework ensures a multilateral trading system, each member nation has to reduce the trade restrictions to nominal level. Under this clause to reduce the trade impediments, India committed herself to reduce both the types of restrictions tariff lines as well the Quantitative Restrictions (QRs).

5.8.3.1.1 Tariff Lines

As a member nation India bound around 67% of its tariff lines whereas prior to Uruguay Round only 6% of the tariff lines were bound. In case of non-agricultural commodities, ceiling bound of 40% advalorem tariff on finished goods and 25% on intermediate, machinery and equipment was undertaken. India also phased out the peak tariff rates from 355% in 1990-91 to 50% in 1998-99.

5.8.3.1.2 QRs (Quantitative Restrictions)

QRs on imports on the ground of adverse BoP were notified in 1997 to WTO. An item list comprising 2,714 tariff lines at eight digit level of trade clarifications was being submitted to WTO on account of adverse BoP. Later with improvement in BoP situation WTO Committee on BoP asked India to phase out the quantitative restrictions. To this effect, India reached an agreement with other member countries, except USA, to phase out the quantitative restrictions within a period of six years i.e. by the year 2003. However USA preferred a dispute settlement under WTO which was ruled in favour of USA and India had to phase out the quantitative restrictions in a period less than six years i.e. by April 2001. On this line of commitment, India phased out 714 items from quantitative restrictions by announcing the EXIM Policy 2000. Quantitative restriction was removed on remaining 715 items with the enactment of EXIM Policy 2001.

5.8.3.2 TRIPs (Trade Related Intellectual Property Rights)

The WTO disputes settlement Panel, following the complaints lodged by USA and EU, ruled out India to amend its patent law as per the requirement of WTO norms. Hence, the Patent Act, 1970 was amended appropriately by April 1999, to meet the required provisions of WTO provisions. The Patent (Amendment) Act, 1999, amended by the Parliament in March 1999 provided a clause for Exclusive Marketing Rights (EMR) in India. Further, with respect to plant varieties, a decision to place sui-generis basis of patent in view of national interest was provided for.

The copyright Act 1957 was too amended in 1994 to meet the requirements of Trade Related Intellectual Property Rights (TRIPs) Agreement. However, exclusive rights were reserved in case of performing rights. A bill to increase the time span of Copyright Act by another 50 years was passed by the Parliament in December 1999. In case of designs and lay-outs, a legislation preparing such designs, plan and lay-outs was introduced in Rajya Sabha on December 1999 by the Department of Electronics. With regard to trade marks, the existing law of Trade and Merchandise Mark Act, 1958 met the requirement of the existing international law, except the protection of service marks, to which effect a bill was passed on December 1999.

5.8.3.3 TRIMs (Trade Related Investment Measures)

Under Trade Related Investment Measures (TRIMs), the developing nations were given 5 years period relaxation up to December 1999, during which they can maintain the measures that are opposed to TRIMs agreement. However, such opposed measures should duly notified. But after December 1999 they were to follow the provisions of the agreements under Trade Related Investment Measures (TRIMs)

In this respect, the Government of India notified two Trade Related Investment Measures; one, the local content requirement in production of certain pharmaceuticals and, two, dividend balancing requirements, applied to 22 categories of consumer items. Thus, being a member country, India committed herself to meet the requirements of the provisions of trade related investment measures.

5.8.3.4 GATS (General Agreement on Trade & Services)

Under the GATS, India committed to open up 33 activities wherein even the Foreign Service providers were allowed to operate. The particular choice of these activities was being guided by consideration of national benefits, including impact on capital inflows, technology development and employment absorptions.

5.8.3.5 Custom Valuation Rules

The Custom Valuation Rules 1998, was amended to bring in line with conformity to the provisions of WTO framework. To implement the provisions concerning the general agreement on trade, tariff and Custom Valuation, India revised its custom valuation procedures. Assuming that India's integration into world economy will boost her exports from 0.5% to 1% of world trade, the government of India aimed at a minimal trade gains by US $ 2.7 billion per year as extra exports earnings. However, the argument seems dubious due to declining export share of India in world trade in recent years. The assumption of increasing India's export from 0.5 to 1 percent of world trade seems hardly possible.

Phasing out the provisions of MFA (Multi-Fibre Agreement) by 2005 benefited India as potentially large exporter of textile and clothing. Phasing out of MFA and 49% reduction in quota by developed nations till 2005, deprived instant market access to third world countries. Rather by completion of 2005, developed nations have already strengthened themselves in this front thereby reducing the potential gains to a lesser extent.

Though there are positive as well negative effects of the various process of WTO, it does provide a sound arrangement for multilateral trade practices. Measures such as anti-dumping, subsidies, safeguards, countervailing measures, dispute settlement, etc. are provided and assured under WTO. Hence, it assures a better framework for a more predictable and secured global trading system. It is supposed that the integration process provided under the guidance of WTO will create a favourable environment on a sustained basis for a sound and new international economic order.

Check Your Progress-VIII

1. When did the WTO come into existence?
2. Which is the highest authority in WTO structure?
3. What was the peak tariff rate during 1990-91?
4. Give the abbreviation of TRIPS and TRIM.
5. What do you mean by MFA?

5.9 Let Us Sum Up

You have now learnt that foreign trade facilitates the development of a nation by facilitating import of capital, and prevents the rise of domestic monopoly. It was understood that the import substitution industrialisation process led to heavy import of capital which coupled with hike in oil prices led to increase in magnitude of foreign trade. But India being an exporter of primary produces and traditional items could not raise adequate foreign exchange reserves. In view of this, the government took upon deficit developmental finance, which was not only inflationary but adversely affected, the BoP situations. Ultimately, the liquidity crisis took place in mid 1991, and India had to take upon comprehensive reform measures. The reforms were led by the Washington institutions, IMF and WTO. Today the reforms yield result with minimal adverse BoP situation as well a higher growth rate. Thus, under WTO framework, if India needs to gain from global integration, its will have to expand it export base.

5.10 Key Words

		classical economists.
Classicists	:	Excess
Glut	:	Unavoidable
Inescapable	:	Relevant
Pertinent	:	Monopoly tendency
Monopolistic	:	Inadequate or under supply
Deficient	:	Price of commodities set under competitive production
Competitive price	:	
Cynics	:	Critics
Proponents	:	Advocates
Voluntary exchange	:	Free Exchange
Abundant	:	Plentiful
Dearth	:	Lack
Repercussion	:	Consequence
Contingency	:	Unforeseen events
Import substitution	:	Substitutes for imports, produced domestically
Lumpy	:	Heavy
Devaluation	:	Downward adjustment of currency value
Gadgets	:	Equipments and appliances
OECD	:	Organisation for Economic Co-operation and Development
OPEC	:	Oil and Petroleum Exporting Countries

5.11 Check Your Learning

1. Discuss the role of foreign trade in economic development of a country.
2. Discuss the magnitude, composition and direction of foreign trade in India.
3. Distinguish between BoT (Balance of Trade) and BoP (Balance of Payments)
4. Discuss the trends of BoP in India. What is the factor that contributed most to the deficit in BoP in India?
5. Discuss the policy measures suggested by government of India to do away with the crisis of 1990s.
6. Elucidate the objectives and structures of WTO.
7. What are the major commitments undertaken by India as member country of WTO.

5.12 Suggested Readings

Agrawal A. N.: Indian Economy: Problems of Development and Planning, Wishwa Prakashan,. New Delhi (Latest Edition)

Datt Ruddar and Sundharam KPM: Indian Economy, S. Chand And Company Ltd. Ram Garh New Delhi-110055 (Latest Edition)

Mishra S.K. and Puri V.K.: Indian Economy, Himalaya Publishing House, New Delhi (Latest Edition)

Kapila Uma (edt.): Indian Economy since Independence, Academic Foundation, New Delhi (Latest Edition)

Government of India : Economic Survey, latest publications.

5.13 Hints/Answer to Questions in Check Your Progress

Check Your Progress - I

1. For industrialisation and infrastructural development. See 5.2.1
2. True. See 5.2.2
3. True. See 5.2.3

Check Your Progress - II

1. Rs. 1200 crores in 1950-51 and Rs. 576342 crores in 2004-05. see 5.3.1
2. Oil Price. See 5.3.2 (c)
3. No. See 5.3.3

Check Your Progress - III

1. False. See 5.4
2. Decreasing. See 5.4
3. False. 5.4

Check Your Progress - IV

1. Rs.283 crores in 1960-61 and Rs. 14833 in 2003-04. See 4.5.1.1
2. False. See 4.5.1.3
3. POL(Petroleum, Oil, and Lubricants). See 4.5.1.4
4. False. See 4.5.2.3
5. Pearls, semi-precious and precious stones. See 4.5.2.3

Check Your Progress - V

1. OECD. See 4.6.1
2. Decreasing, 1.8%. See 4.6
3. True. 15%. See 4.6.1
4. 53.4%. See 4.6.2
5. 1.3%. See 4.6.2

Check Your Progress - VI

1. False. See 5.7.1
2. False. See 5.7.2.2
3. Amortisation payments. See 5.7.3.7

Check Your Progress - VII

1. Three. See 5.7.4.1
2. Downward adjustment of currency. See 5.7.4.2
3. False. See 5.7.4.3

Check Your Progress - VIII

1. January 1995. See 5.8
2. Conference of Ministers. See 5.8.1
3. 355%. See 5.8.3.1.1
4. Trade Related Intellectual Property Rights. See 5.8.3.2
5. Trade Related Investment Measures. See 5.8.3.3
6. Multi-Fibre Agreements. See 5.8.3.5

Unit IV: Planning and Economic Reforms

Structure

6.0 Objectives

After reading this unit the learner will be able to learn and understand:

- importance of Economic Planning;
- main features of planning in India and the changes over the past decades;
- the outcomes of the planning process - success or a failure;
- reasons behind opting for a different strategy since 1991;
- the features of "Economic Reforms"; and
- impact of economic reforms on the Indian economy.

6.1 Introduction

At the time of independence Indian economy was a largely agricultural economy, with a relatively small industrial sector. In order to overcome the problems of poverty and underdevelopment, India opted for a strategy of planned economic development under the broad framework of a mixed economy. The state was assigned a key role in the process of economic development. Given the adverse land-man ratio, it was felt that agricultural development alone would not be sufficient to develop the economy. Industrialization was assigned a key role in this strategy. The significance of investment in fostering industrial development had been clearly recognized both in economic theory and experiences of other developed economies. Given the low levels of infrastructural development and low industrial base in India, massive investments were required for industrial development. Because of the limited capabilities of the private sector to mobilize resources for investment, it was thought that state should mobilize the resources and invest in the required sectors. The experience of the USSR and other socialist economies also strengthened the belief in the need for state-directed planned economic development. Some of the other aspects of the industrialization strategies were: emphasis on basic and key industries, significance of the public sector and the strategy of import-substitution.

6.2 The Meaning of Economic Planning

Planning implies a set of coordinated and well-designed actions to achieve some pre-determined objectives. In the literature on economic planning, the concept of economic planning has been used in a number of senses. Firstly, economic planning refers to an economic system in which a central planning authority allocates productive resources, sets production objectives for each of the production units in the economy. Each production unit uses the resources allotted to it and produces as per the targets assigned to it. Such an economy, which is also referred to as a command economy, is said to be under collectivist economic planning. This concept was followed by many of the socialist economies. In the second sense, economic planning simply refers to setting up of targets for the public and/or private enterprises by the government. This concept, which is less comprehensive than the former, is generally followed mainly by capitalist economies. Thirdly, planning refers to setting up of targets for the economy as a whole, although the State does not necessarily dictates targets for all the production units. A mix of economic incentives and disincentives, are used by the government to induce other economic players to adhere to the plans decided by the government. The Indian planning exercise was closer to the third conceptualization than the other two. The two principal components of economic planning, in the context of the Indian economy, were as follows:

(i) The government mobilizes resources, both domestic and foreign, to invest in projects which would enhance the productive capacity of the economy. For example, the government investment in development of infrastructure, research and development helps both the public and the private sectors to improve their productivity. The government also invests in heavy industries, which requires large investments and have a long gestation period.

(ii) The government also adopts a range of economic policy measures, such as taxation, tariffs, wages, prices and interest rate policies, which on the one hand stimulates private economic activities, while, on the other tries to ensure a harmony between the social and economic objectives of the government and the activities of the private sector.

(iii) From the above discussion, it is clear that in India, the planning process was not an attempt to replace the market mechanism; rather it attempted to control the market to achieve certain objectives related to economic growth and social justice.

6.3 Objectives of Economic Planning

Although the objectives of various five-year plans were not the same, broadly speaking, the planning exercise in India has been based on the following objectives:

(i) Economic Growth: Economic growth, or increase in the size of the country's income, has always remained at the centre stage of the planning exercise. It is expected that with a steadily rising level of income, other problems of the economy could be tackled effectively.

(ii) Self-Reliance: Long years of foreign rule and the experience of dependence had convinced the Indian leadership that the country has to be self-reliant in some of the key areas of the economy. On the eve of the first five-year plan, the dependence on foreign import of food grains, inability to mobilize enough domestic resources, and technological dependence were considered to be major constraints in the path towards national self-sufficiency.

(iii) Removal of Unemployment: Removal of unemployment was stated as one of the major objectives of Indian plans right since the beginning of planning. However, the general emphasis was on employment generation through investment in the initial years. The goal of employment generation has been given separate attention in recent plans.

(iv) Reduction in Income Inequalities: Equitable distribution of income is often considered to be desirable both from the economic and social justice point of view. The objective has been mentioned in Plan documents, particularly in the fourth plan, but critics point out that the Indian plans never had a strategy for reduction in inequalities.

(v) Elimination of Poverty: Removal of poverty has been one of the most widely discussed objectives of the planning exercise in India. However, there was a shift in the overall framework in which the objective of poverty reduction was included in the Indian plans. In the initial plans there was an underlying belief that economic growth in due course of time would take care of the problems of poverty reduction. In later plans, particularly since the 1970s, it was realized that although, a 'substantial increase in the overall rate of growth of the economy will no doubt create favourable conditions for a reduction in poverty and unemployment, it will not be realistic to rely solely on the growth process to find a solution to the problem'.

(vi) Modernisation: The role of science and technology in improving the performance of the economy has always been recognized by the Indian planners. However, the term modernization has been mentioned in a wider sense implying 'structural and institutional changes in the framework of the economy' in some of the plan documents. There has always been a concern for improving the technological base of the economy in different plans, through a variety of means, including an emphasis on research and development, creation of a skilled man-power, diffusion of HYV seeds and green revolution technology in agriculture etc.

6.4 The Key Features of Indian Planning: The Earlier Phase

The first phase of Indian Planning, which is often termed as the Nehru-Mahalanobis strategy of development relied on the importance of heavy industries in developing the economy. Some of its main features have been outlined below.

(i) Emphasis on Capital Goods Industries: In the industrialization strategy a high priority was given to the capital goods industries. This was based on the belief that unless a country develops its capital goods industries, it would be perpetually dependent on foreign countries for its development. Thus, a high priority was attached to develop iron and steel, heavy engineering, machine tools and heavy chemical industries.

(ii) Importance of the Public Sector: The burden of resource mobilization for these industries was shouldered by the state and hence, it was the public sector units, which were supposed to control the 'commanding heights of the economy'. In order to ensure the state control over particular industries, certain industries were exclusively reserved for the public sector, in some others both the public and the private sectors were allowed to operate and the rest were open for the private sector.

(iii) Import-Substitution: A developing economy can either develop its export-oriented sectors and can import its other requirements through the export-earnings, or it can try to produce the required items within the country itself. While the first strategy, often called export-led growth, is basically an outward-looking strategy in which closer integration with the global economy plays an important role, the second type of policy is called the import-substitution strategy. India opted for an import-substitution strategy in which the domestic industries were protected by a tariff-wall. Under this strategy imports from foreign countries was discouraged by imposing a heavy tariff on them. The domestic industry, in its infancy, was thus protected from foreign competition. Over a period of time it was believed that the country would become self-sufficient. India basically opted for an inward-looking import-substitution strategy, which has been criticized by many economists for its inherent export-pessimism.

6.5 Critical Evaluation of the Nehru-Mahalanobis Strategy

During the second five-year plan the Nehru-Mahalanobis strategy was given a coherent shape. Some of the weaknesses of this initial strategy were realized later on and the emphases were changed in subsequent plans. For example, the significance of agricultural development was clearly recognized in the mid-sixties and the 'green revolution strategy' was adopted for increasing agricultural productivity. In subsequent plans the need to address the issues of unemployment and poverty was realized and specific programmes were launched. In over all terms, some of the achievements of the strategy of Indian planning include establishment of a diversified industrial base, self-sufficiency in a number of crucial areas including food grain production and development of a large pool of technically qualified manpower.

Firstly, some economists, like P.R. Brahmanand and C.N. Vakil rejected the basic framework of the development strategy. They argued that the central role given to the capital goods sector is flawed. Instead they provided an alternative strategy, which is called a wage-good model of development. Vakil and Brahmananda's main argument was that given the existence of massive over population and disguised unemployment in agriculture, it would be better to rely on a strategy of production of consumption goods utilizing the surplus labour.

Secondly, the pre-occupation with self-sufficiency and the resultant pessimism about the role of exports was criticized by economists like I.G. Patel and V.V. Bhatt.

Thirdly, the strategy assumed that the current consumption needs of the people could be adequately met through productive capacities already available, and in case some shortages developed, it could be solved through controls. Later developments showed that the constraints like that of food proved to be major bottle-necks in India's attempt to sustain the initial growth.

Fourthly, the employment generation aspect was not given adequate emphasis. Although the limited possibility for labour absorption in the capital-intensive industries was recognized by the planners, it was expected that the traditional sectors meeting the increasing demand for basic consumption goods had the capacity to absorb all the available labour force outside agriculture. Thus, the objective of employment generation was to be taken care of by policies, which were parallel to, but not an integral part of the overall development strategy.

Finally, the strategy relied heavily on trickle down effect of growth for solving basic problems facing the Indian economy such as mass poverty and income inequalities. It was expected that once the economy starts growing at a respectable rate, the effects of this growth would automatically percolate down to the lowest rungs of the society. Policies like redistribution of surplus land were never thought of as integral part of a broad-based strategy of development.

However, among the key achievement of this strategy was an initial spur of growth in the industrial sector. The establishment of a number of heavy industries, including large multi-purpose dams and also creation of institutions for research, training and development contributed substantially towards laying the foundations for the growth of the economy. During the second five year plan period, both savings and investment rates increased considerably and the output targets were nearly achieved. During the third plan period, however, the strategy went into a serious crisis. As agricultural growth slowed down, the country had to rely on food imports to meet the food demand. Net savings rate declined and around 25 per cent of investment had to be financed by foreign aid.

6.6 The Planning Experience: Later Phase

During the late 1960s the country faced a very difficult situation on many fronts. Apart from food shortages, inflationary pressure, growing income inequalities and wide spread prevalence of poverty forced the planners to rethink the development strategy. A 'plan holiday' was declared for three years. When, long-term planning was resumed in 1969, the basic framework of the Nehru-Mahalanobis strategy was retained, but several major modifications were introduced. Agricultural development was oriented towards the Green Revolution strategy, with increasing emphasis on the use of High Yielding Variety (HYV) Seeds, chemical fertilizers, pesticides, irrigation, mechanised production etc. There was a great deal of attack on the 'trickle down' assumption of the earlier plans and the need for a direct attack on poverty was realized. The fifth plan assigned highest priority to the removal of poverty. After the Janata government came to power, attempts were made to dilute the over-emphasis on the heavy industries. The development of the rural sector and the welfare implications of growth were stressed by the new government. The sixth five year plan (1980-85) attempted to combine the growth strategy with a large number of anti-poverty measures like the IRDP (Integrated Rural Development Programe), the NREP (National Rural Employment Programme) to tackle the twin problems of poverty and unemployment. The priority shifted from heavy industries to energy. The Seventh plan strategy contained four major policy changes. First, it gave priority to increasing agricultural production. Second, it undermined the role of the public sector and expanded the scope for the private sector. Thirdly, with liberalization of imports, it attempted to increase the efficiency in the manufacturing sector. Fourth, there were some concrete moves to deregulate the economy from excessive government control. Thus, from this plan onwards, there has been a perceptible shift away from the Nehru-Mahalanobis Strategy of planned economic development.

To sum up, the important achievements of the Indian planning exercises included a modest but stable economic growth, establishment of a fairly diversified industrial base, creation of one of the world's largest technical man power and self-sufficiency in food grain production. Some of the glaring failures of the strategy were the slow growth of the economy, failure to eradicate poverty, excessive government control and consequent corruption, failure to upgrade technology and improve efficiency. Because of these failures as well as the failure of state-controlled planning in many of the erstwhile socialist economies, the strategy of planned economic development came under sharp criticism. Although many critical components of the earlier phase of planning were gradually given up, the extent of government control over the economy did not change much. The over regulation of the economy, it was argued, has created large-scale corruption and the inward-looking strategy has led to a highly protected, inefficient manufacturing sector. All these inadequacies and changes at the global level led to the adoption of a set of economic policies which were remarkably different from the policies followed since independence. These changes in policies are generally called economic reforms.

6.7 Economic Reforms: Meaning and the Context

Economic reforms broadly refers to the set of policy measures introduced in India, since late 1980s in piece meals and comprehensively since 1991, aiming at deregulation, privatization, liberalization and greater integration of the economy with the global economy. The distinguishing features of the New

Economic Policies are a shift from state-led and state directed growth to market-led growth, reduction in the role of the state in various sphere of the economy and greater freedom to private players, and a move from protectionist trade policies to a more open trade regime. Although some economists argue that the policies adopted in 1991 were basically a continuation of the policies adopted at least since mid-1980s, by and large, it is accepted that there was a major overhauling of the economic policies in 1991, which was remarkable in terms of its comprehensiveness as well as distinctiveness.

The New Economic Policies were introduced under a very special circumstance, i.e. when the economy was facing an unprecedented crisis. Fiscal deficit of the government was as high as 8.4 per cent of the Gross Domestic Product (GDP), internal debt of the government was at around 53 per cent of the GDP, inflation was at double-digit level, and above all there was a major balance-of-payment crisis after the oil import bill increased substantially in the wake of the Gulf war. During mid-January, 1991 and June 1991, the balance-of-payment situation worsened to such an extent that India did not have the capacity to pay for even ten days of imports. Economists differ regarding the reasons behind the crisis. Some are of the opinion that the crisis was the final outcome of the decades of faulty economic planning that India had pursued after independence, others argue it was the result of the wrong policies adopted in the 80s itself which boosted the consumer durable industry, which in turn pushed the imports. However, what is certain is that the crisis resulted in far reaching changes in economic policies.

6.7.1 Rationale for Economic Reforms

There were basically two different sets of issues related to the justification and necessity of reforms. Firstly, at a theoretical level it is argued that government intervention is not good for the performance of the economy (see Box-I). The market mechanism, left to itself, arrives at an optimal allocation of resources. When government intervenes through policies like fixing prices, controlling production, giving subsidies etc, the prices are distorted; they no longer represent the ultimate outcome of the desires of the millions of consumers and producers. So 'getting the prices right' should be the motto of public policy. Secondly, protectionist trade policies are bad for the individual countries as well as for all the countries. This argument is the standard 'gains from trade' argument, which basically argues that countries should try to produce the commodities in which they have a comparative advantage and should import the rest from others. The arguments in favour of free trade derive their strength from this doctrine. At another level, the need for economic reforms is justified on the basis of historical experiences and practical problems. Everywhere the state-controlled planning process encountered some serious problems such as problems of information gathering, providing incentives to the economic agents, corruption and inefficiency. Historically, it is argued, countries which had opted for a more market-friendly approach have grown faster and have sustained their growth. The rapid growth of the East Asian countries, which had opted for an export-led strategy, is often cited as a reason for switching over to a more open trade policy.

Check Your Progress-I

1. When was economic reforms initiated in India
2. What are the basic features of new economic policies of 1991?
3. What is the basic focus of economic reforms initiated in 1991?

Box-I

State versus Market: Theoretical Underpinnings

There is a great deal of disagreement among economists regarding the relative importance of the state and the market in the process of economic development. Those who support the market-economy argue that the economic role of the state should be minimal and the market left to itself would bring the desirable outcomes. The theoretical arguments are derived from the two fundamental theorems of welfare economics. In technical jargon, a Pareto Optimal outcome is a situation in which nobody can be made better off without making someone else worse off. The first theorem says that the outcome of a perfectly competitive system is Pareto Optimal. Under a perfectly competitive market there are large number of buyers and sellers, there is no government intervention and the forces of demand and supply determine the price of a good. In such a system, if consumers want more of a commodity, the price of it, given the supply, would go up. This higher price and higher profit would result in shift of resources to the production of this commodity and ultimately the resources would be allotted optimally or in the most appropriate manner possible. Thus if consumers want to maximize their satisfaction and producers want to maximize their profit, the final outcome would be a pareto optimal outcome. However, a Pareto optimal outcome may not be always considered desirable. For example, if out of the total production of Rs 1000 of an economy, if individual A gets Rs 1000 and B gets nothing, it is a Pareto optimal outcome, because we can not improve the income of B without reducing the income of A. The second theorem of welfare economics says that any Pareto optimal outcome can be reached by a perfectly competitive economy, given an appropriate initial level of income. So once the appropriate initial level of distribution is achieved, the market should be allowed to operate freely. Those who are in favour of a market economy often rely on these arguments to argue that minimal state intervention would reduce inefficiency and would result in optimal distribution of resources.

However, one weakness of the above argument is that much depends on the initial distribution of income. Secondly, if private individuals save and invest less than what is the socially desirable level of savings and investment, slow growth of income and persistence of poverty would result. Again, if savings and investments were not equal it would result in inflationary pressure or depressions.

Economists Lange and Taylor have demonstrated that the outcomes of a competitive economy could be theoretically achieved by a socialist command economy as well. Further a planned economy could bring about a desirable distribution of income and by deciding its appropriate level of investment could ensure the socially desirable growth rate. However, a main problem with the argument was the problem of information. The state or its planning agency can take appropriate decisions only when it has the correct information. In a market economy the price mechanism ensures this low level of information, but in a planned economy the state has to collect this information. The managers, for example, may not reveal their true production capacity and this may make the planning faulty. It was also argued that in a socialist economy the individuals would behave differently, but such expectations were not fulfilled in reality.

6.7.2 Economic Reforms: Components

The reform package introduced by Dr. Manmohan Singh, the then Finance Minister of India, had essentially three distinct components.

(i) Fiscal stabilization to check the growing fiscal deficit and contain it as a much lower level in such a manner that public investments in basic social and economic infrastructure could be substantially stepped up without generating inflationary pressures;

(ii) Internal liberalization measures to increase the competitiveness of the economy, providing greater freedom to the private sector to make their production and investment decisions;

(iii) Integration with the global economy by removing controls on foreign trade and exchange rates, lowering tariffs, and rationalizing their structures and relaxing regulations regarding external capital flows along with a proactive policy towards attracting foreign direct investments (FDI).

The entire set of reforms policy measures, initiated in 1991 and continued in subsequent years, could also be discussed under the broad rubrics of stabilization measures and structural reforms programme.

Stabilization measures are basically short-term policy intervention to achieve macro-economic stability, while structural reforms refer to a set of medium and long-term initiatives to enhance the productive capacity of the economy. Key stabilization measures are control of inflation, reduction and control of fiscal deficit and balance of payment adjustments. Some of the important components of structural reforms are trade policy reforms, capital market reforms, disinvestment and public enterprise reform, financial sector reforms etc. Some of the important policy initiatives introduced under the economic reforms programme have been outlined below.

Macroeconomic Stabilization

The important policies under macroeconomic stabilization were control of inflation, reduction and control of fiscal deficit and balance of payment adjustments.

Control of Inflation:

The rate of inflation which was 10per cent in 1990-91 and 13.7 per cent in 1991-92, was brought down to 7 per cent in the next financial year. After another round of high inflation during 1993-94 to 1994-95, it reduced in the late 90s. A series of measures including, slower monetary growth, freeze on fuel prices, non-revision of administered prices despite cost escalation resulted in this.

Fiscal adjustment

The fiscal deficit, which was around 8 per cent of GDP in 1990-91 could be brought down to less than six per cent in the subsequent yeas, although periodically it has been increasing again. Various policy measures introduced in this regard included reduction in government expenditure, particularly in capital expenditure; additional resource mobilization through broadening the tax base, rationalizing the tax rate and also increasing the non-tax revenue.

Balance of Payment Adjustments

Various policy initiatives were introduced in this sphere, such as devaluation of the rupee in 1991, reduction of custom duties, removal of export reduction and convertibility of rupee.

Structural Reforms Programme

Wide ranging and far reaching changes were introduced in the economy under the structural reforms programme.

Trade Policy Reforms

- Import licensing system was dismantled.
- Non-tariff barriers were phased-out from all tradable.
- Peak tariff rates were brought down from 355 per cent to a maximum of 50 per cent.
- Export promotion measures were announced.

Industrial Policy Reforms (New Industrial Policy, 1991)

- The industrial licensing system or the need for taking prior government approval for establishing industries was abolished for all industries, except for 14 industries.
- Many industries, which were reserved for the public sector, were opened up for the private sector, including the foreign companies. Only six industries, largely in the infrastructure sector were reserved for the public sector.
- Foreign Direct Investment was welcomed and specific measures to facilitate the flow of FDI to the economy were announced. Foreign Investment Promotion Board was established. A system of automatic approval of FDI in priority areas by the RBI within two weeks was announced.
- Restrictions on investment by large industrial houses and foreign-controlled firms, under MRTP act, were abolished.
- Phased programme for disinvestment of public sector units was introduced.
- Outward investments by Indian enterprises were also liberalized.

Exchange Rate Reforms

- The value of the Indian rupee was depreciated by 20 per cent in 1991.
- Partial convertibility of rupee in trade account was introduced in 1992-93. Capital Market Reforms
- Capital Issues Control Act was repealed.
- Securities and Exchange Board of India (SEBI) was established as a watchdog.
- Various measures like regulatory reforms, modernization of capital market, on-line trading, and dematerialized trading were introduced.
- Foreign institutional investors were welcomed to invest in all types of securities with full repatriation benefits, without restriction on either volume of trading or lock-in period.

Financial Sector Reforms

- Narasimham Committee was set up to suggest financial sector reforms to improve the efficiency of the financial system. The report of the committee served as a basis of various reform measures.
- Commercial banks satisfying some conditions were allowed to set up new branches without the approval of the RBI. Banks can also rationalize their existing branch networks.
- The RBI has announced guidelines for setting up of banks in the private sector.
- Numbers of interest rate slabs on bank advances were reduced from about 20 in 1989-90 to 2 in 1994-95.
- Comprehensive banking sector reforms were introduced to reduce the non-performing assets, increase profitability and efficiency.

6.7.3 An Appraisal of Economic Reforms

The economic reform programme is not only ambitious in terms of its objectives, but also is wide ranging in terms of its reach. It is difficult to judge the impact of such far reaching changes in public policy by analyzing the experience of a decade or so. However, some broad patterns of change, witnessed in the Indian economy since 1991, could be linked with these policy changes.

6.7.4 Growth Performance of the Economy

It is clear that the post-reform period has witnessed a higher rate of growth of the Indian economy, in comparison to the earlier periods. During the period 1972-1982, India's GDP increased at a rate of 3.5 percent, which increased to 5.2 per cent during 1982-1992, and finally reached 6.0 per cent during 1992-2002. According to some economists, the remarkable feature of this growth performance has been that simultaneously a sharp reduction in volatility of GDP growth has also been achieved. As Kelkar remarks, 'we seem to have thus created an extremely benign macro-economic environment, with low inflation, low interest rates and high GDP growth'. However, it is important to note that the growth process has slowed down since 1996, although the economy has registered a robust growth rate of 8.5 per cent in 2003-04.

6.7.5 Trade and Export Performance

India's trade performance has improved considerably in the 1990s in comparison to the 1980s. India's share in world exports, which was 0.42 per cent in 1987, increased to 0.62 per cent in 1997. India's trade to GDP ratio also showed substantial improvement during that period. The share of manufactured goods in India's exports increased from 70.7 per cent in 1987-90 to 77.4 per cent during 1997-2000.

FDI Inflows

Although India took significant steps towards inviting FDI, the actual FDI inflows did not pick up on the expected lines. In comparative terms, India's performance in this regard was not only worse that China's but also many emerging market economies like Argentina, Brazil, Korea and Mexico.

Balance-of Payments

India's balance of payments scenario has improved considerably during the post reform period. The reforms have resulted in an accumulation of foreign exchange reserves of over US $ 70 billion as at the end of February, 2003.

Poverty

One of the most widely debated issues is the impact of economic reforms on poverty. While official statistics shows that there has been a decline in poverty during the post-reform period, many economists have taken a different stand on this, mainly because:

(a) there has been some changes in the method of data collection, so the comparability of the estimates is in doubt; and

(b) in terms of nutrition, poverty has increased during the post reform period.

Employment

Although there has been a somewhat encouraging trend in production, the employment prospects have worsened for the workers, particularly in the rural areas. Firstly, the employment elasticity in the organized manufacturing sector has been declining as a result of shift to more capital intensive techniques of production. Secondly, as a result of increasing competition in a globally integrated economy, many industrial units, particularly those in the Small and Medium enterprise category are closing down. The new jobs created, demand skilled and educated workers and many of those who have lost their jobs are becoming redundant in the emerging labour market. The rural-non farm sector employment growth has slowed down. There has been a decline in the quality of employment as well. More and more workers are being casualised and their working conditions are deteriorating.

Social Sector Outcomes

As a result of introduction of user charges and reduction in government spending in a number of areas, including the withdrawal of subsidies, the poor people are finding it difficult to pay for basic health care and education of their children. In many states, there has been a significant decline in per pupil state expenditure in schooling. The most vulnerable sections of the society are being left out from this process of growth.

To sum up, although India's growth performance has remarkably improved during the post-reform period there are many areas of concern that needs to be addressed for an equitable and sustainable growth process.

Check Your Progress-II

1. What do you understand by economic planning?
2. What were the main objectives of Indian planning? How far the objectives have been fulfilled?
3. Outline the main features of Indian planning exercise since independence.
4. What do you understand by Economic Reforms?
5. What are the rationales behind the Economic Reforms introduced since 1991?
6. How were these policies (economic reforms) different from the policies adopted since independence?
7. Critically evaluate the Economic Reforms programme initiated in India since 1991.

6.8 Let Us Sum Up

Thus we see that at the time of independence Indian economy was largely agricultural with relatively small industrial base. In order to overcome the problems of poverty and underdevelopment, it opted for a mixed economy framework for economic development. The introduction of the new economic reforms in 1991 was a departure from the past, aiming at deregulation, privatization, liberalization and greater integration of the economy with the global economy.

6.9 Key Words

Planning	:	It implies to a set of coordinated and well-designed actions to achieve some predetermined objectives.
Economic Planning:		It refers to an economic system in which a central planning authority allocates productive resources, sets production objectives for the production units in the country.
Economic Reforms	:	It refers to set of policy measures introduced in India since 1981, aiming at deregulation, privatization, liberalization and integration of the economy with the global economy.
Privatization	:	Winding up of the public sector undertakings.
Marketisation	:	Free operation of market forces and absence of all types of administered prices.
Liberalisation	:	Reduction in Government regulations to the minimum as far as the private sectors are concerned and reduction in tariffs and taxes.

Globalisation : No restrictions on imports and exports of commodities and on flow of foreign capital into the various sectors of the economy.

Trickle down effect : It refers to the principle that the benefits of any development process must come down to the grass root levels.

6.10 Check Your Learning

1. What do you understand by economic planning? Outline the main features of Indian planning exercise since independence.
2. What were the main objectives of Indian planning? How far the objectives have been fulfilled?
3. What are the rationales behind the Economic Reforms introduced since 1991? How were these policies different from the policies adopted since independence?
4. Critically evaluate the Economic Reforms programme initiated in India since 1991.

6.11 Suggested Readings

Chakravarti,Sukhamoy,1989, : Development Planning: The Indian Experience, Oxford University Press, Delhi

Kapila, Uma [ed.] , 2003, : Indian Economy since Independence, 15th Edition, Academic Foundation, New Delhi

Misra, S.K. and V.K. Puri ,1998,: Indian Economy, Himalaya Publishing House, Mumbai.

6.12 Hints/Answers to Questions in Check Your Progress.

Check Your Progress-I

1. 1991.
2. Liberalisation, privatization, marketisation, and globalization.
3. Macroeconomic stability through structural adjustment.

Check Your Progress-II

1. Here you will have to highlight the meaning of economic planning. - It refers to an economic system in which a çentral planning authority allocates productive resources, and sets production objectives for the production units in the economy. Further, the two principal components of economic planning of the Indian economy have to be discussed.
2. The main objectives of Indian planning like economic growth, self-reliance, removal of unemployment, reduction of Income Inequalities, poverty elimination etc have to be discussed.
3. Here the first phase of the Indian Planning - i.e. Nehru-Mahalanobis strategy has to be discussed as well as the planning experience during the late 1960's onwards has to be highlighted.
4. Here you will have to write about economic reforms as well as the various components of economic reforms.
5. Here you will have to deal with the issues related to the justification and necessity of economic reforms. The stabilization measures and structural reforms programme has to be discussed.
6. You have to emphasize as to how earlier India had adopted a mixed economy framework for economic development and we had a closed economy and now we have an open economy.
7. An appraisal of the Economic reforms has to be done. The growth performance, Trade and export, FDI inflows, balance of payments, poverty, employments and social sector outcomes has to be discussed.

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