KLE LAW ACADEMY BELAGAVI

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STUDY MATERIAL

for

ECONOMIC DEVELOPMENT IN INDIA

Prepared as per the syllabus prescribed by Karnataka State Law University (KSLU), Hubballi

Compiled by

Sarala Vaidya, Asst. Prof.

Jayanth Kashyap, Asst. Prof.

Reviewed by

Sarala Vaidya, Asst. Prof.

K.L.E. Society's Law College, Bengaluru

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KLE Society's Law College , Bengaluru

Economic Development in India

Objectives:

The course is developed keeping in view the dynamics of economic principles in legal system. The Course intends to describe economic development in relation to Agriculture, Industry and Banking, the national income and the functions of the Central Bank i.e., RBI and the impact of globalization on the economy.

UNIT – I

Economic Development in India in relation to Agriculture- Marketing and Finance

Industry: Capital formation and FDI. Service Sector: Banking, Insurance and Other Services like tourism, medical services and software services since 1990.

UNIT – II

National Income: meaning, measurement and difficulties.

Parallel Economy: meaning, magnitude & consequences, Factors responsible for the generation of black money. Policy to control parallel economy.

UNIT – III

Functions and role of RBI and monetary policy: Quantitative and Qualitative methods of Credit Control, Working of the Indian monetary system, Chakravarthy Committee Report.

UNIT – IV

New Industrial policy: changing role of public sector, small sector industrial policy. Abid Hussein Committee Report on SSI.

UNIT – V

Globalization and its impact on Indian Economy, Emerging trends in India's Foreign Trade, Exim Policy, India and WTO, World Bank and IMF.

Reference Books:

1. Indian Economy – A. N. Agarwal
2. Indian Economics – Shankaran
3. Indian Economy – Rudradutt, KPM Sundaram
4. Indian Economy – S. M. Mishra, V. K. Puri

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Features of Indian Economy

In the 21st century, India has been an emerging economic power with vast human and natural resources, and a huge knowledge base. Since 1991, continuing economic liberalization has moved the economy towards a market-based system. A revival of economic reforms and better economic policy in 2000s accelerated India's economic growth rate. By 2008, India had established itself as the world's second-fastest growing major economy. However, the year 2009 saw a significant slowdown in India's official GDP growth rate to 6.1%as well as the return of a large projected fiscal deficit of 6.8% of GDP which would be among the highest in the world.

India has emerged as the fastest growing major economy in the world though considered as agrarian economy. India with time has undergone itself with economic socio transformation. The share of agricultural sector in the National Income has reduced considerably. Agriculture contributes to 15.4% to the NI, while industry contributes to29.9% and service sector 54.4% as of 2017-18. India is termed as a fastest growing developing nation. India's nominal GDP growth rate is estimated at 12 per cent in 2019-20. The estimate for 2018-19 was 11.5 per cent. During Q2 of 2019-20, GDP (at constant 2011-12 prices), GDP stood at Rs 33.16 lakh crore (US$ 474.46 billion) showing a growth rate of 4.3 percent over the corresponding quarter of previous year.

India has retained its position as the third largest startup base in the world with over 8,900-9,300 startups, with about 1,300 new start-ups being founded in 2019, according to a report by NASSCOM. India also witnessed the addition of 7 unicorns in 2019 till August, taking the total tally up to 24.

The features of Indian Economy are as follows-

1. **Low Per capita Income**

India's per capital income is very low as compared to the advanced countries. India's per capita income was $1670 per year in 2016, ranked at 112th out of 164 countries as reported by the World Bank. The growth of 8.6 percent in per capita income is the lowest in six years in nominal terms for India in 2017-18. And according to 2005 statistics, the per capita

income figure in Switzerland was nearly 76 times, in U.S.A. about 61 times, in Germany about 48 times and in Japan about 54 times the per capita income figure in India. Thus the standard of living of Indian people remained all along very low in comparison to that of developed countries of the world. According to the World Bank's Report, in 2017, India's PCI was $ 1940 and was ranked 138 out of 184 countries.

TABLE 1.3. Per Capita GNP at Market Prices *(in US dollars)*

Country	*2005 Exchange Rate Basis*	*2005 Purchasing Parity Basis*	*Average Annual Growth Rate (1985-2005) Exchange Rate Basis*
Switzerland	54,930	37,080	0.5
U.S.A.	43,740	41,950	1.3
Japan	38,980	31,410	3.2
Germany	34,580	29,210	—
UK	37,600	32,690	1.3
India	720	3,460	2.9
China	1,740	6,600	7.8

India not only shows cases low per capita income but also the distribution of income is unequal. The mal-distribution of income and wealth makes the problem of poverty as one of the critical and acute problem acting as an obstacle in the process of economic progress and development.

2. **Dependency on Agriculture**

Indian economy is characterized by too much dependence on agriculture and thus it is primary producing. A very high proportion of population is engaged in agriculture and allied activities even now, thus contributing a large share in the national income of our country. The latest statistics reveal that 50% of people in India are dependent on agriculture for employment.

It is also marked by low agricultural productivity, lack of modernization and lack of diversification in its output. Thus agricultural sector is overburdened as the majority of the active population is depending on agriculture.

3. **Heavy Population pressure**

India has a very high rate of growth of population since 1950. Thus the pressure of population on the country is very heavy. This has resulted from a very high level of birth rates coupled with a falling level of death rates. The rate of growth of population was 1.31 per cent annually during 1941-50 to 2.5 per cent annually during 1971-81 to 2.11 per cent annually during 1981-91 and then finally to 1.77 per cent during 2001-2011 and is at 1.1% in 2017.

4. **Prevalence of Chronic unemployment and underemployment**

Rapid growth of population coupled with inadequate growth of secondary and tertiary occupations are responsible for the occurrence of chronic unemployment and under-employment problem in our country. India also has the problem of cyclical unemployment. Unemployment Rate in India increased to 6.10 percent in 2018 from 3.52 percent in 2017. Unemployment Rate in India averaged 4.12 percent from 1983 until 2018, reaching an all time high of 8.30 percent in 1983 and a record low of 3.41 percent in 2014.

Lack of market for industrial goods, leads to disincentive for growth of industrial sector, poverty, lack of effective demand, unskilled labour with lack of opportunities for employment, dominance of traditional industries with lower productivity are all factors for prevalence of unemployment in the country.

5. Improving capital formation

In India, the rate of capital formation is also low. Capital formation mainly depends on the ability and willingness of the people to save. With low per capita income and mal-distribution of income in the country, the ability of the people to save is very low for which capital formation will be considerably less.

6. **Inequality in the distribution of wealth**

Unequal distribution in income is the result of inequality in the distribution of assets in the rural areas. On the other hand, in respect of industrial front there occurs a high degree of concentration of assets in the hands of very few big business houses. This shows high degree of assets concentration in the hands of very few powerful business houses of our country.

The nation has seen much of the increase in inequality has been since 1991. The wealth held by Indian billionaires increased from 49 billion dollars in 2004 to 479 billion dollars held by richest 100 billionaires by 2017. The wealth of Indian billionaires was less than 5% of the GDP until 2005, but increased sharply to 22% by 2008, declined after the financial crisis to 10% by 2012. By the latest estimates, the total wealth of Indian billionaires is 15% of the GDP of the country. The richest 10% of Indians own 77.4% of the country's wealth, 2018 Global Wealth Report. The bottom 60%, the majority of the population, own 4.7%

7**. Low level of living**

The standard of living of Indian people in general is considered as very low. Nearly 25 to 40 per cent of the population in India suffers from malnutrition. The average protein content in the Indian diet is about 49 grams only per day in comparison to that of more than double the level in the developed countries of the world.

India remains one of the highest-ranking countries in the world in terms of the number of children suffering from malnutrition. India continues to consume non-nutritious, non-balanced food either in the form of under nutrition, over nutrition or micronutrient deficiencies, according to the report.

A small percentage of Indian populations have access to safe drinking water and proper housing facilities. As per the estimate of National Building Organization (NBO), in total there was a shortage of 31 million housing units at the end of March, 1991 and by the turn of the century, total backlog of housing shortage in the country is around 41 million units.

8. Poor quality of human capital

Indian economy is suffering from its poor quality of human capital. Due to high poverty levels, a large population of Indians lives BPL and do not have access to basic health and educational facilities.

Mass illiteracy is the root of this problem and illiteracy at the same time is retarding the process of economic growth of our country. As per 2001 census, 65.3 per cent of the total population of India is literate and the rest 34.7 per cent still remains illiterate. India marks for poor health, lower literacy rates, malnutrition, and lack of proper housing. It reduces the quality of living.

9. Technological backwardness

The economy of our country is thus suffering from technological backwardness. Obsolete techniques of production are largely being applied in both the agricultural and industrial sectors of our country.

10. Demographic factors

The demography of India's population is like the density of population, age composition, sex composition, literacy rate, life expectancy and rural-urban ratio etc... The demographic characteristics of India are not at all satisfactory.

The density of population calculated as a ratio of the number of persons per square kilometer of land area. Normally the density of population is very high in the urban and industrial areas and it is quite low in the rural areas, according 2001 census the density of population in India is 324per sq km.

The sex distribution of population of India has shown two perspectives- (a) a higher ratio males in the population and (b) a rising tendency towards masculinity.

The proportion of females per 100 males has fallen from 962 in 1901 to 933 in 2001. The latest trend showcases that in India 103 female babies are born against 100 male babies and loss of female babies after birth is much higher than that of male.

The analysis of age composition of population can determine the proportion of labor force in the total population of the country. The population in India is divided into three groups on the basis of age structure such as 0-14, 15-59 and 60 and above. The higher child population in India has resulted from higher birth rate and fall in the infant mortality rate. Populations on 0-14 age groups are dependent.

The proportion on working population in the age group of 55-60 has been declining from 60.2 percent in 1921 to 57.1 percent in 1951 and then 54.1 percent in 1981. In 2017, about 27.78 percent of the Indian population fell into the 0-14 year category, 66.23 percent into the 15-64 age group and 5.99 percent were over 65 years of age.

The rural urban composition of India population reflects on the pattern of living of the country's population. There is growing trend for gradual shift of population from rural to urban areas. The urban population increased by 41 percent during 194.51. The percentage of urban population in total population has gone up from 17 percent in 1951 to 25.72 percent in 1991 and 27.8 percent in 2001. The Rural – Urban distribution: 68.84% & 31.16% as of 2011 census.

11 Under-utilization of natural resources

India is considered as a very rich country. Various types of natural resources, viz., land, water, minerals, and forest and power resources are available in sufficient quantity in the various parts of the country. But due to its various inherent problems like inaccessible region, primitive techniques, shortage of capital and small extent of the market such huge resources remained largely under-utilized.

India as a developing Economy

After 70 years of Indian independence the economy has achieved several qualities for which India can be considered as a developing nation. They are as follows-

(i) Increase in Net National Product:

According to the CSO (Central Statistical Organization), India's net national product at factor cost (NNP at FC), i.e. national income was only Rs 1, 32,367 crores in 1950-51 increased to Rs 12, 66,005 crores in 2003-04. During the last two decades the national income has increased significantly to 5.8 % per year compared to 3.4% in first three decades. National Income estimates of first two years of 10th Five year plan are available. In these two years NNP rose at the rate of 6.5% per year although the growth rate was not adequate still it reflects some sign of improvement in terms of NNP at FC.

(ii) Increase in Per Capita (Per Head) Income:

Increase in per capita net national product at factor cost (per capita income) is considered to be far better index of economic growth. For this reason the planners of Indian economy want to progress the economic growth in terms of per head income. According to 1993-94 prices, Indian's per capita income in 1950-51 was Rs, 3,687.1. In 2003-04, within the five decades the per capita income rose to Rs 11,798.7, although the Planning Commission expected that the per capita income of India would be doubled in twenty years.

However this is an over-optimistic view without any basis. Over twelve years since 1992, the per capita income increased at a rate of 4.2% per year. In the first two years of 10th Five Year Plan per capita NNP at FC increased at the rate of 4.7 per year. However, the overall performance throughout the planning period was not adequate due to long past colonial exploitation.

(iii) Rise in Capital Formation:

According to Simon Kuznets, "Capital formation is necessary condition for economic productivity and growth." Rise in capital formation leads to increase in the growth of primary, secondary and tertiary sectors. During the planning period the gross domestic capital formation had increased from 8.7% in 1950- 51 to 26.3% in 2003-04.

(iv) Industrial Growth:

In India there are no such uniformity during the plan periods as far as industrial growth is concerned. Indian industries during the Third Five Year Plan observed a decent growth of about 8%), but thereafter industrial stagnancy took place. In 1976-77, the growth was abnormally high, but it decreased steadily during 1979 80. Again, it rose up during 80’s, According to Economic Survey, the average] annual industrial growth rate in India which was 5.6% in First Five Year Plan had increased to 8.6% during The Tenth Five Year Plan.

(v) Agricultural Progress:

The impact of new agricultural policy, i.e., green revolution, had increased our Food Grain production substantially from 81.0 million tonnes in the Third Plan (annual average) to 212.0 million tonnes in 2003-14. Wheat production increased from 11.1 million tonnes in 2003-04. The average annual production of rice rose from 35.1 million tonnes in Third Five Year Plan to 87.0 million tonnes in 2003 04.

(vi) Rise of Social Over Head Capital:

Social overhead capital includes transportation, irrigation, energy production, education, medical facilities etc. During the overall planning period these sectors had increased considerably.

(a) The railway’s route length increased by more than 9000 kms and the operation fleet has practically doubled.

(b) India’s road network is now one of the largest in the world. The total road length comprising national highways, state highways and other roads was 24.8 lakh kms in 2001-02. Shipping and civil aviation have also improved equally.

(c) India is still facing an energy crisis, but over the past five decades there has been a massive increase in installed electricity generating capacity. In 2003-04, the installed electricity generating capacity was 1, 21,400 MW against 2,300 MW in 1951. Likewise irrigation facilities in the country have been increased raising irrigated area from 2.26 crore hectares in 1950-51 to 8.47 crore hectares in 1999-2000.

(d) During the planning period the number of educational institutions has increased two times, whereas the number of teachers and students increased more than four times. Medical facilities have also increased during this period along with the number of doctors and number of nurses. The bed population is currently 0.93 beds per 1000 population as against 0.33 beds per 1000 population in 1950-51.

Major Issues of Development

Since independence Indian economy has thrived hard for improving its pace of development. India in the process is preparing itself for becoming an economic superpower, to attain this status; it must expedite socio-economic reforms and take steps for overcoming institutional and infrastructural bottlenecks inherent in the system. Availability of both physical and social infrastructure is central to sustainable economic growth. But there are many problems which are to be addressed that are hampering the process of faster economic growth and economic development.

The major issues are-

1. Low per Capita Income

National income and per capita income are the parameters to gauge the economic growth of any country. It is said that higher the level of national income, higher will be the rate of economic growth.India's net national product (NNP) at factor cost in 2007-08 at 1999-2000 prices stood at Rs 27,60,325 Cr. Population during the time stood at 1124 million. This means per capita NNP came to Rs 24,256 or Rs 2,021 per month. Further studies reports that the per capita income in India in 2014 was $1,560, the per-capita Gross National Income (GNI) of USA was 35 times that of India and that of China was 5 times higher than India. This indicates that, the standards of living of masses are badly low. Even the basic necessities are beyond the means of the majority of population.

2. High proportion of people below poverty line.

Indian economy also has great inequalities in the distribution of income and wealth. India had third highest number of people living in extreme poverty. India's poverty rate for the period 2011-12 stood at 22% of the total population. Nearly 60 p.c. of the total population share one-third of India's national income while only rich 5 p.c. of the total population enjoy the same amount of national income.

This inequality widens the problem of poverty. Even in 1972-73, more than 50 p.c. of the total population lived below the poverty line. Thanks to some economic progress it has come down from 36% in 1993-94 to about 27.5% in 2004- 05, 23.5% as of 2011.

3. **Low level of productive efficiency due to inadequate nutrition and malnutrition.**

Nutrition and balanced diet is a prerequisite for productive affiance. The NSS has estimated around 55% of urban population 45% of rural population suffer from inadequate intake of nutritional food intake. The level of malnutrition is visible in all income groups across the country.

Causes identified are-

a. High proportion of calorie intake is derived from cereals

b. Consumption of non cereal commodities is far short of the requirements.

c. Change pattern of food habits.

4. Imbalance between the population size, resources and capital.

The rate of growth of population is very high. So far as the size of population is concerned, India ranks second next only to China. 1.1% population growth is not sustainable for India. High birth rate coupled with low death rate is the genuine cause for population explosion in India. In the 20th century, India's population went up by 5 p.c. as against 3 p.c. increase in the world's population as a whole. This is imposing great economic burdens. The cchallenges are- per capita availability of land, sizeable proportion of capital utilised for provision of basic facilities for increasing population slows down the economic development.

5. Problem of unemployment

On one hand Natural resources are under-utilized and on the other there is massive wastage occur in the case of manpower resources. Economic growth is not to the mark of population growth rate and has accentuated the problem of unemployment in India. Indian agriculture exhibits a considerable amount of underemployment and disguised unemployment. In the urban areas disguised unemployment is visible. Despite massive investment made during the various plan periods, unemployment problem has assumed a gigantic proportion. This amounts to huge wastage of human capital.

6. Instability of output of agriculture and related sectors.

The uncertainty in agricultural production and gamble with monsoon along with lack of irrigation facilities has been the major reason for fluctuations in agricultural productivity.

Economic Development in India in relation to Agriculture

Agriculture is the backbone of Indian Economy, I would like to start the explanation by quoting that ‘No other country in the world has given so much importance and devotion to agriculture as much as India gives to it, in India Agriculture is not just an occupation but it is a divine form of worship for the farmers’. In a condition like this we discuss the idea of agriculture in India, features, draw backs and also agriculture marketing and finance.

Agriculture is the most important sector of Indian Economy. Indian agriculture sector accounts for 18 per cent of India's gross domestic product (GDP) and provides employment to 50% of the countries workforce. India is the world’s largest producer of pulses, rice, wheat, spices and spice products. India has many areas to choose for business such as dairy, meat, poultry, fisheries and food grains etc. India has emerged as the second largest producer of fruits and vegetables in the world.

According to the data provided by Department of Economics and Statics (DES) the production of food grains for the year 2013-2014 is 264 million tons which is increased when compared to (2012-2013) 257million tons. This is a good symptom for the Indian economy from the agriculture sector, and thus is the backbone for Indian Economy. Gross Value Added by agriculture, forestry and fishing is estimated at Rs 18.55 lakh crore (US$ 265.51 billion) in FY19(PE).

The contribution of agriculture in the initial two decades towards the total national output is between 48% and 60%. In the year 2001-2002, this contribution declined to just around 26%. The aggregate Share of Agriculture and Allied Sectors, Including agribusiness, domesticated animals, and ranger service and fishery sub segments as far as rate of GDP is 13.9 percent during 2013-14 at 2004-05 prices. Agricultural exports constitute a fifth of the total exports of the country.

Export of spices from India is relied upon to US$ 3 billion by 2016-17, The Indian flavours business is pegged at Rs 40,000 crore. Thus agriculture in India has completely changed with economic planning since 1950-51, and with special emphasis on agricultural development, particularly after 1962.

Role of Agriculture in Indian Economy:

Though industry has been playing an important role in Indian economy, still the contribution of agriculture in the development of Indian economy cannot be denied.

1. Agricultural influence on national income:

The contribution of agriculture during the first two decades towards the gross domestic product ranged between 48 and 60%. In the year 2001-2002, this contribution declined to only about 26% and now contributes to 18% of NI.

2. Agriculture plays vital role in generating employment:

India at least two thirds of the working population earn their living through agricultural works. In India other sectors have failed generate much of employment opportunity the growing working populations.

3. Agriculture makes provision for food for the ever increasing population:

Due to the excessive pressure of population labour surplus economies like India and rapid increase in the demand for food, food production increases at a fast rate. The existing levels of food consumption in these countries are very low and with a little increase in the capita income, the demand for food rise steeply. During 2018-19 crop year, food grain production is estimated at record 283.37 million tons. In 2019-20, Government of India is targeting food grains production of 291.1 million tons.

4. Contribution to capital formation:

Since agriculture happens be the largest industry in developing country like India, it can and must play an important role in pushing up the rate of capital formation. To extract surplus from agriculture the following policies are taken:

i. Transfer of labour and capital from farm to non-farm activities.

ii. Generation of surplus from agriculture to increase the agricultural productivity.

5. Supply of raw material to agro based industries:

Agriculture supplies raw materials to various agro based industries like sugar, jute, cotton textile and vanaspati industries. Food processing industries are similarly dependent on agriculture. Therefore the development of these industries entirely is dependent on agriculture.

6. Market for industrial products:

The increase in rural purchasing power is very necessary for industrial development as two- thirds of Indian population live in villages. After green revolution the purchasing power of the large farmers increased due to their enhanced income and negligible tax burden. This has contributed for market for industrial sector by agricultural sector.

7. Influence on internal and external trade and commerce:

Indian agriculture plays a vital role in internal and external trade of the country. Internal trade in food-grains and other agricultural products helps in the expansion of service sector. In 2013, India exported agricultural products valuing around 39 billion dollars. India exports agricultural produce and processed food to over 100 countries all around the world.

8. Contribution in government budget:

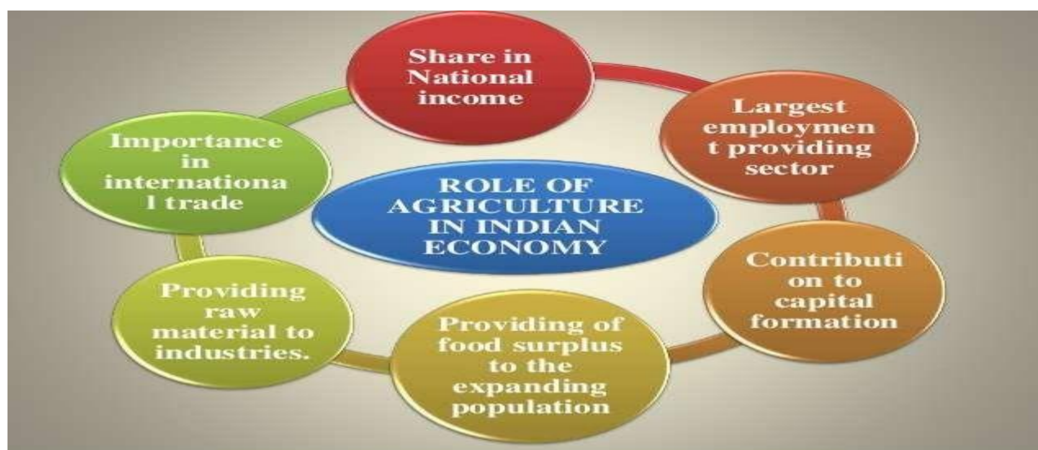
Right from the First Five Year Plan agriculture is considered as the prime revenue collecting sector for the both central and state budgets. However, the government earns huge revenue from agriculture and its allied activities like cattle rearing, animal husbandry, poultry farming, fishing etc. Indian railway along with the state transport system also earn handsome revenue as freight charges for agricultural products, both-semi finished and finished ones.

9. Need of labour force:

A large number of skilled and unskilled labourers are required for the construction works and in other fields. This labour is supplied by Indian agriculture.

10. Greater competitive advantages:

Indian agriculture has a cost advantage in several agricultural commodities in the export because of low labour costs and self- sufficiency in input supply.



The productivity of land increased tremendously giving huge economic boost to the nation. A comparative analysis of agricultural productivity in India for the period 1970-1971 and 2010-2011 is as follows-

Crop	Average yield (tonne/per hectare during the period 1970-1971)	Average yield (tonne/per hectare for period 2010–2011)	Yield Increase (tonne/per hectare)	Percentage increase in average yield (Tonne/per hectare)
Cotton	0.11	0.51	0.40	381.13
Oilseeds	0.58	1.33	0.75	128.84
Wheat	1.31	2.94	1.63	124.79
Rice	1.12	2.24	1.12	99.47
Sugarcane	48.32	68.60	20.27	41.96
Tea	1.18	1.67	0.49	41.20
Pulses	0.52	0.69	0.17	31.49

Problems of Indian agriculture

1. Small and fragmented landholdings

2. Lack of Quality Seeds

3. Manures, Fertilizers and Biocides

4. Irrigation

5. Lack of mechanization

6. Soil erosion

7. Agricultural Marketing

8. Inadequate storage facilities

9. Inadequate transport

10. Scarcity of capital

Recent Government Initiatives to strengthen Indian Agriculture

Some of the recent major government initiatives in the sector are as follows:

In September, 2019, Prime Minister, Mr. Narendra Modi launched the National Animal Disease Control Programme (NADCP), expected to eradicate foot and mouth disease (FMD) and brucellosis in livestock.

In May 2019, NABARD announced an investment of Rs 700 crore venture capital funds for equity investments in agriculture and rural-focused start-ups. As per the Ministry of Agriculture, during 2019-20, Rs 1.50 crore has been allocated to state of Andaman and Nicobar as a central share for implementation of per drop more crop component of Pradhan Mantri Krishi Sinchai Yojana (PMKSY).

Under Budget 2019-20, Pradhan Mantri Samman Nidhi Yojana was introduced under which a minimum fixed pension of Rs 3000 (US$ 42.92) to be provided to the eligible small and marginal farmers, subject to certain exclusion clauses, on attaining the age of 60 years.

As per the Union Budget 2019-20, government will work with State Governments to allow farmers to benefit from e-NAM. Prime Minister of India, launched the Pradhan Mantri Kisan Samman Nidhi Yojana (PM-Kisan) and transferred Rs 2,021 crore (US$ 284.48 million) to the bank accounts of more than 10 million beneficiaries on February 24, 2019.

The Government of India has come out with the Transport and Marketing Assistance (TMA) scheme to provide financial assistance for transport and marketing of agriculture products in order to boost agriculture exports.

The Agriculture Export Policy, 2018 was approved by Government of India in December 2018. The new policy aims to increase India's agricultural exports to US$ 60 billion by 2022 and US$ 100 billion in the next few years with a stable trade policy regime.

In September 2018, the Government of India announced Rs 15,053 crore (US$ 2.25 billion) procurement policy named 'Pradhan Mantri Annadata Aay Sanrakshan Abhiyan' (PM-AASHA), under which states can decide the compensation scheme and can also partner with private agencies to ensure fair prices for farmers in the country.

In September 2018, the Cabinet Committee on Economic Affairs (CCEA) approved a Rs 5,500 crore (US$ 820.41 million) assistance package for the sugar industry in India.

The Government of India is going to provide Rs 2,000 crore (US$ 306.29 million) for computerization of Primary Agricultural Credit Society (PACS) to ensure cooperatives are benefitted through digital technology.

With an aim to boost innovation and entrepreneurship in agriculture, the Government of India is introducing a new AGRI-UDAAN programme to mentor start-ups and to enable them to connect with potential investors.

The Government of India has launched the Pradhan Mantri Krishi Sinchai Yojana (PMKSY) with an investment of Rs 50,000 crore (US$ 7.7 billion) aimed at development of irrigation sources for providing a permanent solution from drought.

The Government of India plans to triple the capacity of food processing sector in India from the current 10 per cent of agriculture produce and has also committed Rs 6,000 crore (US$ 936.38 billion) as investments for mega food parks in the country, as a part of the Scheme for Agro-Marine Processing and Development of Agro-Processing Clusters (SAMPADA).

The Government of India has allowed 100 per cent FDI in marketing of food products and in food product e-commerce under the automatic route.

Achievements in the sector

A foreign direct investment (FDI) in India's food processing sector is stood at US$ 628.24 million in 2018-19. Sugar production in India has reached 33.16 million tonnes (MT) in 2018-19 sugar season and is expected to produce 26.85 MT in 2019-20, according to the Indian Sugar Mills Association (ISMA).

The Electronic National Agriculture Market (eNAM) was launched in April 2016 to create a unified national market for agricultural commodities by networking existing APMCs. Up to May 2018, 9.87 million farmers, 109,725 traders were registered on the e-NAM platform. 585 mandis in India have been linked while 415 additional mandis will be linked in 2018-19 and 2019-20.

Agriculture storage capacity in India increased at 4 per cent CAGR between 2014-17 to reach 131.8 million metric tonnes. Coffee exports stood at 286.95 million tonnes in FY20 (April-September'19). In between 2014-18, 10,000 clusters were approved under the Paramparagat Krishi Vikas Yojana (PKVY).

Green Revolution

The growth of agriculture depends on technical aspects. The agricultural inputs include seeds, fertilizer, plant protection, machinery and credit, irrigation and assume an importance place. One of the important prerequisite for growth of agriculture is irrigation. Irrigation means watering the fields by any means other than rain. Indian agriculture is a rain fed and productivity depends on availability of water. Thus impetus was given for bringing more agricultural land under irrigation. In 1950-51, 17% of land was under irrigation and as of 2016-17 48% of land is covered by irrigation.

The need for Irrigation in India is mainly to address the following issues-

1. As Indian agriculture is rain fed, the farmers face the problem of insufficient, uncertain and irregular rainfall.

2. An increase in irrigated lands can lead to higher productivity.

3. Irrigation can lead to multiple cropping possible thus making the food requirement self sufficient.

4. It helps in implement of new agricultural strategy.

5. It can bring more land under cultivation.

6. There can be two crops per year with irrigation it will help in reducing instability in levels.

The irrigation potential has increased from22.6 million hectares in1950-51 to 113.3million hectares in 2011-12 and further to 141.4 million hectares as of 2016-17. The Government allocation has increased from 442 crores in I plan to 1, 04,450 crores in 10th plan.

Green Revolution

The new agricultural strategy was adopted in India during the Third Plan, i.e., during 1960s. In 1951, Prime Minister Nehru invited Ford Foundation president Paul G. Hoffman to begin a program in India. Ford began by sending Douglas Ensminger as a representative. "Ensminger's first projects in India were connected to community development and thus were aimed at increased food grain production through social reform with secondary attention paid to the spread for existing technologies but only minor interest in new technology.“ As suggested by the team of experts of the Ford Foundation in its report "India's Crisis of Food and Steps to Meet it" in 1959, the Government decided to shift the strategy followed in agricultural sector of the country.

After the passage of P.L. 480 in the U.S. in 1956, American grain imports to India increased. India imported so much American grain that at one point the United States controlled "as much as one-third of the money supply in India." the United States saw its role in providing food and agricultural aid to India in the context of the Cold War. By that time, the USSR had the atomic bomb and China was on the brink of becoming Communist. The US used food and agricultural aid with the hopes of preventing hunger, unrest, and Communism in India. Until at least 1961, the Indian government based its policies upon bedrock of steady and usually low-cost American food grain imports."

Thus, the traditional agricultural practices followed in India are gradually being replaced by modern technology and agricultural practices. The report of Ford Foundation suggested introducing intensive effort for raising agricultural production and productivity in selected regions of the country through the introduction of modern inputs like fertilizers, credit, marketing facilities etc. They "prepared a ten-point program that promoted the "package" approach to increasing India's agricultural yields. On a trial basis of seven districts, India would attempt to marshal all of the inputs, to be made available to capable farmers, needed for intensive high-yielding practices. Use of improved seeds, fertilizer, irrigation, and pesticides was indispensible. Also needed were adequate credit facilities, technical advice, and a guaranteed price that would provide the grower an incentive to take the risk of trying new technology. This report was the foundation for

the Intensive Agricultural District Program (IADP), the organizational framework for the green revolution."

Accordingly, in 1960, seven states were selected and from these 7 states, seven districts were selected and the Government introduced a pilot project known as Intensive Area Development Programme (IADP) into those seven districts.

1. West Godavari In AP
2. Shahabad in Bihar.
3. Raipur in Madhya Pradesh.
4. Thanjavur in Tamil Nadu
5. Ludhaina in Punjab
6. Aligarh in UP
7. Pali in Rajasthan for millets.

In 1964, Lal Bahadur Shastri became Prime Minister appointed C. Subramaniam as Minister of Food and Agriculture. Together, Shastri and Subramaniam worked to encourage an increase in grain production via increased government support of agricultural production. To do this, they took the recommendation of the Food grains Prices Committee that the government should offer incentive prices for grain that are higher than procurement and market prices. Additionally, Subramaniam favored building up government reserves of grain by purchasing it on the open market at incentive prices. With these policies in place, the price of wheat increased by 33 percent between 1964 and November 1965. By 1967, Indian grain production increased steadily.

In August 1965, Subramaniam publishes a plan, "Agricultural Production in the Fourth Five Year Plan: Strategy and Programme," that truly marks the Indian government's commitment to the Green Revolution.

In mid-1960s, Prof. Norman Borlaug of Mexico developed new high yielding varieties of wheat and accordingly various countries started to apply this new variety with much promise.

Similarly, in the kharif season in 1966, India adopted High Yielding Varieties Programme (HYVP) for the first time. This programme was adopted as a package programme as the very success of this it depends upon adequate irrigation facilities, application of fertilizers, high yielding varieties of seeds, pesticides, insecticides etc. In this way a new technology was gradually adopted in Indian agriculture. This new strategy is also popularly known as modern agricultural technology or green revolution in 1966, an Indian team led by S.P. Kohli of the Indian Agricultural Research Institute went to Mexico to select and purchase wheat seeds. Their purchase of 18,000 tons of the variety Lerma Rojo 64 was shipped from Sonora, Mexico on July 18, 1966, arriving in the Indian state of Gujarat by mid-September. This was enough seed to plant an estimated 1 million acres at a time when India had 33 million acres planted in wheat, with 10 million of them having irrigation. This programme was extended to remaining states and one district from each state was selected for intensive development. Accordingly, in 1965, 144 districts (out of 325) were selected for intensive cultivation and the programme was renamed as Intensive Agricultural Areas Programme (IAAP).

Green Revolution varieties of wheat covered 504,000 hectares in India in 1966-67 and grew nearly 20 times to 10 million hectares by 1972-73.

In the initial stage, HYVP along with IAAP was implemented in 1.89 million hectares of area. Gradually the coverage of the programme was enlarged and in 1995-96, total area covered by this HYVP programme was estimated to 75.0 million hectares which accounted to nearly 43 per cent of the total net sown area of the country.

As the new HYV seeds require shorter duration to grow thus it paved way for the introduction of multiple cropping, i.e., to have two or even three crops throughout the year. Farmers producing wheat in Punjab, Haryana, Western Uttar Pradesh, Rajasthan and Delhi started to demand heavily New Mexican varieties of seeds like Lerma Rojo, Sonara-64, Kalyan and P.V.-18.

But in case of production of rice, although new HYV varieties of seeds like T.N.-l, ADT-17, Tinen-3 and IR-8 were applied but the result was not very much encouraging. Some degree of success was only achieved in respect of IR-8.

Features of Green Revolution-

Revolutionary:

The Green revolution is considered as revolutionary in character as it is based as new technology, new ideas, new application of inputs like HYV seeds, fertilizers, irrigation water, pesticides etc. As all these were brought suddenly and spread quickly to attain dramatic results thus it is termed as revolution in green agriculture.

HYV Seeds:

The most important strategy followed in green revolution is the application of high yielding variety (HYV) seeds. Most of these HYV seeds are of dwarf variety (shorter stature) and matures in a shorter period of time and can be useful where sufficient and assured water supply is available.

Confined to Wheat Revolution:

Green revolution has been largely confined to Wheat crop neglecting the other crops. 90 per cent of land engaged in wheat cultivation is benefitted from this new agricultural strategy. Most of the HYV seeds are related to wheat crop and major portion of chemical fertilizer are also used in wheat cultivation. Therefore, green revolution can be largely considered as wheat revolution.

Narrow Spread:

The area covered through green revolution was initially very narrow as it was very much confined to Punjab, Haryana and Western Uttar Pradesh only. It is only in recent years that coverage of green revolution is gradually being extended to other states like West Bengal, Assam, Kerala and other southern states.

Impact of Green Revolution:

Introduction of new agricultural strategy or green revolution has created huge impact on the economy of the country.

Increase in Agricultural Production:

Due to the adoption of new agricultural strategy the volume of agricultural production and productivity has recorded manifold increase. The production of wheat, rice, maize and potatoes has increased substantially. Total production of food grains in India increased from 81.0 million tonnes (annual average) during the Third Plan to 264.8 million tonnes in 2013-2014. The introduction of Special Food grains Production Programme (SFPP) and the Special Rice Production Programme (SRPP) has supported the agricultural productivity.

Increasing Employment Opportunities:

The introduction of new agricultural strategy has led to considerable expansion of agricultural employment. Due to the introduction of multiple cropping, job opportunities in the rural areas has also expanded as the demand for hired workers required for farm activities increased simultaneously.

Strengthening the Forward and Backward Linkages:

Although traditional linkages between agriculture and industry existed since a long back, but green revolution has strengthened the linkages. Strong forward linkage of agriculture with industry was noticed even in the traditional agriculture as agriculture supplied various inputs to industries.

But the backward linkage of agriculture to industry, i.e., in the form of agriculture using finished products of industry, was very weak. But introduction of modern technology to agriculture has raised a huge demand for agricultural inputs now produced and supplied by industries. Thus, modernisation of agriculture and development of agro-based industries has strengthened both forward and the backward linkages between agriculture and the industry.

Increase in Regional Disparities:

Introduction of new technology in agriculture has widened the regional disparities as only some regions well endowed with resources and irrigation potential have benefitted most from the introduction of modern technology.

The coverage of green revolution has been raised from a mere 1.89 million hectares in 1966-67 to only 71.3 million hectares in 1994-95 which accounts to nearly 42 per cent of gross cropped area of the country.

Moreover, as the green revolution was very much restricted to production of wheat thus the benefits were very much restricted to 20.4 million hectares of area engaged in wheat production (only 12 per cent of gross cropped area). Moreover, only those areas having irrigation facilities and package of other inputs could achieve success in HYVP of wheat.

Thus, accordingly the regions of Punjab, Haryana and Western Uttar Pradesh derived the benefits of new agricultural strategy. But the agriculture of the remaining more than 80 per cent of the cropped area of the country is still depending on vagaries of the monsoons in the absence of irrigation facilities.

No response from Small and Marginal Farmers:

Small and marginal farmers in India could not be able to adopt new strategy due to their poor financial condition and poor creditworthiness. Majority of rural household having small size of land or no land has derived negligible benefit from this new technology.

Market Oriented:

Introduction of new technology in agriculture has transformed the farmers market oriented. Indian farmers are mostly depending on market for getting their inputs as well as for selling their output. Moreover, farmers are also depending much on institutional credit available in the market to meet cost of adoption of new technology.

Change in Attitudes:

Green revolution has contributed favorably to change the attitudes of farmers in India. Agricultural operation has enhanced its status from subsistence activity to commercial farming due to the adoption of new strategy.

Unwanted Social Consequences:

Green revolution has also raised certain unwanted social consequences. Various socio-economic studies have confirmed these consequences. Green revolution paves the way for transforming a large number of tenants and share-croppers into agricultural labourers due to large-scale eviction of tenants by large farmers as they find large-scale farming is highly profitable.

Moreover, increased mechanisation of farm has resulted huge number of accidents which maimed more than 10,000 farm laborers in India till 1985. Again the increasing application of poisonous pesticides, without realizing its health hazards has added a serious health problem.

Withstanding all the debates, there has been an increase in the production of food grains, and thus with the population of the country crossing 1.2 billion mark and the demand for food grains increasing to 270 million tonnes, green revolution becomes a necessity.

Achievements of Green Revolution:

The most important achievement of new strategy is the substantial increase in the production of major cereals like rice and wheat.

The production of rice has increased from 35 million tonnes in 1960-61 to 54 million tonnes in 1980-81 and then to 106.5 million tonnes in 2013-14.

The production of wheat has also increased significantly from 11 million tonnes in 1950-51 to 36 million tonnes in 1980-81 and then to 95.9 million tonnes in 2013-2014. During this period, the yield per hectare also increased from 850 kgs to 3,075 kgs per hectare which shows that the yield rate has increased by 369 per cent during last six decades.

Total production of food grains in India has been facing wide fluctuations due to vagaries of monsoons. In spite of these fluctuations, total production of food grains rose from 82

million tonnes in 1960-61 to 130 million tonnes in 1980-81 and then to 213.5 million tonnes in 2003-04 and then increased to 264.8 million tonnes in 2013-14.

The new agricultural strategy was very much restricted to the production of food grains, mostly wheat and rice.

Weaknesses of Green Revolution:

Following are some of basic weaknesses of new agricultural strategy:

(a) Adoption of new agricultural strategy through IADP and HYVP led to the growth of capitalist farming in Indian agriculture as the adoption of these programmes were very much restricted among the big farmers, necessitating a heavy amount of investment.

(b) The new agricultural strategy failed to recognize the need for institutional reforms in Indian agriculture.

(c) Green revolution widened the disparity in income among the rural population.

(d) New agricultural strategy along with increased mechanization of agriculture created a problem of labour displacement.

(e) Green revolution widened the inter-regional disparities in farm production and income.

(f) Green revolution has led to some undesirable social consequences arising from incapacitation due to accidents and acute poisoning from the use of pesticides.

Agricultural Labor

Agricultural labor has contributed immensely to the growth of the Indian economy. Thus it was opined that “It is one of the primary objects of the Five-Year Plans to ensure fuller opportunities for work and better -living to all sections of the rural community and in particular, to assist agricultural laborers and backward classes to come up to the level of the rest.”

According to the National Commission on Labor: "an agricultural laborer is one who is basically unskilled and unorganized and has little for its livelihood, other than personal labor."

The First Agricultural Labor Enquiry Committee 1950-55 defined Agricultural Laborer as - “Those people who are engaged in raising crops on payment of wages”

Agricultural labors means who works on the land and of others on wages. Agricultural works are agricultural workers constitute the most neglected class in Indian rural structure. Agriculture labor may be defined as labor who works in agriculture or allied activities for the whole or part of the year in return for (in cash or kind or both) for full-time or part time work.

1. Landless Agricultural Laborer: The laborers don’t posses land and can be further sub-divided into:

(i) Permanent Laborers attached to cultivating households: Permanent or attached laborers generally work on some sort of contract. The wages are determined by custom or tradition.

(ii) Temporary or Casual Laborers: Casual labourers are engaged only during peak period for work. The employment is temporary and labourers are paid at the market rate. These labourers are not attached to any landlords.

2. Small and Marginal Land-Owners: These are very small cultivators whose main source of earnings due to their small and marginal holdings is wage employment. These laborers can again be divided into three subgroups:

(i) Cultivators: Cultivators are small farmers, who possess very little land and therefore, have to devote most of their time working on the lands of others as labourers. (ii) Share croppers: Share croppers are those who, while sharing the produce of the land for their work, also work as labourers.

(iii) Lease holders: Lease holders are the tenants who not only work on the leased land but also work as labourers.

Features of Agricultural Labourers-

1. Agricultural Labourers are scattered: Agricultural labour in India is being widely scattered over large number of villages in the country and so cannot be effectively organized.

2. Unskilled and Lack Training: Agricultural labourers, especially in smaller villages are generally unskilled workers carrying on agricultural operation at a very low wages. Majority of them are generally conservative and tradition bound. There is hardly any motivation for change or improvement. Since there is no alternative employment, the agricultural laborer has to do all types of work- both farm and domestic for landlord.

3. Unorganized: Agricultural labourers are not organized like industrial labourers. These laborers are illiterate and ignorant. They live in villages scattered all over the country. Hence they could not be organized in unions. Accordingly, it is difficult for them to bargain with the land owners and secure good wages.

4. Low Social Status: Most agricultural workers belong to the depressed classes, which have been neglected for ages. In some parts of India, agricultural labourers are migratory, moving in search of jobs at the time of harvesting with a lot of dislocation of family life, dislocation of education of children and numerous other handicaps.

5. Abundance of Labour: The agricultural labourers are abundant in supply in relation to their demand. It is only during the sowing and harvesting seasons that there appears to be needful employment, later majority of agricultural workers are jobless The problem of labors are that they are unskilled and fail in securing alternative employment.

6. Low Bargaining Power: Due to all the above mentioned factors, the bargaining power and position of agricultural labourers in India is very weak. In fact, quite a large number of them are in the grip of village money lenders, landlords and commission agents, often the same person functioning in all the three capacities. The farm labourers have been getting very low wages and have therefore to live in a miserable sub-human life.

Causes for growth of agricultural labourers

1. Increase in Rural Population
2. Decline of Cottage Industries and Handicrafts
3. Eviction of Small Farmers and Tenants from the Land
4. Uneconomic Land Holdings and fragmentation of land holdings.
5. Increase in indebtedness
6. Break-up of Joint Family System.
7. Other social factors such as economic transition through which some of the criminal tribes and castes have been passing all these led to the emergence of a class of landless labourers in the country.

Improvement of Agricultural Labour

1. Abolition of Agricultural Slavery- the Indian Constitution has declared the practice of serfdom an offence. It has abolished agrarian slavery including forced labour by law
2. Minimum Agricultural Wages- under Minimum Wages Act, The Minimum Wages Act was passed in 1948, according to which every State Government was asked to fix minimum wages
3. Provision of Land leading to rehabilitation of landless agricultural workers. The zamindari system was abolished by law in all the States and with that all the exploitation associated with the system has been removed. Besides, tenancy laws have been passed in most of the states protecting the interests of the tenants and

labourers, and enabling them to acquire the lands they cultivate. Many states have passed legislation fixing ceiling on agricultural holdings by which the maximum amount of land which a person can hold has been fixed by law.

4. Cooperative farming- During the Second Five-Year Plan, efforts were made to encourage the formation of labour co-operatives. Public works programme

5. Employment Guarantee Scheme: The Government of Maharashtra introduced it in 1977.

20-Point Programme:

In July, 1975, soon after the Emergency was declared, the Government introduced the 20-point economic programme which included a number of measures to improve the economic condition of the landless workers and other weaker sections of the community in our villages.

These measures were:

(i) Speedy implementation of ceiling legislation and distribution of surplus land among landless labourers and small peasants;

(ii) Provision of house sites for landless labourers and conferment of ownership rights of the houses if they have been occupying them for a certain period;

(iii) Abolition of bonded labour;

(iv)Liquidation of rural indebtedness and moratorium on recovery of debts from landless labourers, artisans and small peasants; and

(v) Review of the minimum wage legislation for agricultural labour and introduction of suitable enhancement of minimum wages wherever necessary.

A special scheme was introduced for providing employment. Rural Employment (CSRE), National Rural Employment Jawahar Gram Samridhi Yojana (JGSY), and National Food for Work Programme (NFFWP), Mahatma Gandhi Rural Employment Guarantee Act MGNREGA

Special agencies for development - Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers Development Agency (MFAL) - were created in 1970-71 to solve the problems of Agriculture labour of the country.

The Central Government has passed the National Rural Employment Guarantee Act (2005) which makes it mandatory for the Government to provide 100 days of employment per rural household. Welfare Measures for Agricultural Labour- The old age pension scheme, to those who have attained the age of 60 and having no sons, needs to be extended to cover all agricultural workers of age 60, irrespective of presence of sons/daughters. Minimum wages through a single window for agricultural labourers was introduced. A crop insurance scheme on the pattern of 'livestock insurance' and 'life insurance' needs to be introduced. Drought Prone areas, Desert areas development programmes etc.

Measures taken by the government to improve the conditions of agricultural labourers:

The Government has shown awareness of the problems of agricultural workers and all plan documents have suggested ways and means to ameliorate the lot of these people. Measures adopted by the Government for ameliorating the economic conditions of agricultural labourers are -

1. Passing of minimum wage Act.
2. Abolition of Bonded Labourers
3. Providing land to landless labourers
4. Provision of Housing cities to houseless
5. Special schemes for providing employment are as follows-

i) Crash Scheme for Rural Employment (CSRE)

ii) Pilot Intensive Rural Employment Project (PIREP)

iii) Food for works programme (FWP)

iv) National Rural Employment Programme (NREP)

v) Rural Landless Employment Programme (RLEP)

vi) Drought Prone Area Programme (It was known as Rural Works Programme)

6. Jawahar Rojgar Yojana (which come in with the merger of NREP and RLEGP)

7. Desert Development Programme

8. National Scheme of Training of Rural Youth for Self Employment (TRYSM)

9. Development of Women and Children in Rural Areas (DWCRA)

10. Abolition of Bonded Laborer Act

11. Integrated Rural Development Programme (IRDP)

Agriculture Marketing

Agricultural marketing system is an efficient way by which the farmers can dispose their surplus produce at a fair and reasonable price. Improvement in the condition of farmers and their agriculture depends to a large extent on the elaborate arrangements of agricultural marketing. The term agricultural marketing include all those activities which are mostly related to the procurement, grading, storing, transporting and selling of the agricultural produce.

Thus, Prof. Faruque has rightly observed:

"Agricultural marketing comprises all operations involved in the movement of farm produce from the producer to the ultimate consumer. Thus, agricultural marketing includes the operations like collecting, grading, processing, preserving, transportation and financing."

Different systems of agricultural marketing are-

1. The farmers in India is to sell away their surplus produce to the village moneylenders and traders at a very low price, The moneylender and traders may buy independently or work as an agent of a bigger merchant of the nearly mandi. In India more than 50 per cent of the agricultural produce is sold in these village markets in the absence of organized markets.

2. Sale in Markets:

The second method of disposing surplus of the Indian farmers is to sell their produce in the weekly village markets popularly known as 'hat' or in annual fairs.

3. Sale in Mandis:

The third form of agricultural marketing in India is to sell the surplus produce though mandis located in various small and large towns. There are nearly 1700 mandis which are spread all over the country. As these mandis are located in a distant place, thus the farmers will have to carry their produce to the mandi and sell those produce to the wholesalers with the help of brokers or 'dalals'.

These wholesalers of mahajans again sell those farm produce to the mills and factories and to the retailers who in turn sell these goods to the consumers directly in the retail markets.

4. Co-Operative Marketing:

The fourth form of marketing is the co-operative marketing where marketing societies are formed by farmers to sell the output collectively to take the advantage of collective bargaining for obtaining a better price.

5. Regulated Markets:

Organized marketing of agricultural commodities has been promoted throughout the country through a network of regulated markets, whose basic objective is to ensure reasonable prices to both farmers and consumers by creating a proper market environment for fair play of supply and demand. The number of regulated markets has grown from 286 in 1950 to 7,114 as on 31st March, 2014, besides which there are 22,759 rural periodical markets.

Defects of Agricultural Marketing in India:

1. The major problem faced by farmers in India is lack of adequate storage facility to store the agricultural produce.
2. The farmers in distress sell their produce to middlemen, moneylenders at low prices due to financial problems.
3. There is no proper development of road connectivity from villages to taluk places, towns and cities which acts a hindrance for farmers to transport their products to markets.
4. There is existence of unfavorable mandis where farmers are exploited by intermediaries and middlemen.
5. The markets are unregulated and do not follow rules and regulations as specified by the government and thus farmers are exploited.
6. There is lack of Market Intelligence as correct and accurate information of market prices for agricultural commodities do not reach farmers.

7. There is lack of knowledge to grade the agricultural produce by the farmers, thus they do not get fair price for their produce. Lack of Institutional Finance

Remedial Measures for Improvement of Agricultural Marketing:

An improvement of the agricultural marketing in India is utmost need of the hour. Thus there is a need to meet the above mentioned conditions develop agricultural market in India. Thus the measures taken are-

(i) to establish regulated markets.

(ii) Establishment of co-operative marketing societies.

(iii) Extension and construction of additional storage and warehousing facilities for agricultural produce of the farmers.

(iv)The expansion of market yards and other allied facilities for the new and also to the existing markets can lead to better functioning of agricultural markets..

(v) Provision is made for extending adequate amount of credit facilities to the farmers.

(vi) A timely provision of marketing information to the farmers.

(vii) Improvement and extension of road and transportation facilities for connecting the villages with mandis.

(viii) Provision for standardization and grading of the produce for ensuring good quality to the consumers and better prices for the farmers.

(ix) Formulating suitable agricultural price policy by the Government for making a provision for remunerative prices of agricultural produce of the country.

Steps Taken for Improvement of Agricultural Marketing in India:

The Government has taken following important steps for the improvement of agricultural marketing in India:

1. Warehouses: For constructing the network of warehouses in the town and mandis, the All India Warehousing Corporation has already been set up. In 1988-89, the Central Warehousing Corporation (CMC) owned and managed nearly 465 warehouses with its total storage capacity of 6.4 million tonnes.

   State Warehousing Corporations (SWCs) also own and manage about 1300 warehouses as of 1988-89 with its total storage capacity of about 8.5 million tonnes. Besides, the Co-operative Societies have also been provided with necessary financial and technical help to promote warehousing facilities in the rural areas of the country.

2. Development of Marketing Societies and Regulated Markets**:**

The Co-operative Credit Societies are also re-vitalized for providing more credit to the farmers. Again about 2633 general purpose primary co-operative marketing and processing societies have also been formed for assuring reasonable prices to the farmers and also to remove all existing intermediaries from the market. As on March 2009, about 7,139 regulated markets had been set up to safeguard the interest of farmers.

Price of important food grains are also stabilized by the Government as per the recommendations of the Agricultural Costs and Prices. Lastly, the marketing of agricultural produce has also been improved significantly by the Government with the growing involvement of the organizations like Food Corporation of India, Cotton Corporation of India, Jute Corporation of India etc.

3. Infrastructure and other facilities:

The central Government is also providing assistance for the creation of infrastructural facilities in the markets and also for setting up goes downs in rural areas. These schemes have been transferred to different States and Union Territories with effect from April 1992.

In order to set up cold storage under co-operative sector, the National Co-operative Development Corporation has advanced a sum of Rs 75 crore for installing 248 cold storages having an installed capacity of 7.39 lakh tonnes till the end of March, 1996.

Moreover, agricultural marketing is also suitably attended by a network of co-operatives at primary level, state level and national level.

The network comprises both general marketing societies and commodity marketing societies. Accordingly, the marketing of agricultural produce through co-operatives has increased from Rs 1,950 crore in 1980-81 to Rs 11,500 crore in 1995-96. Again the co-operatives are also playing a significant role in the procurement operation of both essential consumer commodities like rice and wheat and commercial crops like cotton and jute.

The National Agricultural Co-operative Marketing Federation of India (NAFED) is also working as an apex body of marketing co-operatives in the country. It is also providing effective support to the farmers for marketing their produce and also undertaking price support and market intervention operation

NAFED:

NAFED is a central nodal agency for undertaking price support operations for pulses and oilseeds and market intervention operation for horticultural items like Kinnu/Malta, onion, potato, grapes, black pepper, red chilies etc. During 1994-95 NAFED's turnover was Rs 718.77 crore and the turnover target for 1997-98 is Rs 80.000 crore.

A few other organizations in the co-operative sector are the National Cooperative Tobacco Growers Federation Ltd., the National Consumers' Co-operative Federation and the Tribal Co-operative Marketing Development Federation of India Ltd. (TRIFED) which attends specifically to the marketing problems of the tribal areas.However, the share of co-operatives in the total marketing of agricultural commodities is rather small.

Commodity Boards: the specialized Commodity Boards continue to operate for rubber, coffee, tea, tobacco, spices, coconut, oilseed and vegetable oils, horticulture etc. The National Dairy Development Board is also engaged in the marketing of agricultural commodities. There are various organizations active in the field of agricultural commodity exports such as the State Trading Corporation, the Cashew-nuts Export Promotion Council, the Shellac Export Promotion Council and the Agricultural and

Processed Food Development Authority, which also accomplish the task of promoting/boosting agriculture exports.

4. Standardization and Grading-

The main function under institutionalized agricultural marketing is to promote standardization and grading of agricultural products. In order to improve the marketability of products within and outside the country, an effective quality control mechanism is essential. In order to facilitate grading; standards have been laid down for 143 agricultural and allied commodities under the Agricultural Produce (Grading and Marketing) Act, 1937. Accordingly, the Agricultural Produce (Grading and Marking) Act, 1937 was the first legislation enacted by the Central Government to formulate standards and carry out grading and marking of agricultural and allied commodities.

The Act also empowers the Central Government to include additional commodities/products in the schedule for enforcement of grade standards and implementing grading and quality control. Ag-mark standards have been framed and notified in respect of 163 commodities which include food grains, pulses, fruits and vegetables, spices, edible nuts, oilseeds, vegetable oils and fats, fibers, forest products, livestock, dairy and poultry products.At present, 22 Regional Agmark Laboratories are operating under the Apex Central Agmark Laboratories, Nagpur. These laboratories also provide training to chemists of the laboratories of States and Union Territories.

The latest reforms to strengthen agricultural marketing are-

National Agriculture Market is one of the reform agenda, with the objectives to create barrier free market, enhance competition & transparency in transactions and widen choice to farmers for sale of their produce; Prime Minister Shri Narendra Modi launched the pilot of e-NAM, the e-trading platform for the National Agriculture Market (eNAM) on 14th April, 2016. Initially 21 mandis in 8 states had been linked to the National Agriculture Market. Presently, 585 mandis are linked with the e-NAM platform.

The Government of India has launched six new user friendly features of National Agriculture Market (e-NAM) platform. i.e.

(i) e-NAM Mobile App;
(ii) BHIM payment facility;
(iii) New and improved Website with eLearning Module;
(iv) MIS Dashboard
(v) Grievance Redressal Management System for Mandi Secretaries; and
(vi) Integration with Farmer Database.

Only those States / UTs are eligible to link their markets to e-NAM portal, which have undertaken reforms in their APMC Acts in respect of (i) e-trading; (ii) single point levy market fee across the state; (iii) single unified trading license valid across the state. The progresses of reforms with respect to 7 vital areas identified by the Department are:

1. Setting up of markets in private sector;
2. Direct marketing (direct purchase of produce from farmers by processors/exporters/bulk buyers, etc outside the market yard);
3. Farmer Consumer markets (direct sale by farmers to consumers) to be set up by a person other than a Market Committee;
4. Contract Farming;
5. E-Trading;
6. Single point levy of market fee across the State;
7. Single trading license across the State;
8. De-linking of Provisions of Compulsory Requirements of Shop/Spaces for Registration of Traders/Market Functionaries;
9. Take out Fruits and Vegetables out of APMC Act.

Agricultural finance

Agricultural production in this country depends upon millions of small farmers. It is the intensity of their effort and the efficiency of their technique that will help in raising yields per acre. Finance in agriculture is as important as other inputs being used in agricultural production. With the prevalence of inadequate financial resources and absence of timely credit facilities at reasonable rates to farmers, many of the farmers are unable to go in for improved seeds and manures or to introduce better methods or techniques. Thus realizing the importance of agricultural credit in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural credit is being stressed since the beginning of planned era in India

"Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers. It is also considered as the study of those financial intermediaries who provide loan funds to agriculture and the financial markets in which these intermediaries obtain their loan able funds."

Money lenders were the main source of credit to agricultural sector in early period along with some co-operative banks as an institutional agencies providing finance to agriculture. With 14 major commercial banks being nationalized in 1969, it was made mandatory for these banks to provide finance to agriculture as a priority sector. These banks undertook special programs of branch expansion and created a network of banking services throughout the country and started financing agriculture on large scale. Thus agriculture credit acquired multi-agency dimension

NEED FOR AGRICULTURAL FINANCE

The financial need of the Indian farmer can be broadly classified into two categories

1. On the basis of time and
2. On the basis of purpose.

The needs of the farmers can be classified into three categories on the basis of time:

1. Short term.
2. Medium term, and
3. Long term finance.

Short-term loans are required for the purchase of seeds, fertilizers, pesticides, feeds on fodder of livestock, marketing of agricultural produce, payment of wages for hired labors. Period of such loans are up to 15 months. Agencies for granting such loans are the moneylenders and cooperative societies.

Medium-term loans are obtained for the purchase of cattle, small agricultural implements, repair and construction of wells etc. The period of such loans extends from 15 months to 5 years. These loans are generally provided by money-lenders, relatives of farmers, cooperative societies and commercial banks.

Long-term loans are required for effecting] permanent improvement on land, digging tube wells,' purchase of larger agriculture implements and' machinery like tractors, harvesters etc. and repayment; of old debts. The period of such loans extends beyond; 5 years. Such loans are normally taken from Primary Cooperative Agricultural and Rural Development Banks (PCARDBS).

On the Basis of Purpose:

Agricultural credit needs of the farmers can be classified on the basis of purpose into the following categories:

Productive needs- it includes all credit requirements which directly affect agricultural productivity. Farmers need loans for the purchase of seeds, fertilizers, manures, agricultural implements, livestock, digging and repair of wells and tube wells, payment of wage, effecting permanent improvements on land, marketing of agricultural produce, etc. Repayment of these loans is generally not difficult because the very process of production generally creates the withdrawal for repayments.

Consumption needs- Farmers often require loans for consumption as well. Institutional credit agencies do not provide loan for consumption purpose. Therefore farmers stretch their hand towards the moneylenders.

Unproductive borrowings-Loans are taken for unproductive purposes such as litigation, marriages, and social ceremonies on birth and death of a family member, religious functions, festivals etc. Farmers take loans from Mahajans since institutional credit agencies do not give such loans.

SOURCES OF AGRICULTURAL FINANCE

The two major sources of finance in agriculture are institutional and non- institutional sources.

Non-Institutional sources are the following:

(a) Moneylenders –

There are two types of money lenders in rural areas. There are rich farmers or landlords who combine farming with money-lending. There are also professional money lenders whose only occupation or profession is to lend money. The cultivators depend upon the money-lenders for their requirements of cash. The money lender freely supplies credit for productive and non-productive propose, and also for short-term and long-term requirements the farmers. He is easily accessible and maintains a close and personal contact with the borrowers often having relations with family extending over generations.

(b) Relatives- depend for short term finance for unproductive consumption.

(c) Traders, Commission agents and Landlords- Traders and commission agent supply funds to farmers for productive purpose much before the crops mature. They force the framers to sell their produce at low price and they charge a heavy commission for themselves. Thus source of finance is particularly important in the case of cash crop like cotton, groundnut, tobacco, and in the case of fruit of chard like mangoes.

Institutional Source –

Institutional sources consist of the government and co-operative societies, commercial bank including the Regional bank, Lead bank.

1. Co operatives: Indian planners consider co-operation as an instrument for economical development of the deprived farmers, particularly in the rural areas. They see in a village panchayat, a village co-operatives and village school, as the trinity of institution on which a self-reliant and just economic and social order is to be built. The co-operative movement was started in India largely with a view for providing agriculturists funds for agricultural operations at low rates of interest and protects them from the clutches of money lenders. The rural co-operative credit institutions in India have been organized into short-term and long-term structures. The short-term co-operative structure is based on three-tier structures, except for the states in the northeast region.

2. Primary Agricultural Credit Society- These credit societies are grass root level arms of the short term co-operative credit structure. These are organized at the village level. PACs deal directly with farmers and grant short term and medium term loans and also undertake distribution and marketing functions. The usefulness of PACs has been rising steadily.

   In 1950-51, it advanced loan worth Rs. 23 crores and Rs. 34,520 crore in 2000-01. The PACs have stepped up their advances to the weaker sections particularly the small and marginal farmers. The progress has been quite spectacular but not sufficient considering the demand of finance by farmers

3. Central Cooperative Banks- The second tier District Central Cooperative Banks (DCCBs) are organized at the district level. There are 369 District Central Cooperative Banks as of 2001-2002. The loan amount of 56,650crore was distributed to the farmers so far. Their main task is to lead Primary Agricultural Credit Societies in village.

4. State Cooperative Banks- The third and uppermost tier are the (STCBs) organized at the state level state Cooperative Banks (state level). There are 30 State Cooperative banks in the country. These Banks are the apex banks of the Cooperative credit structure. It serves

as a link between NABARD from which it borrows and lends to the co-operative central bank and primary societies village. Central Cooperative Banks functions as intermediaries between the State Cooperative Bank and Primary Agricultural credit society. Thus cooperatives functions as follows-

Commercial Banks:

In fact up to 1970, the government policy was to depend entirely on the cooperative banks as a major source of institutional credit in rural areas. But looking to the growing demand, Government felt that Cooperative Bank alone cannot meet the need for agricultural finance, Govt changed the policy and a number of institutions were developed to provide rural credit. In 1969, 14 major banks were nationalised.

In 1980, six more banks were nationalised. In 2004, the number of total branches had shot up to 67,062, of this 32,200 in rural areas to 47,599 as of 2016

Regional Rural Banks:

The Working Group on Rural Banks (1975) recommended for the establishment of Regional Rural Bank (RRBs) to supplement the efforts of the commercial banks and the cooperatives in extending credit to weaker sections of the rural community, small and marginal farmers, landless labourers, artisan and other rural residents of small means.

The intention in having these new banks was to provide an institutional device which combined the local feel and familiarity with the rural problems which the cooperatives possessed and the degree of business organisation and modernised outlook which the commercial banks had, with a view to reaching the rural poor more extensively. Consequent upon the recommendations of the Working Group, 5 RRBs were initially set up in 1975. Their number later rose to 196. In 2003-04, RRBs provided Rs. 7,581 crores as credit to the agricultural sector.

National Bank for Agriculture and Rural Development (NABARD):

The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. It took

over from Reserve Bank of India all the functions that the latter performed in the field of rural credit. NABARD is now the open bank for rural credit.

Functions of NABARD (1982):

The main functions of NABARD are as follows:

1. It works as an open body to look after the credit requirement of the rural sector.

2. It has authority to oversee the functioning of ‘the cooperative sector through its Agricultural Credit Department.

3. It provides short-term credit (up to 18 months) to State Cooperative Banks for seasonal agricultural operation (crop loans), marketing of crops, purchase and distribution of fertilizers and working capital requirements of cooperative sugar factories.

4. It provides medium-term credit (18 months to 7 years) to State Co-operative Banks and RRBs for agricultural purposes purchase of shares of processing societies and conversion of short- term crop loans into medium term loans in areas affected by natural calamities.

5. It provides medium and long-term credit (not exceeding 25 years) for investment in agriculture under schematic lending to State Cooperative Banks, Land Development Banks, RRBs and commercial banks.

6. It provides long-term assistance in the form of loans to state governments (not exceeding 20 years) for contribution to share capital of cooperative credit institutions.

7. It has been entrusted with the responsibility of inspecting District and State Cooperative Banks and RRBs. The inspection of State Land Development Banks and other Federation Cooperative are undertaken on a voluntary basis.

8. It maintains a research and development fund to be used to promote research in agriculture and rural development so that projects and programmes can be formulated and designed to suit the requirement of different areas.

NABARD and Rural Credit:

It is an apex institution in the field of rural credit. Therefore it does not deal directly with farmers and other rural people. It grants credit to them through the cooperative banks, commercial banks, RRBs.

1. NABARD provides two types of refinance. The first is extended to RRBs, and apex institutions, namely STCBs and State governments. The other type of refinance is extended to augment resources for ground level deployment of rural credit.

2. Rural Infrastructure Development Fund (RIDF) was established in 1995-96 with a corpus of Rs 2000 crore with the major objective of providing funds to state governments and state- owned corporations to enable them to complete various types of rural infrastructure projects.

Loans under RIDF are given for various purposes like irrigation projects, watershed management, construction of rural roads and bridges etc.

3. The access to credit for the poor from conventional banking is often constrained by lack of collaterals, information asymmetry and high transaction cost associated with small borrowed accounts. Micro finance has emerged as a liable alternative to reach the hitherto reached for their social and economic empowerment through social and financial intermediation, it involves provision of thrift, credit and other financial services and products of very small amounts to the poor for enabling them to raise their income levels and thereby improve living standards.

In operational terms, micro credit involves small loans, up to Rs 25,000, extended to the poor without any collateral for undertaking self-employment project. Such loans are provided through Micro Finance Institutions (MFIs).

One of the most popular models of Micro Finance Institutions has been the Grameen Bank model, developed originally in Bangladesh and replicated in various parts of the world. Under this model, Non-Government Organisations (NGOs) form and develop self-help groups (SHGs) and provide credit to them.

4. Kissan Credit Scheme was established in 1998- 99 to facilitate short-term credit to farmers.

5. Credit Monitoring Arrangement is established with a view to providing to operative banks with more freedom and discretion to operate in an increasingly liberalised and competitive banking environment. NABARD, start in consultation with the Reserve Bank, decided to start the Credit Authorisation Scheme (CAS) with the Credit Monitoring Arrangement (CMA) with effect from the year 2000-2001.

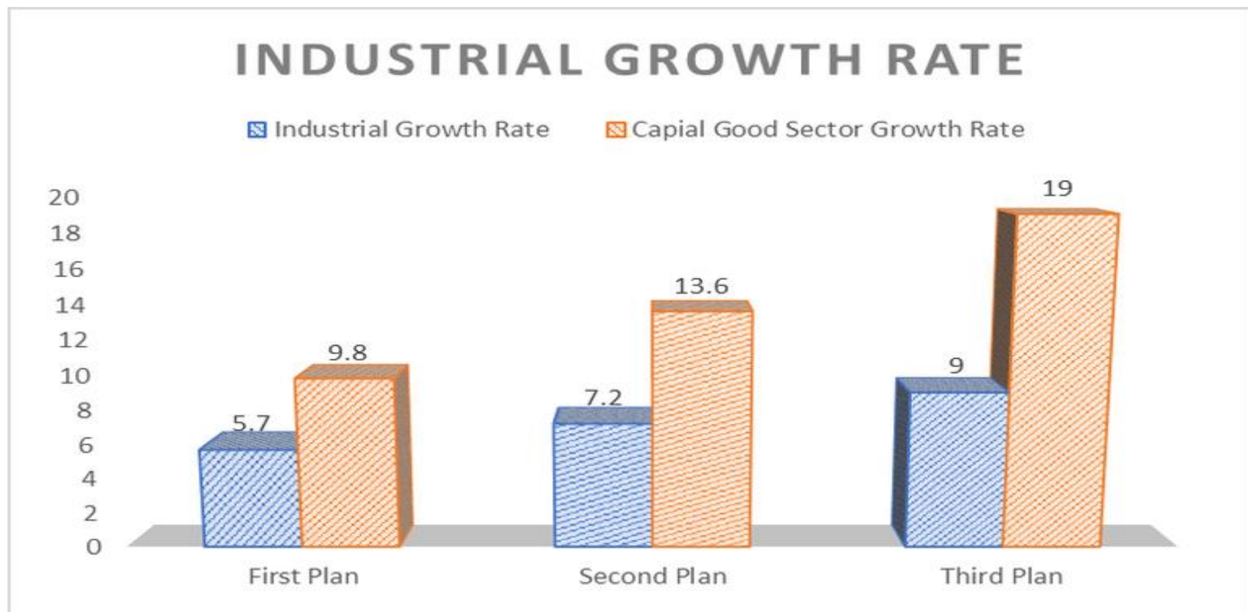
6. Cooperative Development Fund (CDF) was set up in 1993 with the objective of strengthening the cooperative credit institutions in the areas of organisational structure, human resource development, resource mobilisation, recovery position etc. The assistance is provided to StCBs/SCARDBs/ CCBs)/PCARDBs by way of grant or loan or both.

Industries in India

Indian Industry had a global presence before the advent of Britisher's in India. Before the colonial rule of British in India, India accounted for a quarter of World's Industrial output. The impact of British Policies and the Industrial Revolution led to the decay of Indian handicraft industry. The British system gradually destroyed the industrial base in India. The national leadership reached on a consensus that economic sovereignty and economic independence lies in the process of rapid industrialization including the development of Industrial Infrastructure.

The First Phase (1950-1965):

Building up strong industrial base-The First Five-year Plan did not envisage any large scale programs for industrialization. The plan rather made an attempt to give a practical shape to the Indian economy by providing for the development of both private and public sector. The Second Five-Year plan accorded highest priority to Industrialization. The plan was based on famous Mahalanobis Model. Mahalanobis model set out the task of establishing basic and capital goods industries on a large scale to create a strong base for the industrial development. The plan includes substantial investment in the Iron and Steel, Coal, Heavy engineering, Machine building, Heavy Chemicals and Cement Industries of basic importance.



The first Three Plans witnessed a strong acceleration in the growth rate of the Industrial production. The period witnessed an increase in growth rate from 5.7% to 7.2% and ultimately 9.0% in the first second and third plans respectively.

The Third Plan followed the strategy of the Second plan by establishing basic capital and producer good industries with the special emphasis on machine building industries. As a result, the second and the third plan placed great emphasis on building up the capital goods industries. Most of the capital good industries are built under the Public Sector.

The First Three Five Year Plans are important because their aim was to build a strong Industrial base in India. This first phase of Industrial development in India laid the foundation for strong Industrial Phase.

The period saw the rate of growth of capital goods industry which is considered as the backbone of modern industrialization, the growth rate of capital goods industries was at 9.8%, 13.1% and 19% during the first, second and third plan respectively.

The Second Phase (1965-1980): The Period of Industrial Deceleration

The first three five year plans mostly focused on the development of the Capital Good sector. As a result, the consumer goods sector was left neglected. The consumer goods sector also known as wage good sector is considered to be the backbone of the rural

economy and its complete neglect had resulted in fall in the growth rate of industrial production as well as of the overall economy.

The period between the periods 1965 to 1975 was marked by a sharp fall in the industrial growth rate. The rate of growth fell from 9.0% during the third plan to a mere 4.1% during the period of 1965-75. The deceleration it the growth rate is evident during the fourth and fifth plan. The industrial growth rate fell from 5.6% in the year 1971-72 to 0.8% in the year 1973-74. At the end of the fifth plan in 1979-80, the industrial growth rate fell to negative 1.6%.

The period of 1965-80 is also marked as the period of structural retrogression, where the growth rate of the capital goods sector and basic industries also fell.

Prominent Economist like, C N Vakil and P R Brahmanand advocated Wage Good model for the development of the Indian economy and Industrialization. Vakil and Brahmanand strategies were ignored and India launched heavy Industrialization in the Second plan without mechanizing agriculture. The result was failure of Mahalanobis Strategy and by 1965-66 India was hit by a severe food shortage crisis. Finally, in the wake of the crisis, the government adopted Bhrahmanand strategy of mechanizing agriculture sector and engineered green revolution. Other factors that led to industrial retrogression are exogenous factors like war in 1966 and 1971, infrastructure problems, first oil shock, and wrong industrial policies and fall in public sector and followed by fall in private sector investments.

Phase Three (1980-1991): Industrial Recovery

The period of the 1980s is considered as the period of the Industrial recovery. The period saw a revival in the industrial growth rates. The period witnessed an industrial growth rate of more than 6 percent during the sixth plan and 8.5 percent during the seventh plan. The period also marked for a significant recovery in the manufacturing and capital goods sector. The most important observation from the revival of industrial sector was with the increase in the productivity of Indian Industries. The growth rate were as follows-

1981-85 – 6.4%

1985-90 – 8.5%

1990-91- 8.3%

The factors leading to recovery phase are as follows-

1. Liberalisation of industrial and trade policy.

2. Contribution from agricultural sector.

3. Growth of service sector.

4. Liberal Fiscal regime.

5. Liberal interest rate.

6. Increase in the consumption of consumer goods.

7. Revival of infrastructure.

Phase Four (Post Reform Period)

The year 1991 ushered a new era of economic liberalization. India took major liberalization decision to improve the performance of the industrial sector.

1. Abolishment of the Industrial Licensing.
2. Simplification of the procedures and regulatory requirement to start a business.
3. Reduction in the sector exclusively reserved for the Public sector.
4. Disinvestment of the selected Public-sector undertakings.
5. Foreign investors were allowed to invest in the Indian firms.
6. Liberalization of the trade and exchange rate policies.
7. Rationalization and massive reduction in the structure of Customs Duties.
8. Reduction in the excise duties.
9. Reduction in the Income and Corporate taxes to promote Business.

The average annual growth rate of the industry which was close to 8% in the post-reform period fell to 6% in the 1990s.The growth rate in the Eighth Plan was 7.3 percent which was same as the targeted growth rate. The growth rate in the Ninth Plan was 6.0 percent

which was significantly less than the targeted rate of 8.2 percent. Further, the sector witnessed its worst ever performance in the last few years of the Ninth plan with growth collapsing to just 2 percent.

The industrial growth witnessed slow growth post 1990s; the factors attributed for slow growth were -

1. The exposure to external competition post liberalisation without preparation to face the competition.
2. The adoption of IMF structural programme and macroeconomic adjustments led to fall in public sector investments.
3. The deteriorating infrastructural facilities and power crisis led to slow down in industrial sector.
4. There was slow growth of capital market.
5. The exports did not increase to the expected level.
6. The anomalies in tariff structures due to liberalisation policy and adhering to WTO conditions.
7. The slowdown in agricultural growth and fall in rural demand.

Period since 2002-03

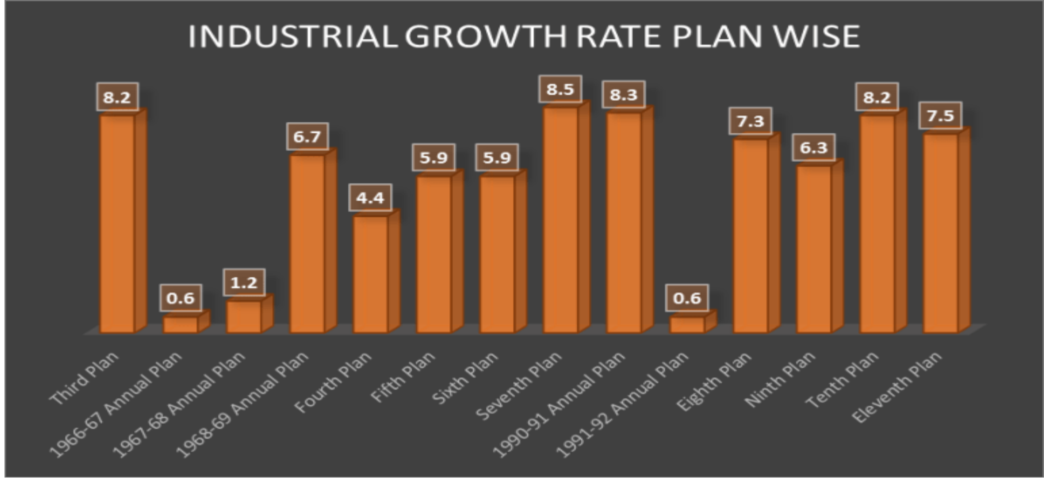
The period since the new millennium witnessed a sharp recovery and revival of the industrial sector. The tenth and eleventh plan witnessed a high growth rate of industrial production. The rate of growth of the industrial sector was 5 percent during the initial years of the Tenth Plan. The growth picked in the following years and reached 7% in 2003-04, 8% in 2004-05 and 11% in 2006-07. For the plan as a whole, the growth rate was 8.2 percent. The growth in the Tenth plan was mainly driven by the manufacturing sector. The significant acceleration in the capital goods sector was the significant contribution to the overall economic growth. Eleventh Plan witnessed a considerable degree of fluctuations in the industrial growth. The growth collapsed to 2.8 percent in the

year 2008-09. The main reason for the collapse was the Global Financial crisis that hit the World in the year 2008.

The industrial growth started recovering in the year 2009-10 and touched a high of 10 percent. The industrial growth after some setbacks again recovered in the year 2010-11 to reach 8.2 percent.

The period post- 2011 till now. The period starting from 2011-12 saw a severe slowdown in the industrial growth and production. The slowdown during the period is due to the following reasons-.

1. Weak Demand for exports from the Developed Western Countries due to Global Financial Crisis.
2. The slowdown in the Domestic Demand.
3. The high interest rate in India maintained by the RBI, due to persistently rising inflation.
4. The slowdown in the Private Investment due to weak returns on the investments.
5. The increasing NPAs of the Public-Sector banks has led to weak credit and lending offered by them.
6. The failure of past projects of the private sector.
7. The Government reluctance to increase Public investment due to the stand of maintaining a low fiscal deficit.
8. The uncertain Global Recovery.
9. The European Debt Crisis also had impact on slowdown of Indian industrial structure.
10. The slowdown in the prices of commodities in International Commodity markets mainly due to weak Chinese growth.


INDUSTRIAL GROWTH RATE PLAN WISE
8.2
0.6
1.2
6.7
4.4
5.9
5.9
8.5
8.3
0.6
7.3
6.3
8.2
7.5
Third Plan
1966-67 Annual Plan
1967-68 Annual Plan
1968-69 Annual Plan
Fourth Plan
Fifth Plan
Sixth Plan
Seventh Plan
1990-91 Annual Plan
1991-92 Annual Plan
Eighth Plan
Ninth Plan
Tenth Plan
Eleventh Plan

Information Technology Industry in India

The industry was started during early 70‟s by Bombay-based conglomerates which entered the business by supplying programmers to global IT firms located overseas. During that time Indian economy was state-controlled and the state remained hostile to the software industry throughout the 1970s.

The software has emerged as the major industry in the field of electronics. This industry made a modest beginning in the 1970s and by mid-1980s. Government policy towards IT sector changed when Rajiv Gandhi became Prime Minister in 1984. His New Computer Policy (NCP-1984) consisted of a package of reduced import tariffs on hardware and software (reduced to 60%), recognition of software exports as a "relicensed industry", i.e., henceforth eligible for bank finance and freed from license-permit raj; permission for foreign firms to set up wholly-owned, export oriented units and a project to set up a chain of software parks that would offer infrastructure at below-market costs. These policies laid the foundation for the development of a world-class IT industry in India.

The industry achieved a major breakthrough in the 1990s and is now one of the important industries of India. The main cause of the rapid development of software industry is its vast reservoir of technically skilled manpower which has transformed India into a software super power. A compound annual growth of about 52 per cent was seen between 1991 and 1996; the Indian software sector has expanded almost twice as fast as the world's leading US software industry did, during the same periods. India is one country that offers cost-effectiveness, great quality, high reliability, speedy deliveries and, above all, the use of state-of-the-art technologies in software industry. The year 1995-96 was a boom year for the Indian computer industry and the Information Technology (IT) industry of India really exploded in that year.

The economic reforms that were introduced in 1991-1992, various incentives were provided by both the state and central government for better emergence of the IT sector like liberalization of external trade, removing duties on imports of IT products,

setting up Export Oriented Units (EOU), setting up of Software Technical Parks (STP) etc.

Features of Indian IT Industry-

1. Domination of software and BPO operations
2. Upward movement in the value chain
3. Mainly Export driven
4. Slowly developing domestic market
5. Increasing quality of the products and services
6. High-wage industry
7. Attracting Foreign Investment

Evolution of ITS Sector in India

The evolution of the IT sector can be studied in 4 stages-

1. Prior to 1980: Indian IT sector was basically started with hardware products and software industry did not exist in India until 1960. Government protected the hardware sector through high tariff barriers and licensing. But increasing demand for software products in western economies made Indian Government identify the potential of software with their exports to earn more foreign exchange. In 1972, the government formulated a new software export scheme, it was decided to import hardware and export software. TCS Ltd. became the first company to accept such scheme. In 1974, the software export was started in India

2. Period between 1980-1990-

The problems faced by the industry was that software exports could not increase as it was dependent on import of hardware and lack of facilities and provisions for growth of IT industry failed in achieving expected returns. To overcome this problem, a new software policy was formulated. According to this policy, the import procedure was simplified and the import duty for import on hardware for software developers was reduced. In 1986, the government took some healthy corrective steps to develop IT sector. As a result, Indian

Government software policy and liberalization for the IT sector, led to the imports of hardware as they were de licensed and were also made duty free for exporters.

3. Period between 1990 to 2000: This period has witnessed intensified competition in the IT sector. The economic reforms introduced in 1991-1992, brought in various incentives by both the state and central government for better emergence of the IT sector like liberalization of external trade, removing duties on imports of IT products, setting up Export Oriented Units (EOU), setting up of Software Technical Parks (STP) etc. Government of India has also set up National Task Force on IT and Software development to investigate the possibility of strengthening the economy. Due to the liberalization, a flow of foreign investments entered in India. "Offshore Model", "Onsite Model" and "Global Delivery Model (GDM) were also introduced as part of their distinguished services.

4. Post 2000-

Post 2002-2003, the industry had registered a robust growth rate. During this stage, there was an increase in the Indian client base, large sized contracted and a strong global delivery model. According to NASSCOM, the industry is expected to register a growth of 30 to 32 per cent in the near future. The domestic market, according to NASSCOM, grew by 24 per cent. Findings of the survey conducted by NASSCOM indicate that the total value of outsourcing to India ($ 17.2 billion in 2004- 05) is as much as 44 per cent of the worldwide total.

Software has become a major item of export in India. In the year 2004-05, the software and service exports from India registered a 34.5 per cent growth. The total software and services revenues grew by 32 per cent to $ 22 billion in 2004-05 and to $ 28.5 billion in 2005-06

India has attracted a cumulative Foreign Direct Investment (FDI) inflows worth US$ 32.23 billion between April 2000 to June 2018, Leading Indian IT firms like Infosys, Wipro, TCS and Tech Mahindra, are diversifying their offerings and showcasing leading ideas in block chain, artificial intelligence to clients using innovation hubs, research and development centres, in order to create a differentiated offerings. Contribution of IT

sector to India's GDP IT industry is contributing Rs.63 billion in 1994-95 in the GDP of India and it has increased to as Rs.1276 billion in 2004-05. The contribution in the various years is given below. India's IT & ITeS industry grew to US$ 167 billion in 2017-18. Exports from the industry increased to US$ 126 billion in FY18 while domestic revenues (including hardware) advanced to US$ 41 billion. The spending on Information Technology in India is expected to grow over 9 per cent to reach US$ 87.1 billion in 2018.

The major developments in the Indian IT and ITES sector are as follows: Nasscom has launched an online platform which is aimed at up-skilling over 2 million technology professionals and skilling another 2 million potential employees and students. Revenue growth in the BFSI vertical stood at 10.3 per cent in the first quarter of 2018-19. As of March 2018, there were over 1,140 Global In-house Centers operating out of India. Private Equity (PE)/Venture Capital (VC) investments in India's IT & ITES sector reached US$ 7.6 billion during April-December 2017.

Government Initiatives

The major initiatives taken by the government to promote IT and ITES sector in India are as follows:

The government has identified Information Technology as one of 12 champion service sectors for which an action plan is being developed. Also, the government has set up an Rs 5,000 crore (US$ 745.82 million) fund for realizing the potential of these champion service sectors.

As a part of Union Budget 2018-19, NITI Aayog is going to set up a national level programme that will enable efforts in AI^ (artificial Intelligence Course)and will help in leveraging AI^ technology for development works in the country.

India is the topmost off shoring destination for IT companies across the world. Having proven its capabilities in delivering both on-shore and off-shore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. Export revenue of the industry is expected to grow 7-9 per cent year-on-year to

US$ 135-137 billion in FY19. The industry is expected to grow to US$ 350 billion by 2025 and BPM is expected to account for US$ 50-55 billion out of the total revenue.

Key drivers of growth in the IT sector

1. Low cost of operation and tax advantages
2. Supportive government policies
3. Availability of technically skilled manpower
4. Rapid introduction of IT technologies in major sectors such as telecom, Banking Financial Services and Insurance.
5. Strong growth in export demand
6. Use of new technologies like cloud computing
7. Government has established SEZs

Banking in India

The word “Bank “is of Germanic origin, and derived from the French word “Banque” and Italian word “Bench”. It is a bench for keeping and lending, exchanging money in the market place. The first joint stock bank in India was Bank of Hindustan in 1770, followed by Bank of Bengal (1806), Bank of Bombay (1840), Bank of Madras (1843), Oudh Commercial Bank (1889), and Punjab National Bank (1901).

The enactment of Banking Regulation Act (B.R. Act) in 1949 was the major step in the history of banking in India. This Act conferred on the RBI a wide range of regulatory and supervisory powers relating to the establishment of a bank and maintenance of a certain minimum operating standards.

According to section 5 (b) of Banking regulation Act 1949-

Of unless there is anything repugnant in the subject or context, - 3 [(a) "approved securities" means the securities issued by the Central Government or any State Government or such other securities as may be specified by the Reserve Bank from time to time;]

(b) "banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawal by cheque, draft, order or otherwise;

(c) "Banking Company" means any company which transacts the business of banking1 [in India].

In brief phases of Banking in India-

1. Pre independence stage-

There was presence of 600 banks. The foundation of banking was laid in 1770 with Bank of Hindustan which became operational in1832.The emergence of three major banks in-Bank of Bengal, Bank of Madras and Bank of Bombay, later known as Imperial bank, then followed by Allahabad Bank in 1865, Punjab National Bank in 1894, Bank of India-1906, Bank of Baroda-1908 and Central Bank of India in1911.

Second Phase -post 1947-1991

The All-India Rural Credit Survey Committee recommended the creation of a State partner and State sponsored bank by having control over the Imperial Bank of India and integrating it with the former State Bank of princely states.

The Government also passed the legislation in 1959 enabling SBI to take over 8 State associated banks (which were functioning in the princely States) as subsidiaries of SBI. Of these eight subsidiary banks, the State Bank of Bikaner and State Bank of Jaipur were merged into one. The other 6 banks were State Bank of Hyderabad, State Bank of Patiala, State Bank of Mysore, State Bank of Saurashtra, State Bank of Indore and State Bank of Travancore. The National Credit Council in its various meetings took note of the legitimate resource needs of the large scale and medium scale industrial 28 sector and suggested targets for setting up one bank branch for population of 10,000 in every town (March 1969).

In 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi 14 major commercial banks in the country was nationalized. The fourteen major banks having deposits of Rs.50 crores and above were nationalized in July 1969.

These banks were:

1. Central Bank of India,
2. Bank of India,
3. Punjab National Bank,
4. Bank of Baroda,
5. United Commercial Bank,
6. Canara Bank,
7. United Bank of India,
8. Dena Bank,

9. Syndicate Bank,

10. Union Bank of India,

11. Allahabad bank,

12. Indian Bank,

13. Bank of Maharashtra, and

14. Indian Overseas Bank.

The banks nationalised in 1980 are-Andhra Bank, Corporation Bank, New Bank, Punjab & Sind Bank, Oriental Bank of Commerce ,UTI Bank

III phase -Liberalization Phase (1990 to till)

In order to improve financial stability and profitability of Public Sector Banks, the Government of India set up a committee under the chairmanship of Shri. M. Narasimham. The committee recommended several measures to reform banking system in the country.

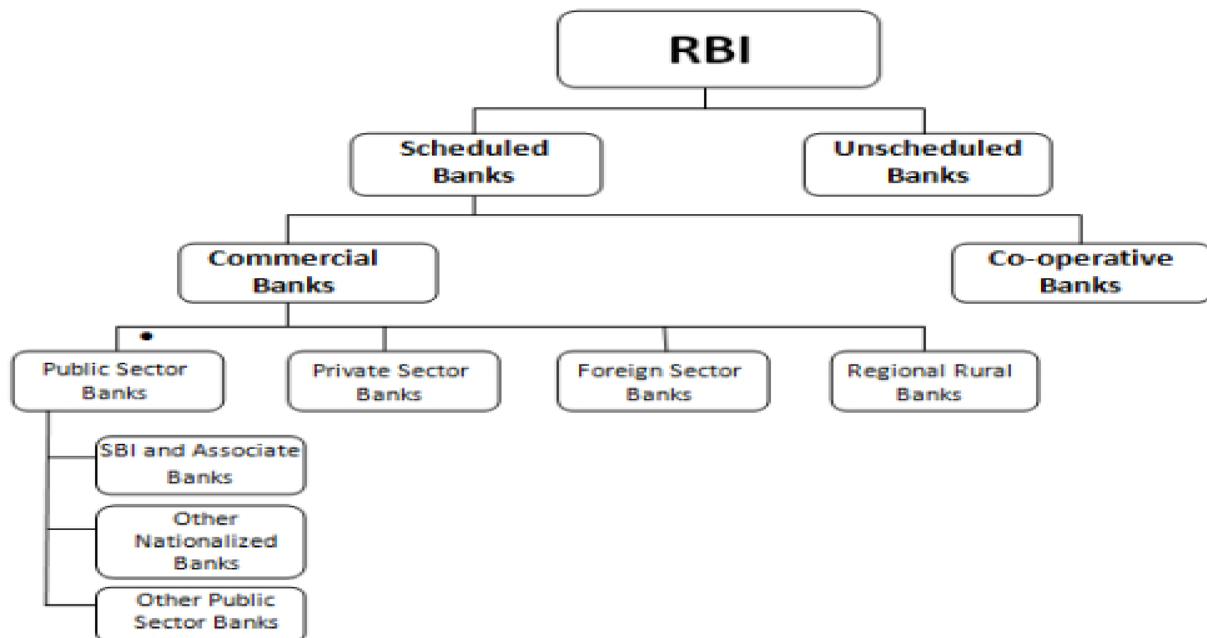
The major thrust of the recommendations was to make banks competitive and strong and conducive to the stability of the financial system. The committee suggested for no more nationalization of banks. Foreign banks would be allowed to open offices in India either as branches or as subsidiaries. In order to make banks more competitive, the committee suggested that public sector banks and private sector banks should be treated equally by the Government and RBI.

It was emphasized that banks should be encouraged to abandon the conservative and traditional system of banking and adopt progressive function such as merchant banking and underwriting, retail banking, etc. It led to foreign banks and Indian banks to set up joint ventures in these and other newer forms of financial services.

Further, 10 Privates players got a license from the RBI to entry in the Banking sector. These were Global Trust Bank, ICICI Bank, HDFC Bank, Axis Bank, Bank of Punjab, IndusInd Bank, Centurion Bank, IDBI Bank, Times Bank and Development

Credit Bank. The Government of India accepted all the major recommendation of the committee, Kotak Mahindra Bank and Yes Bank got a license from RBI to entry in the system in the year 2003 and 2004. In 2014, RBI grants in principle approval to IDFC and Bandhan Financial Services to set up banks.

The structure of commercial banks in India is classified based on statutory and ownership basis. On statutory basis they include all scheduled and non scheduled banks satisfying the conditions of Reserve Bank of India Act, 1934. All commercial banks (Indian and foreign), regional rural banks, and state cooperative banks are scheduled banks. Non-scheduled banks are those which are not included in the second schedule of the RBI Act, 1934. At present there are 5 such banks in the country. These banks are also known as local area banks. On the ownership basis, they are classified as public sector and private sector banks.



Structure of Banking System in India

The trends in Commercial Banking Growth are as follows-

Expansion of Bank Branches

Rapid economic development presupposes rapid expansion of commercial banks in India. The banking sector comprises of 28 public sector banks with majority government ownership, 23 private banks and 27 foreign banks. . The public sector banks growth is quite impressive. There were only 7,015 public sector banks in 1969, accounting for nearly 85% of the total number of bank branches while the share of the private sector banks were 15% in India. The total number of public sector banks shot up to 47,359, accounting for 90% of the total number of banks while the share of the private sector banks stood at 10% in India by 2001.

As of 2015 there are over 1.2 lakh bank branches in India RBI data for the June 2016 quarter shows India now has over 1.3 lakh bank branches the total number of branch offices as of 2017 was 1,35,946.

The overall spread between the rural, semi-urban and the urban areas is fairly even. While over 38 per cent of all bank branches are concentrated in urban areas, nearly 34 per cent are in the rural areas, with the remaining in the semi-urban areas. Private sector banks largely cater to the urban and semi-urban population with over 80 per cent bank branches concentrated in these areas.

Spread of banking to Rural and unbanked areas- Of the 47,443 bank branches in the rural areas over 73 per cent is constituted by regional rural banks and nationalized banks. Both the SBI group and nationalized banks have just over 33.095 per cent of their bank branches in rural areas, and over 40 per cent in urban areas.

Deposit mobilisation-

Expansion of bank deposit has been an important feature. Planned economic development, deficit financing and increase in currency issue have leaded to increase in bank deposits. At the same time, banks have contributed greatly to the development of

banking habit among people through sustained publicity, extensive branch banking and relatively prompt service to the customers. But nationalization gave a great fillip to deposit mobilization, due partly to the expansion of a network branches and partly to the incentives given to savers.

The deposits of the banks during last four decades, from 1969-2012 period, the aggregate deposits of public sector banks have gone up from Rs 4823 crores in 1969 to Rs 56,13,195 crore in 2012 ,thus bank deposits have gone up by almost 1163 fold : whereas the deposits in the case of private sector banks from 1981 to 2012 has gone up by almost 8 times and the aggregate total deposits from 1981 to 2012 registered a growth of deposits by about 131 fold.

The bank deposits have been growing at a rate faster this tremendous growth in bank deposits is due to the following reasons like Rapid branch expansion, growth of banking habits, larger availability of cash with the banking system ,lower cash reserve ratio , favorable business conditions in the country ,greater confidence of people in the banking system, higher rates of interest, etc.

Priority Sector Lending -The commercial banks have made a remarkable progress in priority sector lending, commercial banking system and particularly the public sector banks have extended from public sector banks to priority sectors, lending went up from Rs. 441 crore in June 1969 to Rs. 11,30,700 crore in March 2012 i.e., 37.5 per cent of total credit.

Social banking-

Banking sector has been a major sponsor for programmes implemented by the government. These games were introduced at differential rate of interest in 1972. They gave loans at 4% interest to the weaker sections of the society. The major programmes sponsored by commercial banks are for integrated rural development programme, PMRY for Educated Unemployed Youth, Schemes under urban micro Enterprise, Bank credit to minority communities.

Diversification of banking activities-

The new avenues for profits have made they enter the following new fields of activity. Commercial banks are providing a lot of developmental inputs. They include:

Core banking services- Technology in banking sector is one of the focus areas of banks. The banks in India are using Information Technology (IT) not only to improve their own internal processes but also to increase facilities and services to their customers. It includes facilities like-

1. RTGS means funds are transferred on a real time from one bank to another.
2. National Automated clearing house Association (NACHA)
3. Electronic Clearing Services (ECS)
4. National Electronic fund Transfer (NEFT)
5. Electronic Funds Transfer (EFT)
6. Supply of credit and ATM Cards to customers etc

Debit card**:** debit card is a card which designate to customer to withdraw own money from the bank in any time. It is also called a plastic card. Debit card is used for cash withdraw from ATM, funds transfer, paying bills, accessing detail account information, charging PIN etc. Bank gives debit card free of cost at the time of opening account.

Credit card:

Credit Card is a post paid card. The Credit Card holder is empowered to spend money wherever and whenever he wants with his Credit Card within the limits fixed by his bank.

Merchant banking services-

It includes underwriting of new issues for preferences shares and debentures. There are eight commercial banks for equipments leasing and merchant banking subsidiaries.

Internet Banking- Internet banking enables a customer to do banking transactions through the bank’s website. It is a system of accessing accounts and general information on bank products and services through a computer while sitting in its office or home. It is also called as virtual banking.

Mobile Banking:

Mobile banking is used for performing balance inquiry, account transactions, payments etc. via a mobile phone. Mobile banking is performed via SMS or the Mobile Internet, Mobile banking facility is an extension of internet banking. The bank is in association with the cellular service providers offers this service.

Other services are

a. Mutual funds

b. Supply of housing loans

c. Insurance service

d. Supply of micro credit

e. Supply of venture capital

f. Educational loans

g. Pay utility bills

Banking Reforms post 1991-

The year 1991 which is also called as the year of 'Banking Sector Reforms' opened the gates to the private sector and for foreign banks. On the recommendations of Narasimhan Committee, following measures were undertaken by government since 1991: –

1.The establishment of 4 tier hierarchy for banking structure with 3 to 4 large banks (including SBI) at the top and at bottom rural banks engaged in agricultural activities.

2. The supervisory functions over banks and financial institutions can be assigned to a quasi autonomous body sponsored by RBI.

3. A phased reduction in statutory liquidity ratio.

4. Phased achievement of 8% capital adequacy ratio by permitting banks raise fresh capital from the public.

5. Abolition of branch licensing policy.

6. Proper classification of assets and full disclosure of accounts of banks and financial institutions.

7. Deregulation of Interest rates.

8. Computerization of banking operations.

9. Special tribunal for to speed up recovery of overdue loans.

10. Setting up Asset Reconstruction fund to take over a portion of the loan portfolio of banks whose recovery has become difficult.

11. Foreign banks are subject to fulfil same requirements as applicable to Indian Banks.

UNIT – II

National Income: meaning, measurement, difficulties and Parallel Economy

National Income

Meaning and Definition

Economic welfare of a country purely depends on the amount of goods and services made available by a country for the consumption needs of its people. Economic Welfare of a country can be effectively measured by the National Income of a country. National income is the flow of goods and services which become available to a nation during a given year. Thus National Income is a flow and not a stock.

Thus NI is-

The market value of goods and services produced and is a monetary measure.

Calculations of goods and services in a given year must be done without duplication.

NI has 3 interpretations-

1. It is the total value of production,
2. It represents total receipts,
3. It represents total expenditure.

NI=National Product=National expenditure. Thus it is the sum of all the incomes, values of all the final production and sum value of all the expenditure.

National Income is the aggregate money value of all goods and services produced in a during a given year, taking into account the deductions made due to wear and tear, depreciation of plant and machinery used in the production of goods and services. It is the money measure or value of net aggregate of goods and services available annually to a nation as a result of the economic activities of the community at large consisting of households or individuals, business firms, social and political institutions.

Definitions

Simon Kuznets- The net output of commodities and services flowing during the year from the country's production system in the hands of the ultimate consumers.

National income committee India-a NI estimate measures the volume of commodities and services turned out during a given period, counted without duplication.

According to **Marshall**: "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend.

The word 'net' refers to deductions from the gross national income in respect of depreciation and wearing out of machines. It includes income from abroad. A defect of this definition was:

1. With varied and increase in production of large goods and services it is very difficult to have a correct estimation of them.
2. There always exists the fear of the mistake of double counting, and hence the national income cannot be correctly estimated. Double counting means that a particular commodity or service like raw material or labour, etc. might get included in the national income twice or more than twice.
3. Major problem in correct estimation of national income is many of the commodities produced are not marketed and the producer either keeps the produce for self-consumption or exchanges it for other commodities.

In the words of **Pigou**, "National income is that part of objective income of the community, including of course income derived from abroad which can be measured in money."

It is a better definition than Marshall's definition mainly because-

1. This definition avoids double counting; the goods and services which can be measured in money are included in national income.

2. Income received on account of investment in foreign countries is included in national income.

Defects-

1. In the light of the definition put forth by Pigou, it is difficult to differentiate between commodities which can and which cannot be exchanged for money.

2. According to this definition only such commodities that can be exchanged for money are included in estimation of national income.

3. The Pigovian definition is applicable only to the developed countries where goods and services are exchanged for money in the market.

According to **Fisher,** "The National dividend or income consists solely of services as received by ultimate consumers, whether from their material or from the human environments. Thus, a piano, or an overcoat made for me this year is not a part of this year's income, but an addition to the capital. Only the services rendered to me during this year by these things are income."

Fisher's definition is considered to be better than that of Marshall or Pigou, because Fisher's definition provides an adequate concept of economic welfare which is dependent on consumption, and consumption represents standard of living.

Defects-

1. It is more difficult to estimate the money value of net consumption than that of net production.
2. There certain consumption goods which are durable and last for many years.

3. The durable goods generally keep changing hands leading to a change in their ownership and value too

According to United Nations, national income has been defined on the basis of the systems of estimating national income, as net national product, as addition to the shares of different factors, and as net national expenditure in a country in a year's time. In practice, while estimating national income, any of these three definitions may be adopted, because the same national income would be derived, if different items were correctly included in the estimate.

Thus it can be said NI is-Flow of goods and services, a monetary measure and helps to analyze the trends of the nation.

Concepts of National Income

The important concepts of national income are as follows-

Gross National Product –

It is the basic national accounting measure of the total output or aggregate supply of goods and services. It is the total market value of all final goods and services produced in a year at the market prices.

GNP is defined as the sum of the GDP and net factor incomes from abroad i.e., incomes earned by country's residents abroad minus income earned by foreign residents from the country.

While estimating GNP, two factors are to be considered-

1. It measures only the market value of annual output, i.e., only a monetary measure and
2. The calculation is only once, thus avoids double counting.

Thus GNP is the value of final goods and services produced in a year and consumed by households, and are denoted by **C** that is consumption by households.

GNP is the value of new capital goods and services produced and addition to the inventories of goods, such as raw materials, unfinished goods and consumer goods produced but not sold during a year, and is called as **Gross Private Investment, I.**

The Value of output of general government which is taken to be equal to the value purchases of goods and services by the government which is denoted as **G.**

Net exports (Xn) which is equal to the value of goods exported minus the value of goods imported. **M.**

Net factor from abroad.

Thus GNP is- Consumer goods + Producer goods + change in the inventories + net foreign income**.** Thus it can be concluded that GNP is a good index and avoids statistical difficulties. It gives only the general picture of the economy.

Net national Product

NNP refers to the value of net output of the economy during a given year. It is obtained by deducting the value of the depreciation, or replacement allowance of the capital assets from this concept the GNP.

GNP – Depreciation = NNP

This concept gives a clear picture to the net increase in the total production as it excludes depreciation costs.

National Income at factor cost

It simply means the sum of incomes earned by resources supplied for their contribution of land, labour, capital and organization which go into the year's net production.

It can also be said as incomes received by the factors of production in the form of wages, rent, interest and profits.

NNP at factor cost =NNP – indirect taxes + subsidies.

It gives the picture to the society about the costs incurred in the process of production.

Personal income

It is the sum of all the incomes actually received by all individuals or household in a given year.

Personal income = NI – corporate profits – social security contributions + Transfer payments

The concept of Personal income helps to analyze the potential purchasing power of a household in an economy. It is also helpful to measure the general welfare of the consumer in a country.

DPI

DPI is the income available with an individual to spend. It is that part of personal income which is left behind after payment of personal direct taxes.

DPI = Personal income – Personal Direct Taxes. Individuals normally spend major portion of DPI on consumption, reserving balance for savings.

Thus DPI = Consumption + Savings

Estimation of national Income

National output of a country can be computed either by taking into consideration production, distribution or expenditure.

The 3 methods to calculate national Income of a country are –

1. Product method
2. Income method
3. Expenditure method

Product method/Output method/value added method

It measures the output of a country. It takes into consideration the total good and services produced in a year at market prices. Here value added by each enterprise in the production of goods and services is calculated during a year and is added up. While estimating NI with this method the economy is divided into different sectors, like agriculture, mining, construction, trade etc.

This method involves –

First there will be identification of the producing enterprise and classifying them into sectors. Then estimating the net value added by each producing unit as well as each sector and adding up the net value of all the sectoral contributions. It includes only the money value of final goods and services produced during a given year. This method deducts the value of depreciation.

The following deductions are made in the process of calculating NI through Product method -

a. Intermediate consumption (raw materials)
b. Consumption of fixed capital
c. Net indirect taxes.
d. Further real income earned from abroad is to be added.

Thus Product method is derived by –

$$Y = (P - D) + (S - T) + [(X - M) + (R - P)]$$

Y – Total income of a nation
P- Domestic output of all production sectors
D – Depreciation allowance
S- Subsidies
T – Indirect taxes
X –exports
M – Imports

R – Receipts from abroad
P – Payments made abroad.

This method is successful where there is census of production for every year.The precautions to be taken in calculation of National Income with the produt method is

1. The imputed rent values of house has to be included
2. The Sale and purchase of second hand goods should not be included
3. The commission and brokerage charges for such transaction should be included.
4. The value of production for self consumption should be accounted.
5. The value of intermediate goods must be deducted.

Difficulties in product method

The first difficulty is to ascertain the value of raw materials, intermediate goods and depreciation.

In many areas of production it is difficult to value either because there is no acceptable value or lots of difficulty in securing data of the subsistence production units in India.

There is no reliable data available regarding output in different sectors and sub sectors.

A correct estimation in income from abroad has to be either included or subtracted to get a correct picture of N.I.

Income method

Income method approaches NI from distribution side. NI is obtained by summing up the incomes of all individuals and business enterprises of a country during a year. It is the sum total of all money incomes such as wages, salaries, rent and profits received by individuals and enterprises in a country during a given financial year. Income details are obtained through income tax returns, book of accounts, reports, published accounts and estimates of small accounts. This method helps in analyzing the distribution of NI among different income groups such as landlords, employees, workers, owner of capital, entrepreneurs.

To calculate NI under Income methods following steps are to be followed:

1. Identification of production enterprises and classify them into various sectors – namely, agriculture, fishing, manufacturing etc.

2. To classify the factor payments –

a. Wages and salaries of employees, both in cash and kind and employer's contribution to social security schemes.
b. Rent/royalty
c. Interest
d. Profits –
e. Dividend
f. Undistributed profits
g. Corporate income tax.

3. To measure factor payments here income paid by each enterprise can be estimated by collecting information about the number of units each factor has employed and the income paid out to each unit of every factor.
4. Add up factor payments of all enterprises belonging to the industrial sector, it helps us to understand the income paid out to various factors by a particular industry or sector.

5. Add up net factor income earned from abroad to domestic factor income.

$Y = \sum(w + r + i + p) + [(X – M) + (R- P)$

This method is helpful for countries with large income tax payers. Thus NI of a country is equivalent to the sum total of the disbursements of their factor income.

The precautions to be taken in calculation of NI under Income method are-

1. The Transfer payments are to be excluded
2. The imputed rent of self occupied houses is to be included.
3. The windfall gains like prizes, lotteries won are not be included.
4. Illegal money is excluded as they are not easily accounted.
5. The Corporate profit tax is not included as it is part of profits.
6. The Death duties, gift tax, wealth tax on lotteries are normally paid from past savings, and hence will not be included.
7. The Receipt from sale of second hand goods are not included.
8. The Income equal to the value of production for self consumption has to be estimated and included while estimating NI.

Expenditure method

Expenditure method also called as outlay method. Here it is assumed that NI on the consumption side is always equal to the value of consumption plus expenditure. Hence NI is derived by adding up all expenditure made on goods and services during a year. NI is derived by summing up all consumption expenditure and investment expenditure made by all the individuals and also by the government of a country during a given year.

It takes into account the following expenditures incurred by –

1. Personal consumption expenditure made on consumption of durable and non durable goods and services. It is denoted by – **C.**
2. Government purchases of goods and services to satisfy the collective wants. It is denoted as – **G.**

3. Gross domestic capital formation i.e. the expenditure by productive enterprises on capital goods and inventories/stocks. It comprises of

a. Gross fixed capital formation
b. Addition to the stock or inventories.

This is denoted as **I.**

4. Net foreign Investment. It includes receipts of the exports of goods to other countries , i.e. – X and the expenditure made by the people , enterprise and government on the import of goods and services from other countries, i.e. –M

Thus it is - C+G+I+(X-M)

C+G+I+Nx.

The precautions to be taken are–

1. There should be exclusion of sale of second hand products.
2. It excludes purchase of shares and bonds as they are only claims and not expenditure.
3. It excludes transfer payments.
4. Excludes expenditure on intermediate goods.

These are the three methods used to calculate / estimate NI of a country.

Calculation of NI in India

Post independence, the Government of India appointed the National Income committee in August 1949, to compile authoritative estimates of NI of India. The Committee consisted of Prof Mahalnobis, Prof D.R Gadgil and Prof V.K.R.V. Rao, and this committee gave its final report in the year 1954. The method adopted was a combination of product method and income method for calculating NI.

The National Income of C.S.O estimates major portion by Product method through classifying the economy into various sectors. Income method is applied for calculations of NI for the rest.

Thus for estimation of National product, the producing sectors are divided into 13 sectors under Five Heads.

I. Primary sector-

1. Agriculture
2. Forestry and logging
3. Fishing
4. Mining and quarrying.

II. Secondary sector

5. Manufacturing

a. registered

b. unregistered

6. Construction

7. Electricity, gas and water supply

III. Transport, Communication and Trade.

8. Transport, Communication and Storage -

a. Railways
b. Transport by other means and storage
c. Communications

9. Trade and hotels and restaurants.

IV. Finance and real Estate.

10. Banking and insurance

11. Real estate and ownership of dwellings and business services.

V. Communication and Personal services.

12. Public administration and defence

13. Other services.

Net output method is adopted for agriculture, animal husbandry, fishing, mining and factory establishments. It comprises of primary and secondary sectors. Here first gross value of output is obtained and then deductions are made for cost incurred on raw materials, depreciation charges etc., and then final net value is estimated.

Net income method is used for all the other categories.

The balance sheet of commercial banks and insurance companies, number of employment in small scale sectors, wages, salaries, pensions, and other benefits (of bank, insurance, public sector, government) and housing tax are all added to National Income. Then net income from abroad is further included.

This estimate is further deflated at the prices of the base year chosen to obtain a series of NI at constant prices. 60% of the estimates of NDP estimates depend on direct information and 40% is obtained through indirect application. Thus by adding up the contributions of all the sectors an estimate of NDP is obtained at factor cost. And to obtain NNP, net income from abroad and net indirect taxes is to be included.

Difficulties in estimating National Income

National Income is a simple linear aggregation of income accruing to the factors of production supplied by the normal residents of a country in question. In this process of calculation confusion always arises as to inclusion and exclusion of services and goods. The process of calculation of NI for any country is marked by difficulties and complexities. The problems faced by India in estimating

Problems-

1. There is difficulty in estimating the output of the non monetized sector, because proper accounts are not maintained. The rough approximate estimates are added in the process of calculation leading to either over estimated or under estimated figures.

2. There is non availability of data of small producers or household enterprises as they do not follow standard accounting principle.

3. The data on income distribution is also not accurate and reliable because many firms and sources do not give correct estimates. .

4. The existence of parallel economy leads to unreported illegal income that does get included in national income estimates.

5. Conceptual difficulties-

a. It is a difficult task in analyzing the inclusion of government administration services in National Income estimates.

b. There exists difficulty in identification of productive services.

c. The valuation of products in terms of fixing base year is the biggest challenge as the base year should be free from economic fluctuations.

d. Another difficult task has been in defining what an economic good is. Many economists argue that there many services contributed on the basis of emotional parameters that does not get included in National Income. Example -services of a housewife which has been under debate for a long period for inclusion in calculation of National Income.

e. There cannot be accurate values of imputed value of goods and services as most of the time rough estimates are added.

f. The basic condition of estimates of National Income is without multiple counting, but accuracy in estimates has always been a failure and many times certain goods and services are included more than once under different heads.

g. The statistical problems are maintenance of data accurately. The statitistical data are not available for especially in nonmonetised sector and failure of maintain information in various department leads to adding up approximate numbers.

The other areas of concerns for estimation of National Income in India are non adoption of technology, following of conventional methods and lack of specialization in data collection

The necessary measures for better estimation of NI-

a. Estimates of crop acreage are now made available to over 80% of the country. Over 5 lakh crop cutting covering 63 crops has given better estimates.

b. Remedial action is required for value addition in health, education sector and sanitation services as these are most times under estimated.

c. c. Certain professions like doctors, lawyer's teachers and charted accountants do not reveal their actual income sources, which has to be checked upon on.

d. d. Households only reveal legal expenses while certain other professions reveal only fees charged.

e. In India, it takes almost four years to estimate NI of one year, procedure it follows is tedious- advance estimates, quick estimates, revised estimates and final estimates.

f. Data reporting techniques are outdates which needs to be addressed.

g. Measures are to be taken to upgrade the system and technology used for NI estimation.

Capital Formation

The capital formation signifies a very important aspect of economic development. This means increasing the stock of more capital goods, such as machines, tools, factories, buildings, raw materials, fuels, etc., which are to be further used in producing more goods.

Capital formation does not mean increase in money capital, but it refers to increase in physical capital, i.e., machinery, factories, transport equipment, bridges, power projects, dams, irrigation systems, etc. Capital formation implies the creation of real assets. BENHAM defines it as "The amount a country adds to its capital during a period, is known as the capital formation during that period."

"In circumstances of restrained economic growth and industrialization, capital formation should be understood to be limited to machinery, instruments and inventories which are directly capable of being used in work."-PROF. KUZNETS

"Formation of capital implies that society uses its present production not only for the satisfaction of its consumption but also uses a part of it on capital goods that is making machines, transport facilities or other production equipment."-NURKSE

Capital formation thus refers to the development of physical goods and also to the development of human capital like education, health, developing skills, etc. Capital formation consists of both tangible goods like plants, tools and machinery and intangible goods like high standards of education, health, scientific progress and research.

Process of Capital Formation:

The process of capital formation involves three steps:

(1) Increase in the volume of real savings;

(2) Mobilization of savings through financial and credit institutions; and

(3) Investment of savings.

Increasing Savings:

1.a. Power to Save: The power to save of the community depends upon the size of the average income, the size of the average family, and the standard of living of the people. Other things being equal, if the income of the people increases, or the size of the family is small, or people get accustomed to a particular standard of living which does not lean towards conspicuous consumption, the power to save increases.

b. The power to save also depends upon the level of **employment** in the country. If employment opportunities increase, and existing techniques and resources are employed fully and efficiently, incomes increase, and so do the propensity of the people to save.

c. Willingness to save- People may themselves forego consumption in the present and save. They may do so to meet emergencies, for family purposes, or for social status. But they will save only if certain facilities or inducements are available. People save if the government is stable and there is peace and security in the country the existence of banking and financial institutions paying high rates of interest on different term deposits also induces people to save more.

d. The taxation policy of the government also determines the savings habits of the people. Highly progressive income and property taxes reduce the incentive to save. But low rates of taxation with due concessions for savings in provident fund, life insurance, health insurance, etc. encourage savings.

2. Perpetuation of Income Inequalities:

Perpetuation of income inequalities has been one of the major sources of capital formation in 18th century for England and early 20th century for Japan. In most communities, it is the higher income groups with a high marginal propensity to save that do the majority of savings. If there is unequal distribution of income, the society’s upper level incomes accrue to the businessmen, the traders and the landlords who save more and hence invest more on capital formation. But this policy of deliberately creating inequalities is not favored either in developed or developing economics as the objective of all countries is at reducing income inequalities.

3. Increasing Profits: Professor Lewis is of the view that the ratio of profits to national income should be increased by expanding the capitalist sector of the economy, by providing various incentives and protecting enterprises from foreign competition. The essential point is that profits of business enterprises should increase because they know how to use them in productive investment.

4. Government Measures**:** The government also saves by adopting a number of fiscal and monetary measures. These measures may be in the form of a budgetary surplus through increase in taxation, reduction in government expenditure, expansion of the export sector, raising money by public loans, etc. If people are not saving voluntarily, inflation is the most effective weapon. It is regarded as hidden or invisible tax. When prices rise, they reduce consumption and thus divert resources from current consumption to investment. Besides, the government can increase savings by establishing and running public undertakings more efficiently so that they earn larger profits which are utilized for capital formation.

Mobilization of Savings: Capital formation is the mobilization of savings through banks, investment trusts, deposit societies, insurance companies, and capital markets. The process of capital formation is that the savings of the households must be mobilized and transferred to businessmen or entrepreneurs who require them for investment. In the capital market, funds are supplied by the individual investors, banks, investment trusts, insurance companies, finance corporations, governments, etc.

“The Kernal of Keynes’s theory is that decisions to save and decisions to invest are made largely by different people and for different reasons.”

To bring the savers and investors together the country must have well developed capital and money markets in the country.

Investment of Savings:

The third step in the process of capital formation is the investment of savings in creating real assets. The entrepreneurs are an important source of capital formation in the agricultural and industrial sectors of a country. In order that the investment of savings

should take place, there must be a good number of honest and dynamic entrepreneurs in the country who are able to take risks and bear uncertainty of production.

Thus given that a country has got a good number of venturesome entrepreneurs, investment will be made by them only when there is sufficient inducement to invest. Inducement to invest depends on the marginal efficiency of capital

The existence infrastructure as well developed means of transport, communications, power, water; educated and trained personnel, etc. are also prerequisites for investments. Further, the social, political and economic climatic conditions in the country must be conducive for the emergence of a growing supply of entrepreneurs. Domestic sources for capital formation are required to be supplemented by external sources.

Importance or significance of Capital Formation-

Domestic sources for capital formation are required to be supplemented by external sources.

1. Infrastructure
2. Use in complex methods of production
3. Development of Human resources
4. Better utilization of natural resources
5. Achieving higher growth rate
6. Technological up gradation
7. Development of primary and secondary sector
8. Increase in National Income
9. Expansion of economic activities
10. Economic welfare

Capital formation and India

The need for capital in India was mainly for attaining-

a. Desired rate of growth-

There is no upper limit for attaining economic growth; this growth depends mainly on availability of resources and factors that determine economic growth. The minimum limit set for growth is minimum of 6% per annum increase in GDP.

b. The incremental capital output ratio-

It is the relationship between the level of investment made in the economy and the consequent increase in GDP. ICOR indicates the additional unit of capital or investment needed to produce an additional unit of output. Capital formation is determined by Savings and Investments.

CSO defines savings as- the excess of current income over current expenditure and is the balancing item on the income and outlay accounts of producing enterprises, and households, government administration and other financial consumers.

Sectoral Composition of Saving in India:

Domestic savings in India occurs from three sectors-

i. Government or public sector - The public sector includes government administration, departmental undertakings, government companies and statutory corporations.

ii. Private corporate sector-comprises of non government non-financial corporate enterprise.

iii. The household sector-includes a host of economic agents who engage in production/consumption activity

Table 5.2: Sectoral Composition of Savings

Year	Gross Domestic Saving			
	Household sector	Private corporate sector	Public sector	Total (2+3+4)
1	2	3	4	5
1950-51	6.5	0.9	2.1	9.5
1951-52	5.7	1.2	2.8	9.8
1952-53	6.4	0.6	1.8	8.8
1953-54	5.7	0.8	1.5	8.0
1954-55	6.9	1.1	1.9	9.9
1955-56	9.2	1.2	2.2	12.5
1956-57	9.0	1.1	2.4	12.5
1957-58	7.4	0.9	2.4	10.6
1958-59	6.3	0.9	2.1	9.3
1959-60	7.7	1.1	2.1	11.0
1960-61	6.8	1.6	3.2	11.6
1961-62	6.5	1.7	3.4	11.6
1962-63	7.4	1.7	3.7	12.8
1963-64	6.8	1.7	4.0	12.4
1964-65	6.9	1.4	3.9	12.3
1965-66	9.0	1.4	3.8	14.2
1966-67	9.7	1.3	2.9	13.9
1967-68	8.6	1.1	2.5	12.1
1968-69	8.1	1.1	2.9	12.0
1969-70	9.8	1.2	3.1	14.1
1970-71	9.5	1.4	3.4	14.3
1971-72	10.3	1.5	3.3	15.1
1972-73	9.5	1.4	3.2	14.1
1973-74	11.7	1.6	3.5	16.8
1974-75	10.7	1.8	4.1	16.7
1975-76	11.3	1.2	4.8	17.4
1976-77	12.0	1.3	5.6	18.8
1977-78	12.9	1.3	5.0	19.2
1978-79	14.4	1.4	5.2	21.0
1979-80	13.0	1.9	5.0	19.9
1980-81	12.1	1.6	4.1	17.8
1981-82	10.8	1.5	5.2	17.5
1982-83	11.2	1.5	5.1	17.8
1983-84	11.8	1.4	3.9	17.1
1984-85	12.8	1.6	3.5	17.8
1985-86	12.7	1.9	3.9	18.4
1986-87	13.0	1.6	3.5	18.1
1987-88	15.6	1.6	2.8	20.0
1988-89	15.3	1.9	2.7	20.0
1989-90	16.5	2.4	2.4	21.3
1990-91	18.5	2.6	1.8	22.9
1991-92	15.7	3.0	2.6	21.3
1992-93	16.5	2.6	2.2	21.3
1993-94	17.0	3.4	1.3	21.7
1994-95	17.9	3.4	2.3	23.6
1995-96	16.2	4.8	2.6	23.6
1996-97	15.8	4.4	2.2	22.4
1997-98	18.1	4.2	1.9	24.2
1998-99	19.5	3.8	-0.2	23.2
1999-2000	21.8	4.3	-0.5	25.7
2000-01	21.4	3.7	-1.3	23.8
2001-02	23.2	3.3	-1.6	24.9
2002-03	22.3	3.9	-0.3	25.9
2003-04	23.2	4.6	1.3	29.0
2004-05	23.6	6.6	2.3	32.4
2005-06	23.5	7.5	2.4	33.4
2006-07	23.2	7.9	3.6	34.6
2007-08	22.4	9.4	5.0	36.8
2008-09	23.6	7.4	1.0	32.0
2009-10	25.4	8.2	0.2	33.8
2010-11	22.8	7.9	1.7	32.3

Government savings come from surpluses of public enterprises and other public financial institutions. Government savings formed 7.4 per cent of GDP in the economy in the year 2008-09, which increased to 8.2 per cent in 2009-2010. Since then there has been a steady decline in government savings which touched 7.9 per cent in 2010-11.

The household sector is the largest contributor to domestic saving. They are physical assets like housing, machinery, furniture, fixture and real estate. Financial Assets in the form of currency, bank deposits, shares and debentures, claims on government, mutual funds, national savings certificates, life insurance funds and provident and pension funds. It contributes to around 22%

The share of private corporate sector in total savings was 9.4 per cent in 2007-08. This, however, came down to 7.4 per cent in 2008-09. But it has been moving upwards since then, reaching at of 8.24 per cent in 2009-10. The savings rate was at modest levels

below 20% till 1986-87. It's maintaining above 20% post 1987-86. The share of private corporate sector in total savings was 9.4 per cent in 2007-08. This, however, came down to 7.4 per cent in 2008-09. But it has been moving upwards since then, reaching at of 8.24 per cent in 2009-10. The savings rate was at modest levels below 20% till 1986-87. It's maintaining above 20% post 1987-86.

The reasons for modest levels of savings in India is mainly due to –

1. Low Saving Ability
2. Habit of Hoarding
3. Inflationary in nature
4. Inadequate channels for Investment
5. Tax Policy
6. Insecurity
7. Lack of Allied Facilities and Infrastructure.
8. Unequal Distribution of Income and Wealth.

Parallel economy

Parallel economy speaks about the functioning of unsanctioned economy which runs parallel to the sanctioned economy. It is also called as black economy, unaccounted economy, illegal economy, sub terrean economy or as unsanctioned economic system. The unaccounted transaction of production, consumption and investment which takes place parallel to the transactions that are duly accounted is called as **parallel economy**.

Black money refers to that income or money which is generated by the clandestine transactions pertaining to the production of transaction of goods and services, purchase and sale of immovable property and smuggling, which remains outside the disclosed channels of production of goods, trading and investment.

As per Wanchoo committee- Black money denotes not only unaccounted currency which is either hoarded or is in circulation outside disclosing trading channels, both in its investments for gold jewellery and also in precious stones made secretly, and business assets over and above the amount shown in the books of account.

Black money as a flow always signified incremental generation. The British East India Company in late 18th century laid the foundations of both a corrupt bureaucracy and a parallel economy during World War II. The Indian black economy is immense, lucrative, widespread, and has grown significantly since independence.

Black money as a stock signifies the monetary, financial and real assets acquisitions. The parallel economy has political, commercial, legal, industrial, social and ethical aspects. Transactions in black money are always followed by further transactions in unaccounted sector itself, and with every successive transaction in black market, the income velocity increases.

In India 50% of economic activity is undertaken outside the legal sector. It’s growth rate is faster than the NI growth rate. With expansion of economic activity , the magnitude of the black sector has grown stronger and proliferated to such an extent that it has began to play a dominant role in policy moulding, in changing the structure and composition of output, and promoting a class which derives maximum source of power.

Rangenakar D.K says – Parallel economy poses a threat to a stability and growth of the official economy, surely it stems from the fact that the magnitude of "black money" is large and rigged deals are growing in volume and complexity at an alarming rate.

Black money is leading to income inequalities and emergence of new black rich in the society, and arise in the conspicuous consumption has also been noticed. The number of efforts was made by various scholars and researchers to estimate the extent of black money in Indian economy, by adopting various methods. O.P.Chopra, Poonam Gupta, Sanjeeva Gupta and also Wanchoo committee have made efforts for estimating black money.

NIPFP study on black economy –the National institute of Public Finance and Planning under the direction of made effort in calculation of black money by adopting **minimum estimates approach.** This study excluded incomes generated through illegal activities like smuggling, bribe, kickbacks etc. The study defines black income as "aggregates of income which are taxable but are not reported to tax authorities. It calls black income as unaccounted income."

This study after aggregating different components concluded that the extent of black money was Rs 9,958 to 11,876crores in 1975-76 and Rs 20,362 to 23,678 crores in 1980-81. In 1980's --- 48% of black money generation was due to tax evasion 18%due to under registration of property 28% due to under reporting of output. This report is confined only to legal activities and figures shown are lowest figures. This study looks rather illogical and does not give us the correct figures. The black economy has grown from about 3% in the mid-50s to 20% by 1980, to 35% by 1990, and 40% by 1995.

Very recently the National Institute of Public Finance Policy has estimated that the sum involved is as much as about 8 Trillion $. This constitutes around 50 per cent of the gross domestic product of the economy. India has lost hundreds and millions of dollars to black money over the last few decades, and as of 2011, it was the fifth largest exporter of black money in the world.

According to the Global Financial Integrity, India lost as much as $343,932 million to foreign accounts between 2002 and 2011. Most Indian black money holders prefer to

stash their cash in Swiss banks, and in 2013, Indians held as much as ₹14,000 crore in the banks there, seeing a 40% jump from the previous year.

Impact of black money

The circulation of black money has adversely affected the Indian economy in several ways, the impact of black money on the Indian economic and social system has been –

1. It has resulted in loss of income to the government exchequer.
2. It has enormously worsened the income-distribution, and has led to conspicuous consumption and has led to emergence of demonstration effect.
3. Black money results in transfer of funds from India to foreign countries through clandestine channels. Such transfers are made possible by violations in exchange regulations through the device of under – invoicing of exports and over-invoicing of imports
4. Black money held in cash leads to abundance of liquidity, and any attempt of government to control of excess demand for money goes in vain.
5. Black money has corrupted our political system in a most vicious manner. At various levels, MLAs, MPs, Ministers, party functionaries openly and shamelessly go on collecting funds.
6. Black money requires for its protection, proliferation and expansion of a service organisation composed of musclemen, touts and brokers to combat the forces of law and order on the one hand and on the other hand, there are income tax advisers, or chartered accountants in the pay of black money operators. Then there are contract men, better known as liaison officers who negotiate favors from top bureaucracy and political bosses through bribes of black money. This has developed a new black money culture in the business world.

Causes for Generation of Black Money

There are several factors responsible for the emergence of black money---

1. Divergence in the acceptable rate of return and net rate of return and legally permissible rate of return.—the High tax rates has been responsible for the existence of black money to a large extent, example direct taxation. Till recently the tax on income and on wealth was very high to invite evasion. The marginal rate of income tax was as high as 75 per cent. And when it was combined with the tax on wealth, it was still higher. The corporate tax rate too was very high. In these circumstances the temptation / gain from tax evasion was substantial.

2. Controls and licensing system -The system of controls, permits, quotas and licenses which are associated with misdistributions of the commodities in short supply results in the generation of black money.

Price and distribution controls have in the past led to the generation of black money on a significant scale. Any price control without any adequate machinery of distribution and speedy arrangement for increasing supplies is potentially a source of black money generation. Rent control leads to ***"pugree system"*** the system of licenses requires large number of inspectors for completing various formalities and thus good amount of hush money has to be paid.

3. Donation to political parties**-** with the ban on donations to political parties in 1968, it prompted businessmen to fund political parties, especially the ruling party, with the help of black money. The politics and the business are acting and lending their hands to each other in the development of this illegal and parallel economy. The big players in the field of business sponsors all the expenses of the political parties relating to the election fight and contests. In return, they ask the political party to relax the stiff laws in their favor and also give them concession and incentives without any staunch reasons.

4. Ineffective enforcement of tax laws - Government has an armory of tax laws pertaining to income tax, sales tax, stamp duties, excise duty etc., their enforcement is very weak due to widespread corruption in these departments. . The high rates of these taxes induce businessmen to avoid recording of these transactions. This evasion

largely goes unchecked and thus sets in a chain reaction for the generation of black money at the wholesale, retail as well as production levels.

5. Generation of black money in the public sector

Every successive five-year plan is planned for a larger size of investment in the public sector. The projects undertaken by the public sector have to be monitored by the bureaucrats in Government departments and public sector undertakings. Tenders are invited for the various works and these tenders are awarded by the bureaucracy in consultation with the political bosses.

6. Hawala market as the main cause of black money generation- the illegal market dealing in such foreign currency conversions called the "Hawala market". In the Hawala market, the foreign exchange rate of Indian rupee is 23 to 25% higher than the official market. In other words, the Hawala market converts a dollar into the Indian rupee at 25% higher than the legal monetary market. They sell their foreign exchange earnings in the Hawala market in respect of some consideration. The same money is remitted to the international dealers in illicit trade. These foreign currencies are generally purchased by the big businessmen who use this money to pay for officially under-invoiced import of industrial goods as this is considered to be lower than the custom duties of 80%. It is estimated that the foreign exchange market accounts for as much as $4 billion flow of the foreign money.

7. Deterioration of the quality and morality of the general masses- The 'License-permit-subsidy' concept has led to the relationship that is too friendly between the civil servants and the officials due to various selfish interests. Those self-interests are in view of the businessmen, foreign investors and other brokers. Corruption is the sole motive of this alliance between the two considered rivals in the history whose objectives are a paradox to each other.

8. Common man: Prey as well as predator of black money---Though the common man's contribution in the generation of black money is considered to be quite insignificant, he contributes through tax evasion, capitation fees, Unawareness of the

consumer’s rights and duties, Donations to charitable trusts and temples trusts, Paying bribes to the government officials for various purposes. This way common man is also a contributor for generation of black money in India.

Measures to unearth black money

The government has been trying to legalize the black money and has made several efforts to combat this menace.

1. Measures to check Tax evasions

Government tried to plug in loopholes in the tax system by bringing large number of changes in legal and administrative system. These changes were based on the recommendations made by various committees and commission setup for tax reforms.

2. Demonetization–

It is the oldest weapon in the hands of the government to unearth black money.Demonetization means high denominations circulation would be withdrawn, and this is adopted on the assumption that all black income held in the form of cash balances of high denominations would be checked. It was adopted for the first time in 1946, the notes demonetized was to the extent of ₹143.97 crores the total issue of notes of ₹1235.93 crores. It was again used as a weapon in 1978. On November 8, 2016, the Government went for demonetization to unearth black money.

2. Voluntary disclosure Schemes

From time to time various voluntary disclosure schemes are floated, under which the people themselves shall go to the income tax department and confess the total worth of the black money and their assets. In return of this confession, the government granted the tax evaders two benefits: Firstly, it shall immune and shield the guilty from any kind of investigation regarding the sources of the black income and their indulgent in it. Secondly, the rate of taxation on their black income shall be 10% lower than that of the normal tax payers. This policy acted as an encouragement to the tax evaders to escape from any kind of legal prosecution as well as save tax since they were assured of no investigation. It gave them the chance of converting their black money into "white

The Voluntary disclosure schemes were in effect in 1951, 1975, 1985 and 1991. Voluntary disclosure scheme of 1951- the total amount of black income withdrawn from the economy amounted to Rs.70 crores. The government was successful in its first attempt to recover the tax up to the tune of Rs.10 crore. In the Voluntary disclosure scheme of 1985, the Government could unearth Rs.10, 778.34 crores of which Rs.458.79crores was of tax revenue.

4. Special bearer bond scheme of 1981—

It was introduced for canalizing unaccounted money for productive purposes. The special bond of face value of Rs.10000 each with the maturity period of 10 years, were issued , after the expiry of ten years, the holder of such special bonds was entitled to receive Rs.12000 per bonds as against their face value of Rs.10000. Here only the ownership rights were to be transferred and the subsequent holder of these bonds would not be questioned as to the means of possession of such bonds. It provided dual benefits to the black income earners. Under this scheme, the black money up to Rs.1052 crore was eliminated and withdrawn from the market.

5. **Gold bond scheme of 1993—**

This scheme was very similar to the voluntary disclosure scheme of the previous years with the exceptions that it was aimed at legalizing the black gold and silver or in other words the gold and silver that were purchased with the help of the black money. The people were assured that no questions shall be asked about the process of acquisition of gold or silver. But the gold and silver must be more than 0.995 purity to acquire the Gold bond, the deposited gold of the above mentioned purity must not be less than 500 grams. This scheme was in operation for about three months. It was estimated that the total amount of gold and silver legalized was about 100 to 200 tons.

6. Raids

The most common means adopted to catch the guilty and the tax evaders. The tax enforcement machinery seeks to unearth the black money of suspected tax evaders based on certain clues or explicit information. The raids are conducted on the business premises

and residential houses to seize undisclosed documents and income sources. It also helps to unearth immovable property and unreported wealth tax.

7. **Voluntary disclosure Schemes 1997**-

It was **a**nnounced by Finance minister P. Chidambaram and was implemented in 1997. The scheme stated irrespective the year or nature of the source of funds, the amount disclosed either in cash or securities or assets, whether held in India or abroad would be charged to tax at 30%for individuals and 35% for corporation. It provided total immunity from income tax, wealth tax and FERA. With this government was able garner Rs10,000 crores from tax evaders.

The government has been making various efforts to combat black money issue. Post liberalization was expected to act as mechanism to control black money.

Some policy measures are-

a. preventing the inflow of the smuggled gold-- In the 1993, the government of India tried to liberalize the import of gold in the Indian market through various concessions, customs duty relaxation, duty free imports in exceptional cases etc. Thus, the prices of gold in the Indian market became more or less equal to that of the international market. It prohibited the smugglers to take sufficient risk in importing the gold illegally.

The NRIs were allowed to import 5 Kg of gold per passenger with an import duty of only Rs.220 per 10 grams. Similarly, silver imports up to 100 kg per passenger with an import duty of Rs.500 per kg have been allowed.

b. Reducing the difference in exchange rate between the official market and the Hawala market.

The Liberalized Exchange Rate Management system (LERMS) reduced this difference to about 8%. Soon, Unified Market-determined Exchange Rate system tried to put an end to the Hawala market.

c. Policy of LPG model of growth—

Under the liberalization policy of the government, the licensing system, permits, quotas and other restrictions imposed on the private sector was abolished.

d. The tax reforms were also introduced. There was a moderation of tax rates and improvement in tax compliance.

e. Policy against the black money stored in the Swiss banks

f. Ratification of UN conventions against corruption – India has recently ratified the UN conventions against black money and corruption. The convention came into force in 20005 and has been ratified only once since then.

g. Five-tier policy of the finance minister Pranab Mukherjee, the central finance minister of India has formulated five ways to tackle black money both in India and that hidden in the foreign nations. These five policies are at initial stage and may take long time to be implemented due to the involvement of various countries. There are more bilateral issues involved in the implementation of these policies.

Latest measures

1. Enactment of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 more effectively to tackle the cases involving black money stashed abroad.

2. Enactment of the Benami Transactions (Prohibition) Amendment Act, 2016 w.e.f. 01/11/2016 to effectively deal with domestic black money cases by linking bank accounts with Aadhaar and PAN.

3. Government launched the plan to link bank accounts with Aadhaar and PAN. Income tax department got huge success in getting hold of fake or Ghost accounts. It also made it easy to track big and suspicious transactions through bank accounts.

4. Constitution of the Special Investigation Team (SIT) on Black Money in May, 2014 under Chairmanship and Vice-Chairmanship of two former Judges of Hon'ble Supreme Court. The SIT detected black money worth more than Rs. 70,000 crore, including 16,000 thousand rupees hidden by Indians in off shore accounts.

5. Constitution of Multi-Agency Group (MAG) for coordinated and effective investigation in 'Panama paper leaks' cases and Paradise Leaks cases.

6. Task Force (TF) on Shell Companies constituted under the joint chairmanship of Revenue Secretary and Secretary (Ministry of Corporate Affairs) in February, 2017.

7. Various other anti-evasive legislative measures taken are Tracking & curbing cash transactions and strengthening third party reporting mechanism.

8. Income Disclosure Scheme 2016- The scheme was launched on 1st June 2016 with the starting of a three-month declaration window. People and entities can reveal black money earned till 2016 and convert them into white money by paying 45% payment including tax plus surcharge and a penalty.

9. Promotion of cashless transaction. Several efforts were made by the government and the RBI to encourage cashless transactions. Card based transactions or digital transactions automatically uploads transaction details under the PAN Card. Such a system will reduce the scope of black money. National Payment Corporation's Rupay Card, UPI, BHIM, Adhaar Enabled Payment System etc. are government initiatives for cashless transaction economy.

UNIT 3

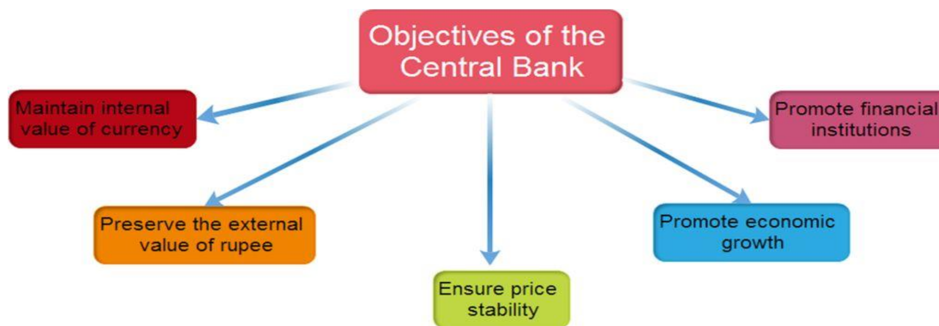
Functions and role of RBI and monetary policy: Quantitative and Qualitative methods of Credit Control, Working of the Indian monetary system, Chakravarthy Committee Report.

RESERVE BANK OF INDIA

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated. Initially the ownership of almost all the share capital was in the hands of non-government share holders. So in order to prevent the centralization of the shares in few hands, the RBI was nationalized on January 1, 1949. Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for printing of currency notes and managing the supply of money in the Indian economy.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"to regulate the issue of Bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."



FUNCTIONS OF RBI

RBI functions are as follows—

1. Monopoly to issue currency notes-The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country. One- rupee notes and coins and small coins are issued by the Government of India. India has adopted the "managed paper currency standard."

Notes issue function with the Reserve Bank has a number of advantages:

(i) It brings uniformity in notes issue;

(ii) It makes possible effective state supervision;

(iii) It is easier to control and regulate credit in accordance with the requirements in the economy; and

(iv) It keeps faith of the public in the paper currency.

Prior to 1956, the principle of note issue of the RBI was based on proportional reserve system. This system was replaced by the minimum reserve system in 1956 under which the RBI was required to hold at least Rs. 115 crores worth of gold as backing against the currency issued. The rest (Rs. 85 crores) should be in foreign securities, so that together with gold and foreign exchange reserve the minimum value of these assets is Rs. 200 crores.

2. Banker to the government- The RBI acts as the banker to the government of India and State Governments (except Jammu and Kashmir). It has to maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

As the Government's banker, the RBI provides short term credit to the Government of India. This short term credit is obtainable through the sale of treasury bills. RBI also provides ways and means of advances (repayable with 90- days) to State Government. It may be noted that the Central Government is empowered to borrow any amount it likes from the RBI. The RBI acts as

the adviser of the Government not only on banking and financial matters but also on a wide range of economic issues (like financing patterns, mobilisation of resources, institutional arrangements with regard to banking and credit matters, arrangements with regard to banking and credit matters, international finance) etc.

3. Banker's bank - the RBI holds a part of the cash reserves of commercial banks and lends them funds for short periods. All banks are required to maintain a certain percentage of their total liabilities. The main objective of changing this cash reserve ratio by the RBI is to control credit. The RBI provides financial assistance to commercial banks and State cooperative banks through rediscounting of bills of exchange. The RBI has been empowered by law to supervise, regulate and control the activities of commercial and cooperative banks. The RBI periodically inspects banks and asks them for returns and necessary information.

4. Exchange management and control- under section 40 of RBI Act, it performs function of maintaining the external value of rupee. The external stability of the currency is closely related to its internal stability the inherent economic strength of the country and the way it conducts its economic and monetary affairs. Domestic, fiscal and monetary policies have an important role in maintaining the external value of the currency. Reserve Bank of India has a very important role to play in this area. The RBI has the authority to enter into foreign exchange transactions both on its own account and on behalf of the Government.

The official external reserves of the country consist of monetary gold and foreign assets of the Reserve Bank, besides SDR holdings. The Reserve Bank, as the custodian of the country's foreign ex- change reserves, is vested with the duty of managing the investment and utilisation of the reserves.

5. Credit control - The RBI controls the total supply of money and bank credits to sub serve the country's interest. The RBI controls credit to ensure price and exchange rate stability. To achieve this, the RBI uses all types of credit control instruments namely, quantitative, qualitative and selective controls. The most extensively used credit instrument of the RBI is the bank rate. The RBI also relies greatly on the selective methods of credit control.

6. Agricultural finance- a special department known as Agricultural credit department is set up to encourage financing for agricultural sector. It makes am analysis about the requisite of

agricultural finance and gives advice to the government and state cooperatives to meet financial requirements in agricultural sector.

On 1/7/1963 RBI established Agricultural Refinance Corporation to meet medium term and long term agricultural financial needs. In 1975 it was renamed as Agricultural Refinance and Development Corporation. In 1982, NABARD came into existence.

7. Collection and publication of data- The RBI collects, collates and publishes all monetary and banking data regularly in its weekly statements in the RBI Bulletin (monthly) and in the Report on Currency and Finance (annually).

8. Lender of Last Resort - The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

Developmental and promotional functions- the RBI performs various activities of promotional and developmental nature.

1. Mobilisation of savings and extending banking facilities to unbanked areas.
2. Providing security to the depositors
3. Development of agricultural credit institutions
4. Helping the development of specialized institutions of industrial finance.
5. Advisor to the government.

RBI is not a typical Central Bank as is traditionally understood. It is something more than a Central Bank. It regulates not only currency and credit but aids the development of the Indian economy by conducting various types of promotional activities

Credit Control

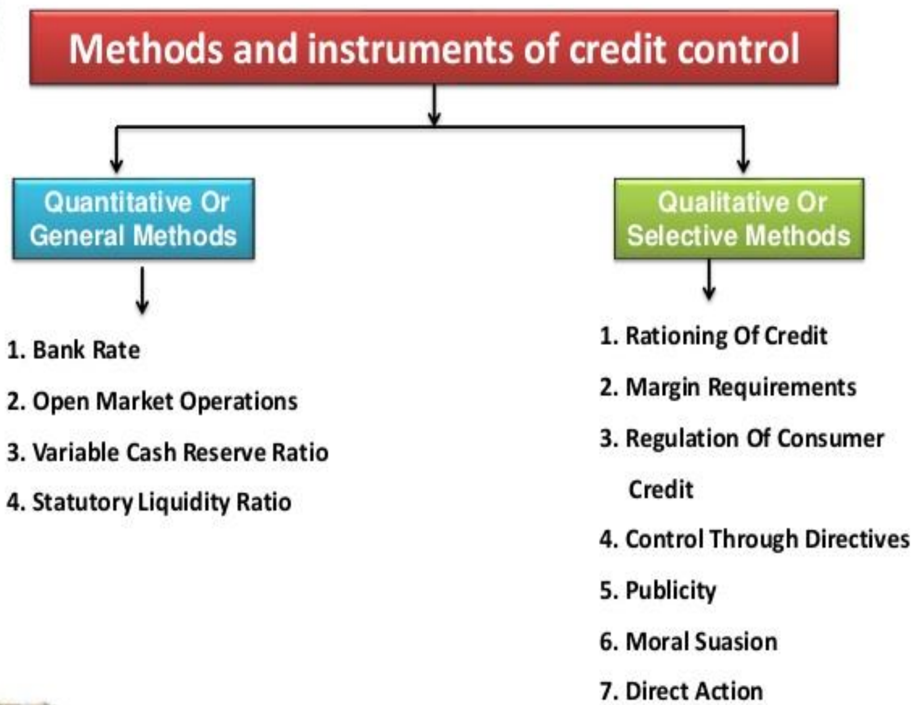
RBI has been empowered with powers to regulate credit. It has various weapons of control through which it can control money supply and price fluctuations. The weapons of control are

a. Quantitative credit control

b. Qualitative credit control

Objectives of Credit control-

1. To maintain stability in the internal price level.
2. Economic Stability
3. Stability in Exchange rate
4. Stabilization of the money markets
5. Promotion of economic growth
6. Meeting Business needs
7. Checking outflow of gold.



Bank Rate

It is the oldest method of credit control. It was first introduced by Bank of England till the outbreak of 1st world war. The bank rate or the discount rate is the rate fixed by the central bank at which it rediscounts first class bills of exchange and government securities held by the commercial banks. The bank rate is the interest rate charged by the central bank at which it provides rediscount to banks through the discount window. The central bank controls credit by making variations in the bank rate.

To expand credit, the central bank lowers the bank rate. Borrowing from the central bank becomes cheap and easy. So the commercial banks will borrow more. They will, in turn, advance loans to customers at a lower rate. The market rate of interest will be reduced.

The bank rate policy seeks to influence both the cost and availability of credit to members of the bank. Cost, of course, is determined by the discount rate charged, and the availability depends largely upon the statutory requirements of eligibility of bills for discounting and advances, as also the maximum period for which the credit is available.

The bank rate obviously is distinct from the market rate. The former is the rate of discount of the central bank, while the latter is the lending rate charged in the money market by the ordinary financial institutions. The Bank rate policy involves the variation of discount rates to influence the market rate of interest, which plays a crucial rate in the creation credit.

Conditions for the bank rate policy-

1. Maintenance of close relationship between bank rate and other interest rate.

2. Prevalence of elastic economic structure.

3. Existence of Short term money markets.

Objectives of bank rate policy-

1. Controlling the volume of credit in the economy.
2. Restoring the equilibrium between savings and investments.
3. Correcting the disequilibrium in the BOP and
4. Maintaining the exchange rate stability.

Limitations

1. The conditions were not conducive for a successful implementation of bank rate policy.
2. The economy is non sensitivity to interest rate changes many a times.
3. It has failed in controlling deflation and has been successful in inflationary periods..
4. There exists a conflict between the internal and external effects of the bank rate policy.
5. The increasing non-dependence of commercial central bank banks on financial assistance.
6. It failed in controlling the BOP disequilibrium.
7. Impersonal nature of bank rate policy.

Decline in the utility of Bank rate policy was mainly for the following reasons-

1. Lack of elasticity in economic structure.
2. Increase in the liquidity assets of commercial banks.
3. Decline in the importance of bills of exchange as a credit instrument.
4. Rise in the methods of credit control.
5. Rise in interest rates and less sensitive to interest rates.
6. Change in modes of business financing.
7. Increasing importance of Fiscal policy.

Bank rate policy in India

RBI is also empowered with this instrument of credit control. Its effectiveness depends on –

a. The extent of availing facilities of banks to rediscounting facility.
b. Banks should not maintain excess cash reserves against deposits
c. Banks must hold adequate quantity of credit instruments which could be rediscounted by central bank.

But in India the utility of bank rate is limited as it does not meet these requirements because

a. The structure of interest rates is administered by RBI; they are not automatically linked to the bank rate.
b. Commercial banks enjoy certain refinance facilities and hence do not rely much on rediscounting of eligible bills with RBI.
c. The bill market is underdeveloped and money market is not much influenced by bank rate. Thus bank rate is not a pace setter for interest rate changes. Other issue with India is

bank rate and other lending rate and credit rates are not directly related with the bank rate.

The bank rate was at 10% in 1980 and further increased to 12% in October 1991 2011-12 marked for a shift to a single policy rate reign known as **repo rates**. It is the rate at which the Central Bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfalls of funds.

RBI has been actively using repo rate to control credit. The current repo rate as on 4 October 2019 was 5.15%. The RBI has cut repo rate to 4.4% due to impact of COVID 19. The main objective is to increase liquidity to meet the financial requisites in the present conditions. Reverse repo rate is the rate a RBI borrows money from commercial banks. For the more than past 10years, repo rate has been maintained around 6% to 7%.

Open Market Operation

OMO as a instrument of credit control emerged in the latest period when Central bank felt bank rate policy as a weak instrument. This credit control measure emerged post 1st world war. It refers to the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system.

OMO means the purchase and sale of securities by the Central bank of a country. The sale of security by the Central bank leads to contraction of credits and the purchase to the credit expansion. This method is adapted to make the bank rate policy effective.

An open market operation is a measure used by the central bank of the country to manage money supply. Through OMOs, central bank either purchase or sell government bonds in the open market. The primary tool for implementing monetary policy, OMOs facilitate changes in short-term interest rates and money supply depending on the prevailing economic scenario.

If the liquidity condition of the economy is weak, the central bank purchases government securities and hence infuses money into the system. Otherwise, it sells securities in case of excess liquidity in the system. The central bank performs open market operations

considering the targets for various economic parameters such as interest rates, exchange rates or inflation.

The success of OMO was mainly due to following reasons -it is a direct credit control measure and has immediate effect and success of OMO has been only after the emergence of strong money market. Objectives –

1. To eliminate the effects of exports and imports of gold under the gold standard,

2. To impose check on the export of capital.

3. To remove shortage of money in the money market.

4. To support bank rate policy.

5. To check the ‘Run on the Bank’.

Conditions for OMO

1. Prevalence of well developed securities market- a country should posses well developed and well organised market for different types of securities for central bank to use it in the market.

2. Maintenance of a definite CRR by commercial bank- the purchase and sale of securitie by central bank to chck the cash reserves of commercial banks can be successful only when commercial banks posses definite cash reserve ratio.

3. Non cooperation of extraneous factors- impact of unfavourable balance of payments, hoarding, and change in the velocity of circulation of money will not be supportive for the functioning of OMO.

4. Non conformist attitude of the borrowers- the behaviour of the borrowers and attitude towards the commercial banks with respect borrowings will not support OMO at times.

5. Existence of adequate stock of securities with the central bank- OMO is successful only when the purchase and sale of securities is carried on in extensive scale. Thus

there should be a possession of large types of securities for OMO to function effectively.

6. Non existence of direct access of commercial banks to the central bank- if the commercial banks have direct access to central bank then, OMO will not be effective.
7. OMO is more helpful for credit contraction than expansion

Limitations

a. OMO does not prove effective when the cash reserves of the bank remain unaffected.
b. Despite OMO many a time's commercial banks do not contract or expand credit according to the prevailing economic requirements.
c. Circulation of Bank credit should have constant velocity but fails due to fluctuations in bank deposits. Thus credit contracting policies get neutralized due to inconsistent velocity of circulation.
d. OMO has proved efficient instrument for developed countries as they have strong money market.

OMO in India

This Method influences the volume cash reserves with the commercial banks and thus influences the volume of loans and advances to the Industrial and Commercial sectors.

RBI did not use this instrument for a long period. RBI utilized this instrument in 1991 when there was enormous flow of foreign funds in India and created excess liquidity with the banking sector. RBI sold Government security in the market and also withdrew cash reserves of Commercial banks and reduced the lending ability to the Industrial and Commercial sector. If RBI purchases Government security from the market it increases cash reserves with Commercial bank and increases its lending ability.

Cash Reserve Ratio

It is the direct and effective method of credit control. The excessive reserves of commercial banks can either be wiped out altogether or rendered ineffective for the purpose of credit creation. It is through the variations in the cash reserve ratio of commercial bank and is known as Variable CRR.

This method was first suggested by Lord Keynes. This method is considered as an indispensable tool for promoting the overall liquidity and the solvency of the banking system. This system also brings public confidence in the ability of the commercial bank s to meet their obligation of deposits, this method was 1st introduced in 1933 in the USA, where the Federal Reserve System used it for controlling the volume of credit in the economy.

Under the RBI Act of 1934, every commercial bank had to keep certain minimum cash reserves with RBI. It was initially 5% against demand deposits and 2% against time deposits. In 1962 RBI was empowered to vary cash reserves requirements between 3% to 15% of the total demand and time deposits.

The Narasimhan committee was not in favour of utility of CRR for inflation control. CRR was gradually reduced from 15% in 1994-95 to 8% in 2000-01 and was finally reduced to 4%. Again it saw an upward movement to combat inflation in 2008 to 8% and over the years it has settled at 4%. CRR is reduced to 3%.

SLR-

Banking regulation act 1962 has made provision for a minimum of statutory liquidity ratio (SLR) of 25% of the banks against their net demand and time liabilities. It makes provision for RBI to increase this ratio up to 40% if it needs necessary to control liquidity. The RBI is vested with the power to determine SLR for commercial bank.

SLR was as high as 38.5% of the net demand and time liabilities of commercial bank in 1991. With the Narsimhan committee recommendation the government decided to gradually reduce SLR from 38.5% to 25% and further to 23% in 2012.

Selective Credit Control

These are generally meant to regulate credit for specific purposes. The banking regulation Act of 1949 empowers RBI to directives to the commercial banks regarding their advances. RBI uses three kinds of selective credit control measures

a. Minimum margins for lending against specific securities.

b. Ceiling on the amount of credit for certain purposes.

c. Discriminatory rate of interest charged on certain types of advances.

Credit Authorization Schemes (CAS) – this scheme was introduced in November 1965. Under this scheme the commercial bank has to obtain RBIs authorization before sanctioning any fresh credit of more than one crore to any single party. This was later raised to 6 crore in 1986 and further cut of was fixed for all manufacturing units and exporters to 7 crores. This scheme was abolished in 1988.

Credit monitoring arrangement- To ensure financial discipline of the commercial banks RBI brought in monitoring and scrutinizing of all sanctions of bank loans exceeding 5 crores to any single party for working capital and 2 crore in terms of loans. This was also discontinued in 1997.

The concept of selective credit controls emerged in USA. RBI has also introduced this instrument to prevent hoarding speculation in the Indian market. RBI has extensively utilized this weapon to check market pressures.

Moral Suasion has been another instrument used by RBI. Here central bank persuades, suggests and advices the commercial bank to follow its monetary policy from time to time. It does by sending circulars, calling meetings.

Direct Action– it empowers RBI to caution or prohibit banks from entering in to a direct transactions or class of transactions. It can inspect the accounts of the bank. It can also wind up or merge bank branches with other banks. When the Commercial Banks does not follow the policy of the RBI, then the RBI has the only recourse is direct action. This method can be used to enforce both quantitatively and qualitatively credit controls by the

RBI. This method is not used in isolation; it is used as a supplement to other methods of credit control.

Direct action may take the form either of a refusal on the part of the Central Bank to re-discount for banks whose credit policy is regarded as being inconsistent with the maintenance of sound credit conditions. Mostly such circumstances are rare when the Central Bank is forced to resist to such measures.

Rationing of Credit: Under this method the credit is rationed by limiting the amount available to each applicant. The RBI puts restrictions on demands for accommodations made upon it during times of monetary stringency.

In this the RBI can discourage the granting of loans to stock exchanges by refusing to re-discount the papers of the bank which have extended liberal loans to the speculators. This is an important method of credit control and this policy has been adopted by a number of countries like Russia and Germany.

Method of Publicity:

RBI in order to make their policies successful can take the course of the medium of publicity. A policy can be effectively successful only when an effective public opinion is created in its favour. Its officials through news-papers, journals, conferences and seminar's present a correct picture of the economic conditions of the country before the public and give a prospective economic policies. In developed countries Commercial Banks automatically change their credit creation policy. But in developing countries, commercial Banks are being lured for regional gains.

Regulation of Consumer's Credit:

Under this method consumers are given credit in a little quantity and this period is fixed for 18 months; consequently credit creation expanded within the limit. This method was originally adopted by the U.S.A. as a protective and defensive measure, there after it has been used and adopted by various other countries.

Monetary policy

The monetary policy refers to a regulatory policy whereby the central bank maintains its control over the supply of money for the realization of general economic goal.

H.G Johnson defines monetary policy as a “policy employing the Central bank’s control of the supply of money as an instrument for achieving the objectives of general economic policies.”

Thus monetary policy refers to measures designed to affect the supply, cost and availability of money to ensure a more efficient operation of the economic system. It involves deliberate manipulation of monetary instruments for the realisation of objectives of economic policy.

General objectives of monetary policy

In the process of framing a monetary policy every government keeps in certain objectives considering the economic situation of that country. These objectives are chosen by the monetary authority based on the needs and priorities of a country’s economic situation. They later change in accordance with the change in the economic scenario of a country over the years.

Different countries adopt different objectives in their monetary policy based on the countries requirements.

The general objectives of monetary policy are-

1. Neutrality of money- is to regulate the real variables in such a way that it is unaffected, can be achieved by maintaining consistency in supply of money.
2. Price stability
3. Exchange stability
4. Economic growth and
5. Full employment

Role of monetary policy in promoting economic growth

It implies the expansion in productive capacity or capital stock in the economy which leads to increase in the national income of a country. To promote economic growth the monetary policy has to promote-

1. A raise in the aggregate rate of savings in the economy.
2. Mobilization of savings and provision of these savings for the purpose of investment and production.
3. Increase in the rate of investment
4. Allocation of investment.

A proper and well formulated monetary policy helps in promoting the economic growth of a country.

India's monetary policy

The preamble of the Reserve Bank of India Act, 1934 enjoins the central bank

"..to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage…". Within this broad mandate, the Reserve Bank's monetary policy pursues the twin objectives of price stability and ensuring the availability of credit to the productive sectors in the Indian economy. The emphasis between the twin objectives of price stability and growth has, however, varied over time depending on the evolving price-output situation.

The Chakravarthy Committee has emphasized that price stability; growth, equity and social justice, promoting and nurturing the new financial institutions have been the important objectives of monetary policy in India. The monetary policy since 1952 has emphasized on twin objectives of economic policy of the government-

a. Speedup economic development in the country to raise national income and standard of living and

b. To control and reduce inflationary pressures in the economy.

Monetary Policy of India is formulated and executed by Reserve Bank of India to achieve specific objectives. It refers to that policy by which central bank of the country controls

(i) the supply of money, and

(ii) cost of money or the rate of interest,

In the words of D.C. Rowan, "The monetary policy is defined as discretionary act undertaken by the authorities designed to influence (a) the supply of money, (b) cost of money or rate of interest, and (c) the availability of money for achieving specific objective."

The monetary policy of India refers to that policy which is concerned with the measures taken to regulate the volume of credit created by the banks. The main objectives of monetary policy are to achieve price stability, financial stability and adequate availability of credit for growth.

According to Y. Venugopal Reddy monetary policy in India has always focused on price stability and growth. Thus to ensure control of money supply and credit RBI has been given the monopoly of issue of currency. Control of money supply refers to control on the supply of currency and deposit money. Thus regulation of quantity of currency is very important function of the RBI. RBI can issue currency notes on the basis of reserves maintained in the form of gold bullion, foreign securities, rupee securities and treasury bills. It always has to maintain gold and foreign exchange reserves worth Rs 200 crore, of which gold reserves must always be to the value of Rs 115 crore.

Price stability or inflation control-

C. Rangarajan quotes- Faced with multiple objectives that are equally relevant and desirable, there is always a problem of assigning to each investment the most appropriate target or objective. Of the various objectives, price stability is perhaps the one that can be pursued most effectively by monetary authorities. Price stability is the dominant objective

of monetary policy. This refers to maintaining of reasonable rate of inflation that promotes the process of economic growth. This does not mean any change in price.

For country like India, in the process of economic growth, the country would go in for structural changes which could result in relative price changes, such inflationary pressures are inevitable. Thus here the role of the RBI and its monetary policy would be to maintain a reasonable rate of inflation to promote the growth process. When the Commercial Banks does not follow the policy of the Central Bank, then the Central Bank has the only recourse is direct action. This method can be used to enforce both quantitatively and qualitatively credit controls by the Central Banks. This method is not used in isolation; it is used as a supplement to other methods of credit control.

Direct action may take the form either of a refusal on the part of the Central Bank to re-discount for banks whose credit policy is regarded as being inconsistent with the maintenance of sound credit conditions. Even then the Commercial Banks do not fall in line; the Central Bank has the constitutional power to order for their closure. This method can be successful only when the Central Bank is powerful enough and has cordial relations with the Commercial Banks. Mostly such circumstances are rare when the Central Bank is forced to resist to such measures.

Any failure to control the price rise would endanger the economic situation of the country with either rise in the living cost, increase in the export prices fall in the value of money and BOP pressures.

Thus Prof. Chakraworthy recommended that formulation of India's monitory policy should be able to maintain a reasonable rate of inflation up to 4%.

Economic Growth

It is another important objective of monetary policy. It can promote economic growth by ensuring adequate availability of credit at lower cost. It should strengthen short term money market and also long term credit to ensure consistent economic growth.

RBI followed tight money policy with increase CRR and SLR levels. Later bank rate and repo rate were at higher level that hampered economic growth. Earlier tight money

policy went against the policy to promote growth. To assure economic growth, there has always been an argument for maintaining 4% p a inflation with growth of money supply and availability of credit in the market.

With liberalization, efforts are being made for provision of credit lower lending rate and maintain better liquidity to ensure credit supply. But tight money policy on one side and objective of foreign exchange stability at the other was leading to conflicting objectives to support higher economic growth . But now over the years, we are following cheap money policy to ensure the flow of money to meet financial requisites of the investors.

Exchange rate stability

India followed fixed exchange rate system till 1991 and would occasionally devalue Indian currency with the approval of IMF. With liberalization floating rate was adopted from then India has been experiencing volatile exchange of rate of rupee. The changes in capital inflows and capital out flows and changes in demand for and supply of foreign exchange has caused fluctuations in the foreign exchange of rupee.

Increase in dollars from FII's to move currency to their countries, raise in corporate sector financing for imports and increase in imports under public sector industries brought an imbalance in demand for and supply of dollars in India.

RBI could handle such situations by raising bank rates and repo rates, thus raising the lending rates. It also raises CRR to reduce the liquidity of banks and thus reduce the demand for foreign currency and balance the instability of foreign exchange market.

It also can release more dollars from its reserves to balance market demand and supply for foreign currency. At times of need, despite flexible exchange rates RBI can intervene to achieve stability of exchange rate.

Chakravarthy committee recommendations

Earlier Hilton Young Commission and the Central Banking Enquiry committee had reviewed the working of the Indian monetary system. During 1982 Dr. Manmohan Singh, the then governor of RBI appointed a committee under the Chairmanship of Sukhamoy Chakravarthy to review the functioning of Indian monetary system. The committee was assigned to review the following—

1. To critically review the structure and operation of the Indian monetary system in the context of the basic objectives of planned development.

2. To evaluate the various instruments of monetary and credit policies.

3. To assess the interaction of monetary policy and public debt management.

4. To recommend suitable measures for the formulation and operation of monetary and credit policies and for strengthening the instruments of monetary and credit policies.

5. To make such other recommendation as the committee may deem relevant to the effective operation of monetary and credit policy.

The committee observed that Indian monetary system failed in attaining its major social objectives mainly due to —

a. Excessive fiscal deficits,

b. Unnecessary large credit of the banking system to government.

c. RBI's main support to public borrowings at cheaper rate rather than taking relevant action for the effective monetary management: monetary tools like the Statutory Liquidity Requirements (SLR) and interest policy being used to facilitate a large public debt from the banking sector.

The Committee has made the following noteworthy observations:

1. The growth of money supply (M3) has greatly exceeded the growth in output during the period 1971-1984. The money supply (M_3) has increased on an average at the rate of

17.2 per cent per annum, while the output (NNP at factor cost) has increased just at the rate of 3.7 per cent; the wholesale price index 1 as registered a 9.8 per cent rise per annum.

2. The government's resort to RBI's credit has increased excessively. This has caused a phenomenal expansion in reserve money adversely affecting the conduct of monetary policy since 1970.

3. The government borrows at a much lower rate than the prevailing market rates by resorting to the RBI and the captive market of the banks.

4. The system of administered interest rates is typical of the Indian monetary system.

5. Yields on treasury bills at 4.6% discount rates are very low.

6. Concessional rates of interest seem to have permitted the rise of economically non-viable projects.

7. The currency-deposit ratio has steadily declined from 1.53 in March 1951 to 0.3 in March 1984.

The Committee's Recommendations:

The following recommendations of the Committee are noteworthy –

1. ***Structure and operation of Indian monetary system.***

It recommended for consistency with plan authorities, to enable the process of mobilization of resources and utilization these resources for social objectives. It recommended for emphasizing the need for financing the five year plans in a non inflationary manner-

a. Tapping the savings of the public in a greater measure.

b. Raising the savings from public sector enterprises and

c. Improving the efficiency in both revenue gathering and in expenditure.

2. ***Objectives of monetary policy-***

Relative price stability is to be maintained by not allowing the annual price rise to go beyond 4 per cent. "It would be desirable, in the Indian context, to assign to the monetary authority a major role in promoting price stability, and also to accord price stability a dominant position in the spectrum of objectives pursued by the monetary authority."

To achieve this RBI should bring reduction in the growth of reserve money and the money supply, while government should ensure raising output levels.

The Committee advocates strong supply management measures to combat fluctuations in agricultural production. It also stressed upon demand management and felt the need for coordination between govt. and RBI

3. ***Monetary targeting-***

It emphasized on inter relationship between price output and money . It said target for growth in Money supply should be determined in view of the expanded growth rate in GNP, the real income elasticity of demand for money, and a permissible price rise of, say 4 per cent per annum.

To achieve the said, target should be announced in advance, and the modifications and the circumstances under which such modifications would be made should also be announced in advance. Committee also recommended that RBI and government should evolve a policy framework for the regulation of RBI credit to government.

Change in the definition of budgetary deficit-

Budgetary deficit of government always took the form of an increase in treasury bills outstanding. Here only part of treasury bills is absorbed by the public. The concept of budgetary deficit did not distinguish between the amount of bills absorbed by public and the amount held by RBI, thus it overstated the extent of monetary impact on fiscal operations. Increase in lending by RBI to govt. for its programme led to corresponding

increase in money supply. This committee suggested a change definition of budgetary deficit, by clear between distinction revenue, fiscal deficit and overall budgetary deficit.

5. Interest rate policy-

There should be only two concessional lending rates applicable to bank credit provided to the specified priority sector borrowers, one of which should be equivalent to the basic (minimum) lending rate and the other somewhat lower than it. Banks should have freedom to fix their other lending rates. The committee viewed those concessional interest rates as distributive device should be used in a selective manner.

The Committee also recommended that interest rate on bank deposits should be positive after adjusting for inflation, to encourage small savers. It felt that it is a misconception to assign to the trade sector a low priority for bank finance in comparison to the industrial sector in the present stage of development in Indian economy. Hence, the trade sector must be given due recognition and should not be starved of bank credit.

Long-term deposits and loans must yield a minimum of 3 per cent real rate of returns. It stressed for strengthening for effective credit delivery system in the area of priority sector lending and provision of timely credit to this sector.

Restructuring of money market in India-

They stressed the need for an upward revision of the administered interest rates. The yields on treasury bills and the government securities must be enhanced corresponding to the prevailing market rates of interest on other financial assets.

Ceiling on call-rates should be removed. Banks should be assisted by the Reserve Bank by extending larger refinance and bills discounting facilities. Bill markets should be strengthened by removing impediments like payment of stamp duty, difficulty in obtaining supplies of stamp paper, administrative rigidities, etc.

The Chakavarty Committee set out the following other tasks for the monetary system so that its functioning would be in consonance with the national development strategy as envisaged in the successive Five Year Plans:

(a) mobilizing the savings of the community and enlarging the financial savings pool;

(b) promoting efficiency in the allocation of the savings of the community to relatively productive purposes in accordance with national economic goals;

(c) enabling the resource needs of the major ‘entrepreneur’ in the country, *viz.*, the government, to be met in adequate measure; and

(d) Promoting an efficient payments system.

UNIT – IV

New Industrial policy: changing role of public sector, small sector industrial policy. Abid Hussein Committee Report on SSI.

Industrial policy 1991

The India's approach towards industrialisation was first spelt in Industrial Policy 1948. In 1951, the state came up with Industries (Development and Regulation Act) as a direction towards the process of Industrialisation in India. With the implementation of 2nd five year plan, it led to beginning of industrialisation in India; Government of India came up with new Industrial Policy, 1956.

The main objectives of the Act were to empower the Government:-

(i) To take necessary steps for the development of industries;

(ii) To regulate the pattern and direction of industrial development;

(iii) To control the activities, performance and results of industrial undertakings in the public interest.

Post 1956 IPR, the other Industrial Policy implemented time to time to strength industrialisation in India are IPR 1973, 1977 and 1980. The Monopolies and Restrictive Trade Practices Act (MRTP) was designed in 1969 to check concentration of economic power in few hands. The major drawback as noticed by many economists of earlier industrial policies was failure in correcting-

1. Licensing system and underutilisation of production capacity.
2. Licensing led to concentration of economic power.
3. Discretionary powers of licensing authorities.
4. Regional imbalances.
5. Administrative delays in processing of applications

The new government by Shri Narasimha Rao, announced a package of liberalization measures under its Industrial Policy on July 24, 1991. The policy aimed at strengthening the industrial sector with the objective of “build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. The pursuit of these objectives will temper the need to preserve the environment and ensure the efficient use of available resources.”

The broad objectives of New Industrial Policy 1991 are as follows:

(i) Liberalizing the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialization of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

Thus Government decided to take a series of initiatives and the important policy measures announced to pursue the above objectives were in respect of the relating to the following areas.

1. **Industrial licensing policy**

Industrial Licensing is governed by the Industries (Development & Regulation) Act, 1951. To achieve the objectives of the strategy for the industrial sector, post 1990s and beyond, it became necessary to make a number of changes in the system of industrial approvals.The IPR 1991 has abolished the industrial licensing requirement irrespective of the level of investment in all industries except those 18 industries specified in Annexure II of the ID & R Act (1951). The industries where industrial licensing will be necessary include areas like coal, lignite, petroleum, sugar, cigarettes, motor cars, hazardous chemicals, drugs and

pharmaceuticals, asbestos, plywood and other wood based products, newsprint, electronics and some luxury items. There are only 5 industries that require licensing, namely-alcohol, cigarettes, hazardous chemicals, electronics aerospace and defense equipment and industrial explosion.

2. **Foreign Investment**

To facilitate foreign investment in high priority industries, requiring large investment and advanced technology, it has been decided to provide approval for direct foreign investment upto 51% foreign equity in such industries. There shall be no bottlenecks of any kind in this process. This group of industries has generally been known as the "Appendix I Industries" and is areas in which FERA companies have already been allowed to invest on a discretionary basis.

Thus the primary changes in the foreign investment regime included automatic approval of FDI up to 51 percent of equity ownership by foreign firms in a group of 34 technology intensive industries, a case-by-case consideration of applications for foreign equity ownership up to 75 percent in nine sectors, mostly relating to infrastructure, and the streamlining of procedures relating to approval of investment applications in general. With time to time revision in liberalization of FDI, the policy now allows 100 percent foreign ownership in a large number of industries and majority ownership.

FDI is prohibited in – retail trading, atomic energy, and lottery business and gambling and betting.

Foreign Technology Agreements

As today technological dynamism in Indian industry became essential, , Government will provide automatic approval for technology agreement related to high priority industries within specified parameters. Greater competitive pressure will also induce industry to invest much more in research and development and, to help this process, the hiring of foreign technicians and foreign testing of indigenously develop technologies, will also not require prior clearance as prescribed so far, individually or as a part of industrial or investment approval.

3. **Public sector policy**

The pre eminent place of public sector will be continued in 8 core areas. These are arms and ammunition, atomic energy, mineral oils, rail transport and mining of coal and minerals. Again in 1993, mining was deleted from licensing list, and in 1998 coal lignite and mineral oils were also removed from reserved list.

Further to raise resources and encourage wider public participation, a part of the Government's shareholding in the public sector units would be offered to mutual funds, financial institutions, the public and workers.

The sick PSUs will be referred to the BIFR or other such institutions to formulate rehabilitation cum revival scheme for such units. Also, a social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

4. **Monopolies and Restrictive Trade Practices Act**

The MRTP Act will be amended to remove the threshold limit of assets in respect of MRTP companies and dominant undertakings. This would eliminate the requirement of prior approval of the Central Government for establishment of new undertakings, merger, amalgamation, takeover and appointment of directors under certain circumstances.

Other liberalization measures-

Locational policy- A significantly amended location policy was in place where no industrial approval was required for locations not falling within 25 kms of the periphery of cities having a population of more than one million except for those industries where industrial licensing was compulsory.

Nonpolluting industries such as electronics, computer software and printing could be located within 25 kms of the periphery of cities. Permission to other industries was granted in such locations only if they were located in an industrial area so designated prior to 25.07.91. They came up with abolition of phased manufacturing programmes of new projects and removal of mandatory convertibility clause.

Public Sector

"The public sector is expected to provide specially for the further development of industries of basic and strategic importance or in the nature of public utility services." - Indian Planning Commission.

Public sector occupied an important place for achieving systematic and planned development in a developing country like India. in the post independence period, the expansion of public sector was undertaken as an integral part of the Industrial Policy 1956.

Central Public Sector Undertakings:

There were 236 Central public sector undertakings excluding banks in 1996-97. The growth of investment in Central public sector undertakings has also increased. Since 1951, the number of industrial and commercial undertakings of the Central Government has increased from 5 units in 1950-51 to 236 units in 1996-97 and the Capital investment has increased from Rs. 29 crores to Rs. 2020.2 billion in 1996-97.

State Governments Public Enterprises:

As on March 31, 1986, there were 636 State level Public Enterprises (SLPEs) functioning in 24 states. The investment in SLPEs as on March 31, 1986, was of the order of Rs. 10,000 crores as against. Rs. 2,860 crores, as on Mach 31, 1977.

While inclusive of State Electricity Boards and State Road Transport Corporations, total nvestment stood at Rs. 25,000 crores in 1986, as against Rs. 9,576 crore in 1977. The average rate of growth of investment in State level enterprises during 1977-86 periods was of the order of 20 percent per annum.

There are four types of public sector enterprises:

(1) Departmentally Managed;

(2) Managed by independent boards;

(3) Run as public corporations; and

(4) Organized as Companies.

The passage of Industrial Policy Resolution of 1956 and the adoption of the Socialist Pattern of Society as our national goal, further led to deliberate enlargement of the role of public sector.

The public sector plays an important role for the foundation of the country.

Role of public sector in India –

1. It has been the major contributor for generation of Income of the country.
2. The growth of Public sector has led to capital formation of the country.
3. It has helped in development of infrastructure of the nation has it is the prerequisite for industrialization.
4. It has led for foundation for strong industrial base.
5. It helps in industries to enjoy economies of scale.
6. It has helped in removal of regional disparities.
7. Public sector industries have led to import substitution and export promotion
8. It has been successful to check concentration of economic power.

Performance of the public sector.

The performance of the public sector units should not be judged by what they earn in the form of profits but by the total additions they make to the flow of goods and services in the economy. Yardstick should be the total additions they make to the flow of goods and services in the economy and not what they earn.

Expansion of public sector and its share in national income in 1951 there were only 5 central public sector enterprises (CPEs) with investment of Rs 29 crore. As on 31st March 2011, India had 248 CPEs of which 220 were operational with Rs 9,49,499 crore capital employed and with turnover of Rs 1,47,319 crore.

CPEs have played a pivotal role the production of coal , lignite, petroleum and in ferrous metals like lead and zinc. The contribution from CPEs to the central exchequer was to the extent of Rs 1,56, 124 crore through payment of dividends, interest, corporate tax, excise duties etc.

Profitability

Though profit making was not the criteria of Public sector enterprises, yet financial analysis is made as they are set up at huge cost . PAT (profit after tax) was Rs 86, 324 crore in 2010-11.Over the period the reliance of Public sector enterprises on budgetary resources has declined and theirs gross internal resource generation has increased.

Employment and Labour welfare

This is the area were Public sector enterprises have really done a good job. It has contributed for a significant change in improving the overall employment situation in India, has made provision for better working amenities, wages, and other facilities to the workers. As on 2011 the total employment provided by Public sector enterprises was 14.44 lakh.

The sizeable number of employees is in coal, steel, textiles, heavy engineering and medium and light engineering industries. It has developed townships with provision of schools, hospitals etc. they have made provision for medical facilities, subsidised canteens, transport facilities for their employees.

Public sector and Foreign exchange earnings.

Public Sector also helped in earning foreign exchange and has reduced import bill by import substitution. ONGC has helped reducing dependence on foreign imports for petroleum products. Hindustan Antibiotics Ltd. has contributed in pharmaceuticals and drug requirements.

Public sector has contributed in –

a. Through direct export of items produced public sector,

b. Through services rendered by the public sector undertakings,

c. Through trading and marketing services of the undertakings through which exports are canalized.

Contribution of Public Sector to Indian Economy-

1. Employment generation- Public sector employment in government administration, defence and other government services. It has also generated employment in public sector economic enterprises of Centre, State and Local bodies. In 1971, the public sector offered employment opportunities to about 11 million persons but in 2003 their number rose to 18.6 million showing about 69 per cent increase during this period.As of 2003, the public sector offered employment opportunities to 18.6 million persons which was 69 per cent of the total employment generated in the country as compared to 71 per cent employment generated in 1991. However, there is considerable decline in the annual growth rate of employment in the public sector from 1.53 per cent during 1983-1994 to 0.80 per cent during 1994- 2004.

About 69.0 per cent of the total employments are generated in the public sector, at the end of March 2004, about 51.7 per cent of the total employment (i.e. about 96 lakh) was generated in public sector in the areas of Government administration, community, social and personal services and the remaining 48.3 per cent (i.e., nearly 89.7 lakh) of the employment in public sector is generated by economic enterprises run by the Centre, State and Local Governments. The maximum number of employment is derived from transport, storage and communications (28.1 lakh). The public sector manufacturing is the next industry which generated employment to the extent of 11.1 lakh persons.

2. Strong Industrial base-The contribution of industrial sector i.e., manufacturing, construction, electricity in GDP at Factor Cost has raised slowly and steadily during the plan periods. It was only 13.3 percent in 1950-51 to 21.6 percent in 1980-81 and further to 24.5 percent in 2003-04. During the plan period, most of the industries like iron-steel, heavy engineering, coal, heavy electrical machinery, petroleum and natural gas, chemicals and drugs, fertilizers and defence have increased remarkably. The development of private sector industries is also solely depending on these industries. Thus by

developing a strong industrial base, the public sector has developed a suitable base for rapid industrialization in the country. Moreover, public sector has also been dominating in critical areas such as petroleum products, coal, copper, lead, hydro and steam turbines etc.

3. Infrastructure development-Public sector investment on infrastructure sector like power, transportation, communication, basic and heavy industries, irrigation, education and technical training etc. has paved the way for agricultural and industrial development of the country leading to the overall development of the economy as a whole. Private sector investments are also depending on these infrastructural facilities developed by the public sector of the country.

4. Capital formation - Capital Public sector has been playing an important role in the gross domestic capital formation of the country. The share of public sector in gross domestic capital formation has increased from 3.5 per cent during the First Plan to 9.2 per cent during the Eighth Plan. In the 1st and 2nd five year plans 54 percent of total investment was in public sector and in 3rd plan it had increased further to 60 percent.

The Public sector has not made a remarkable progress in respect of mobilization of savings. The share of public sector in gross domestic savings increased from 1.7 per cent of GNP during 1951-56 to only 3.6 per cent during 1980-85. During 1980s, the share of public sector in gross domestic savings declined from 16.2 per cent in 1980-81 to 7.7 per cent in 1988-89.

5. Export promotion and Import Substitution-Public sector enterprises have been contributing a lot for the promotion of India's exports. The foreign exchange earning of the public enterprises rose from Rs. 35 crore in 1965-66 to Rs. 5,831 crore in 1984-85 and then to Rs. 34,893 crore in 2003- 04. Thus, the export performance of the public sector enterprises in India is quite satisfactory.

The number of PSUs like Bharat Heavy Electricals Ltd. HMT Ltd, Hindustan Steels Ltd., State Trading Corporations have contributed lot for increasing the foreign exchange reserve had increased from Rs. 35 crores in 1965-66 to Rs. 34890 crores to 2004-05 due to increase in export promotion. On the contrary, the PSUs like Bharat Electronics Ltd.,

IOC, ONGC, IDPL etc. are also playing extra ordinary performances to save our foreign exchange, with the effective policy of import institution.

6. Social Welfare- It is the public sector, which always thinks for the growth and welfare of the weaker sections of the country. Public sector has always been working with the motive of social welfare maximization. Most of public sectors are running with the motto of no profit and no loss ideology.

Problems of Public sector enterprises

1. **Price policy of public enterprises**- Price policy for public sector enterprises are determined by the objectives of public service and not profit motive. Indian railways, Indian airlines corporation, SEBs are all public monopolies. Steel Authority and Fertilizer corporation also operate in sellers market but they operate only for social objective, and only make efforts to equate total revenue and total cost.

Public enterprises follow two approaches-

a. Public utility approach – here it works on no profit no gain basis and
b. rate of return approach has also been adopted in many industries
c. Now government has adopted new pricing policy which is more oriented towards market based instruments and regulations. price control for many products has been lifted.

2. Under utilistion capacity

Most public enterprises operate at less than 50% capacity. the many reasons for public enterprises Under utilistion was inefficient operations and poor management, political interference and labour disputes.

3. Problems related to Planning and Construction of projects-

Major problems here are-

a. Selection of sites was not based on detailed soil investigation.

b. Serious omissions and understatement of several projects.

c. Actual costs of projects far exceeded the original estimates.

d. Projects took much longer time for completion.

e. Projects often embodied inappropriate technology or product mix.

The major problem has always been cost escalation, delayed decision making and also interlinking of projects.

4. **Problem of labour , Personnel and Management**

It has always been plagued with undue interference in their day to day working and had demoralizing effect on the management and other personnel. Management by non competent personnel, wrong auditing process , over occupation with file work, rules oriented practice, lengthy procedures, and also marked by corruption hindered the functioning of public sector industries. One of the major problem was overstaffing, unskilled labour, strikes that affected the functioning of their enterprises. To check these issues there is a need for policy formulation, target setting, delineation of functional limits, organizing efficient working.

Policy towards public sector since 1991

1. Reduction in the number of industries reserved for the public sector from 17 to 8 and later to 3 and the introduction of selective competition in the reserved area.

2. Disinvestment of shares of a select set of public sector enterprise in order to raise resources and to encourage wider participation of general public and workers in the ownership of public sector enterprises.

3. The policy towards sick public sector enterprise to be the same as that for the private sector,

4. An improvement of performance through an MOU system by which managements are to be granted greater autonomy but held responsible for specified results.

Dereservations- The 1950 resolution had reserved 17 Industries under public sector. The 1991 policy reduced the number to 8. As on 2001 there are only 3 industries exclusively reserved for the public sector, they are: Atomic energy, Mineral specified in the schedule to the atomic energy and railway transport.

Memorandum of understanding- The industrial policy aimed at bringing all PSEs under the system of MOU. It gave targets to PSUs and also assured them operational autonomy. As on 2010-11 the total MOUs signed by PSUs was to the extent of 202.

Navratnas, Maharatnas and Miniratnas- Government identified 50 PSEs as navaratnas and bestowed them with the powers to the board of Directors to facilitate them to become global players. These enterprises could have professional in the board and was given autonomy and operational freedom.

Miniratnas were those enterprises which were granted with financial and operational autonomy and had made profits continuously for last 3 years with net profit of 30 crores or more. The total number of such enterprises is around 61. In 2009 Government approved introduction of maharatnas to empower and expand such PSEs as global giants. These enterprises were enhanced with powers in the area of investments in joint ventures and subsidiaries. Government of India coveted the maharatnas statement to four PSEs namely SAIL, NTPC, IOC and ONGC.

Disinvestments of shares- The main approach of the Government was to bring down its equity in all non strategic public sector undertaking to 26% and further close down loss making PSEs. Government adopted disinvestment policies through the sale of public sector equity to the private sector.

Setting up of Board for Restructuring of Public Sector Enterprises- Government established board for reconstruction of public sector enterprises for recommending of PSEs for restructuring and reviving of those enterprises that could survive. This board could also take decision on closure or sale of sick industries. In the process Government has revived 43 CPSEs and closure 2 units.

Small Scale Industries in India

Small-scale and cottage industries occupy an important place in Indian economy, because of their employment potential and their contribution to total industrial output and exports.

Micro, Small and Medium Enterprises emerged important across the sectors of manufacturing, trade and services. In Post liberalisation era, Micro Small and Medium Enterprises became imperative for industrial development of India as it was effective in promoting growth of rural industrialization with low investment cost and the potential for employment generation. This sector can contribute significantly towards attainment of socio-economic objectives.

Thus in 1991, a new policy was laid to support Micro, Small and Medium Enterprises in context of liberalisation and globalisation of the economy. Further, a new policy package to address the problems relating to credit, infrastructure and marketing for MSME was considered in 2000.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes. It provided the first legal framework for recognition of these ‘enterprise’ comprising of both manufacturing and service sector. MSME are classified into two categories namely: 1. Manufacturing, and 2. Enterprises rendering services.

Classification of MSME-

Micro, Small and Medium enterprises as per MSMED Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. The Registration of SSI units is voluntary, and units can register in District Industries Centre. The Registration is mandatory for manufacturing under Section 2m(i) and 2m(ii) of the Factories Act.

Objectives of Small Scale Industries:

1. To create more employment opportunities with less investment.

2. To remove economic backwardness of rural and less developed regions of the economy.

3. To reduce regional imbalances.
4. To mobilize and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

Problems of SSI

Small scale industries play a vital role in the economic development of our country. These units are suffering from various problems leading to its downfall the problems of SSIs are-

1. The major crisis of MSMEs is non availability of finance and credit.
2. Infrastructural constraints hamper the growth of small scale industries.
3. There is scarcity of skilled manpower.
4. Non availability of raw material hinders the productivity of MSMEs.
5. Lack of market and accessibility to market to market their goods produced.
6. Lack of machinery and equipment increases the cost of production and affects the efficiency of production.
7. The delayed payments by sellers bring in financial crunch for these industries.
8. Under Utilization of production capacity due to non availability of rw materials and lack of market for the goods produced forces these industries for not fully utilizing its productive capacity.
9. These industries lack Project Planning/Managerial skills as they are small units.

10. The major problem faced by small scale industries are power crisis, it leads to underutilization of production capacity.
11. These industries many times fail to produce quality goods and thus fail to capture market.

New Enterprise Policy, 1991

The Government of India tabled the new small enterprise policy titled 'Policy Measures for Promoting and Strengthening and Supplementing Small, Tiny and Village Enterprises' in the Parliament on August 6, 1991. The main thrust of New Small Enterprise Policy is to impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports.

The salient features of this new small enterprise policy areas under:

1. Increase in the investment limit in plant and machinery of tiny enterprises from Rs. 2 lakhs to Rs. 5 lakhs, irrespective of the location of the enterprise.

2. Inclusion of industry-related services and business enterprises, irrespective of their location, as small-scale industries.

3. Introduction of limited Partnership Act. This would limit the financial liability of the new entrepreneurs to the capital invested.

4. Introduction of a scheme of Integrated Infrastructural Development (including technological back-up services) for small-scale industries.

5. Introduction of factoring services to help solve the problems of delayed payments to small sector.

6. Market promotion of small-scale industries products through cooperative / public sector institutions, other specialised professional/marketing agencies and the consortium approach.

7. Setting up a Technology Development Cell in the Small Industries Development Organization.

8. According priority to small and tiny sector in the allocation of indigenous raw materials.

9. Setting up of an Export Development Centre in the Small Industries Development Organization (SIDO).

10. Widening the scope of the National Equity Fund (NEF) to enlarge the single window scheme and also to associate commercial banks with provision of composite loans.

Abid Hussain Committee

The Expert Group headed by Abid Hussain recommends that the guiding principle of the future course of small scale enterprise (SSE) development policy should be their accelerated growth and competitiveness. The group submitted its report on 27th January, 1997. The recommendations are as follows-

1. Mechanisms of promotion

Adequate supply of credit, services, technology assistance, infrastructure and low transaction costs are the hallmarks of the proposed strategy for promotion of SSEs. This can be achieved by developing a variety of linkages between enterprises and their support institutions, partnerships between the private sector and the government, greater information flows and by streamlining legally an institutional framework.

2. Focus on Clusters

The Expert Group recommends that state governments should identify the existing SSE clusters and then promote new types of organizations which are joint ventures between the state governments or local authorities and business associations in these clusters. The new approach is an increasing public private partnership in setting up support systems for small scale enterprises. The Clusters Small Enterprise Associations (CESAs) should be autonomous and the government should only support them if the local business associations are willing to provide some level of matching funding. The level of matching funding would have to differ between different locations depending on the size and strength of clusters.

3. Development Roles for Central and State Government-

The state governments have to create an administrative infrastructure to address the needs of the SSEs in the future, and thus, the development of SSEs should be largely the responsibility of state governments. The development of SSEs is an aspect of regional development that can be best pursued by state governments. The Central Government's tasks should be confined to policy formulation, legal and institutional development.

4. Revitalising District Industry Centers-

District Industry Centers will play a pivotal role on account of the regional focus in small enterprises development. The Expert Group therefore recommends that a completely new look be taken on the functioning of the District Industry Centres, DICs need to be redesigned as autonomous District Enterprise Promotion Agencies (DEPAs) with participation from business associations, government agencies, banks, etc. DEPAs should help in weaving a web of relationship between clusters and their support institutions and be the conduits for flow of information for dissemination to SSEs.

5. Corporation of Government Extension Agencies-

The Expert Group recommends that government extension agencies be corporatized. They should also specialize in a few core activities to develop their competitiveness. Government should facilitate the transition by part funding to the corporatized institutions. Similarly, enterprises should have the option of sourcing services from the private sector with part funding from the state. It is recommended that SIDBI to open a special window for the funding of technical consultancy organization and other business support services aimed mainly at small scale enterprises.

6. Abolish Reservations- The Expert Group recommended for the policy of reservation to be entirely abolished.

7. Transitional arrangements for SSIs affected by de-reservation-The Expert Group recommends that the Ministry of Industry should immediately set up a joint mechanism between the government and industry representatives to identify specific industries/items in which small scale units are likely to be affected by the proposed dereservation. These are perhaps among the 68 reserved items which accounts for more than 80% of the total value of production of reserved products. The Expert Group recommends that the government should provide annual resources of the order of Rs. 500 crore over the next five years, thereby totaling Rs. 2500 crore, to the Ministry of Industry for providing the proposed support for expansion, technology up gradation, modernization and training.

8. Raise investment limits-

Incentives, credit facilities, and promotional facilities should be available to all small scale enterprises. To begin with, the concept of the SSE sector should include all business enterprises in the service sector which provide services to industrial enterprises. Taking into account all these factors, an investment limit of Rs. 25 lakh for tiny units is adjudged to be most appropriate. For small scale enterprises, the level should be immediately raised to Rs. 3 crore for the same reasons.

9. Excise incentives for graduating tiny and small-scale units-

The committee proposed that tiny units which graduate beyond the investment limit of Rs. 25 lakh be permitted for a higher total exemption limit of turnover to Rs. 50 lakh, for a period of 5 years after crossing the tiny sector investment limit.

Similarly the total turnover limit of Rs. 3 crore may be expanded to Rs. 5 crore after the SSI crosses the proposed new investment limit of Rs. 3 crore, but only for a period of 3 years from such graduation. In order to encourage franchising, ancillarisation and to promote closer complementary links between small scale enterprises and large scale enterprises, it is recommended that excise exemption withdrawn earlier for branded goods should be restored.

10. Restructuring of financial support-

The Government had appointed the Nayak Committee to review the credit requirements of SSEs. The Expert Group endorses the recommendations of the Nayak Committee and urges the RBI to implement them. In particular, all effort must be made to achieve the prescribed target of providing working capital of a minimum of 20 percent of the projected turnover of small scale enterprises. Restructuring of SFCs and SIDCs, the approach should be to make these institutions autonomous by reducing government equity to less than 50%. The rest of equity could be held by other financial institutions, commercial banks, private banks, including industries and other private interests which have particular interest in the specific states.

The Expert Group further endorses the plan for local area banks and specialized branches of commercial banks to service the needs of SSEs. The Expert Group recommends that SIDBI in co-operation with the national credit rating agencies should promote the establishment of local credit rating agencies in the identified SSE clusters. The Expert Group proposes that it should

earmark a minimum of 70 per cent of the priority lending allocated to the small scale sector to the tiny sector.

11. Integrated Support Services- technical assistance, market assistance and information have to be available as a package to have the desired results for SSIs. The committee suggested for assistance to new technology, which can be effectively commercialized in incubation centres and science parks. Training of manpower has to also take place to enhance human capability to absorb new technology. Assistance should be provided out of the fund to support service institutions / enterprises engaged in technology transfer, technology-oriented research and development. SIDBI and other financial / banking institutions which opt to take up this scheme may be compensated for such soft lending under a Special Revamped Scheme for Technology Development and Modernization of SSEs.

12. Support for Research and Development- The Expert Group recommends that the government should establish fund(s) at both central and state level in order to design schemes which provide matching funds as incentives to clusters industry associations to establish the required technology support institutions. The Expert Group recommends that the Department of Science and Technology initiates a new scheme in the 9th five-year plan to from R&D associations based around identified clusters of industries which may be identified as those which are in urgent need of technology up gradation.

At least 10 such clusters should be identified within the first year and the aim should be to establish at least 50 such industrial R&D associations for assisting SSEs, within 5 years. It recommends for identifying the links between the existing technical institutions and existing industries on the one hand, and with the new proposed technology support institutions could best be forged by the national level industry associations through their members.

The Expert Group recommends that a **National Research Institute for Small Scale Industries** be established, it is proposed that this institutes should be promoted jointly by the central government and apex industry associations.

13. Training: Technology up gradation in the small scale sector will throw up large requirements for training of entrepreneurs, managers and employees. The Ministries of Industry, Labour and Education should set up a special Task Force to work out the modalities for a special training

scheme for SSEs. The Expert Group also recommends that state government should make provision for matching funds to be provided for establishing skills development centres.

14. Marketing Assistance: The Expert Group suggests that on the lines of Marketing Development Assistance Fund should be set up at the earlier in collaboration with EXIM Bank and with World Bank assistance; a fund should be created and operated through SIDBI for assisting a targeted SSE exporting units numbering around 5000 in the 9th plan period.

15. Infrastructure Development in Clusters: The Expert Group therefore recommends that both central and state governments redirect their existing growth centre and other infrastructure development schemes to enhance the infrastructural development of existing SSE cluster. Greater participation of business associations will help to avert such problems, thus the government, at the state level must initiate action to activate the city / cluster level business associations.

16. Institutional and Legal Innovation-The Expert Group recommends a separate law for small enterprises. The objective of the law would be to define the small enterprise sector and outline the broad framework for the promotion of the sector. A new single business law called the "Basic Law for Small Enterprises"

17. Monitoring of The New Policy Approach: Expert Group recommends that the Ministry of Industry set up a Steering Committee under the chairmanship of the Industry Minister to oversee the evolution of the new policy approach.

These were the recommendations made to strengthen, support and help for the growth of SSI in India.

UNIT – V

Globalization and its impact on Indian Economy, Emerging trends in India's Foreign Trade, Exim Policy, India and WTO, World Bank and IMF.

Synopsis

Final unit of EDI speaks about the global concepts such as Globalization with relation to India and its economy. The Unit highlights about World Trade Organization, World Bank, UN and other International Organizations and India's importance in it. International Monetary Fund and Export Import Policies are dealt in detail.

Globalization

The term globalization means different meaning to different people. It is the most frequently used terminology. It is a process of deepening economic integration, increasing the economic openness and growing economic interdependence between countries in the world economy. It is nothing but integration of economies of the world resulting from free flow of trade, capital, labor and technology. Today it is the integration of economies, industries, markets, cultures and policy-making around the world.

The definitions are as follows-

"Globalization represents the desire to move from national to a global sphere of economic and political activity".

"Globalization is both an active process of corporate expansion across borders and a structure of cross border facilities and economic linkages that has been steadily growing and changing." —Edward S.Herman

"Globalisation is the process whereby social relations acquire relatively distance-less and borderless qualities." —Baylis and Smith

Globalisation can also be opined as a process by which national and regional economies, societies, and cultures have become integrated through the global network of trade, communication, immigration and transportation.

Globalisation can be through following channels-

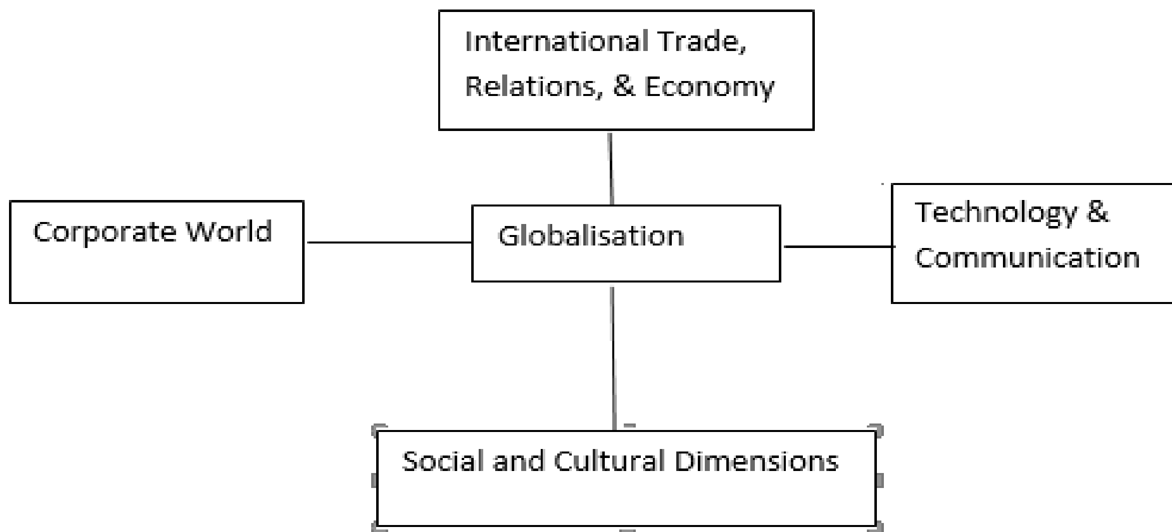
a. Free flow of trade in goods and services

b. Flow or movement of capital

c. Free flow of technology

d. Free movement of labour or people internationally.

The process of globalisation emerged during 1950's through expansion of world trade, between the period 1950-70.Further emergence of regional groups like EU, NAFTA etc led to expansion of trade but had their own issues to be resolved. Thus developed economies pleaded for globalization to reap the benefits widening markets across different countries. World exports accounted for $61billion in 1950, this increased to $315Billion in 1970 and to $14,855billion in 2010. Today world exports are to the extent of $17,779.



Globalization in India- A new Industrial Policy Statement was issued by Mrs. Gandhi's government in July 1980. The directional change of the policy was shift in favour of 'liberalization' and 'export-promotion' but got recognized in mid 80s. The 6th plan statement show cased special effort to stimulate and accelerate industrial growth as 'New Industrial Growth

with Direct Measures for Poverty eradications'. The development strategy of the Seventh Five Year Plan was 'Industrial Growth and Liberalization'. Further, the BOP crisis of 80's, oil shock , slow growth of the economy, downgrading of India's credit rating, pledging gold abroad and a series of crisis brought a disturbance in India's economic progress.

IMF and World Bank put in conditions for assisting India and helping the country for structural and stabilization to overcome its problems, they were –

a. Cutting down of fiscal deficit and growth of money supply

b. Domestic liberalization – i.e. relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocation.

c. External sector liberalization or relaxing the restrictions on international flow of goods, services, technology and capital.

Thus conditions prevailing in 1990-91 pushed India for adopting structural adjustment programme and accepted the process of Globalization. In the year 1991 saw the nation entering into a new phase of economic reforms under the stewardship of the current Prime Minister P V Narasimha Rao, Manmonhan Singh, and then Finance Minister (1991-95). Call it the era of globalization, Indian economy for the first time saw a fundamental shift from its socialist ideologies.

For India Globalization- meant integrating the economy of the country with the world economy through the reduction in imports duties and export restrictions, promotion of foreign investments and permission for the flow of foreign technology and skills.

India emphasized on the following benefits through the process of Globalization-

1. Shift from import substitution to Export led growth.
2. Foreign capital inflows
3. Globalisation and Transfer of technology
4. Increased market access

5. Faster Economic Growth and Poverty reduction

6. Employment agreement.

Steps towards Globalisation-

The step towards globalization was initiated by the Government of India in 1991 to restore good economic health of Indian economy with the changes in economic policy to promote changes in Indian economic conditions

1. Import Liberalization- Import controls through licensing was removed. All items of capital goods, raw materials, intermediate goods could now be easily imported with only payment of custom duties. All quantitative restrictions on consumer goods were withdrawn in 1995. To liberalize imports peak customs duty was reduced from 300% to 150% in stages by 1991, further to 85% in 1993 and was 12.5% in 2006. Further changes were brought to accommodate TRIPS in 1999 and made provision for exclusive marketing rights. Patents Act was adopted in 2005

2. Import of Gold and Silver- it was made free and further it was freed from any commission charged for it.

3. Market determined exchange rate- it allowed to determine its own exchange in international market without any official intervention by making currency fully convertible. Exchange control was lifted in a phased manner. The Government of India made a 2 step downward adjustments of 18-19% in exchange rate of the rupee on 1st and 3rd July 991. In 1993 exchange rate was switched to unified exchange rate system, thus leading to market determined exchange rate.

4. Rupee convertibility- The convertibility of rupee on BOP on current account was reformed. Now importers can get their quantity of foreign exchange by converting the rupee in to dollars from foreign exchange market. The exporters could now sell their foreign exchange earnings directly in the foreign exchange market.

5. Liberalization of Foreign Investments and Portfolio Foreign Investments- The NEP liberalized the scope of foreign investments both direct and portfolio. It provided for an

automatic approval of FDI without any prior permission from the government for up to 51% of the total equity capital of the firms in 34 priority industries. In 1996 the government raised this ceiling limit to 74% for foreign equity participation.

Industrial licensing restrictions were withdrawn leading to opening up of number of Industries for private sector. NRI investments up to 100% equities in high priority industries, investment up to 100% equity in export houses, trading houses, hospitals, sick industries and FIIs (Foreign institutional investor) were allowed to invest in Indian capital market subject to registration with SEBI and approval of RBI. FDIs under the automatic route have been permitted up to 100% for all manufacturing activities in SEZs. 100% FDI is also permitted in Pharma, Airport, Hotel and Tourism industries, Town ship development, courier's services and Mass Rapid Transport System. FDI in private airlines has been hiked to 49% and FDI in private banks has been hiked to 74%.

FERA (Foreign Exchange Regulation Act) was replaced by FEMA (Foreign Exchange Management Act) to remove the constraints with foreign equity firms. Both pull and push factors worked to attract foreign portfolio investment in India.

Effects of Globalization-

The advantages of Globalization are as follows- It has brought in changes in industrial sector and other policies that led to changes in external sector.

a. It led substantial rise in foreign currency to over 20 USD billion in 1995The stock of foreign exchange reserves rose from $1.1billon in 1991 to $304.8billion in 2011 and further to $295.6 billion by the end of December 2012. Foreign Exchange Reserves in India as of March 27 is 475600 USD Million

b. Exporters responded positively to the policy changes and exports increased by over 17%in 1993-94. Imports also increased in this period, but did not affect Balance of payment.

c. Liberalization policy did increase self reliance of our country.

d. Current account deficit was expected to be less than 0.5% in 1994-95.

e. External debt was reduced to less than $1billion.

f. Exchange rate for the rupee remained steady despite the introduction of full convertibility on both trade account and current account. Foreign exchange flow entered through legal channels.

g. Generation of Employment opportunities.

h. International confidence on India was restored.

i. Expansion of Market and consumerism.

j. Enhanced the efficiency of the banking insurance and financial sectors with the opening up to those areas to foreign capital, foreign banks and insurance companies.

k. Technological up gradation.

Education in India

The Indian educational system faces challenges of globalization through Information technology and it offers opportunities to evolve new paradigms shifts in developmental education. The distinction between formal, non-formal and informal education has gone for a change. Globalization promotes new tools and techniques such as E-learning, Flexible learning, Distance Education Programs and Overseas training.

Improved Standard of Living and Better Purchasing Power

Wealth generation across Indian cities has enhanced since globalization has fully hit the nation. There is improvement in the purchasing power for individuals, especially those working under foreign organizations. Further, people motivate domestic organizations to present higher rewards to their employees. Therefore, a number of cities are experiencing better standards of living together with business development.

Agriculture – globalization has brought change in the dimension of Indian agriculture.

Effects of Globalisation on India –

Globalization has its own risks and dangers associated with it for country like India. The developed countries always promote countries their own interest at the cost of developing countries. This process in India has led to an unequal competition between giant MNCs and dwarf Indian enterprises.

The disadvantages that Indian faced are as follows-

1. The US and European economies preach free trade and globalization, but they actually follow and practice protectionist policy towards their domestic industries.

2. Huge flow of capital in developing countries like IndiaIt poses a danger, as they are highly volatile and cause macroeconomic instability. Large inflows of currency into a county will lead to appreciation of a currency making exports costlier and reduces exports leading to BOP problems. Excess capital inflows will also lead to increase in the money supply and leads to inflationary pressures.

3. On the other side large out flow of capital will lead to rise in exports but makes imports dearer, thus pushes up inflation.

4. Refusal of US and European countries to reduce huge subsidies they provide to agricultural products and subsidies on exports of these products are preventing and restricting the developing countries to gain advantage of exporting their agricultural products to these countries. Asia, Africa and Latin American countries are protesting these polices in multilateral talks held in Doha, Seattle, Singapore and Cancun.

5. Protectionist policy of US and its imposition of high tariff for imports of steel, cotton textiles prevented imports of these products from African countries and India.

6. Development of BPO through call centers in India had generated employment opportunities in India. Recently an anti outsourcing campaign has emerged in US and European economies. Efforts are being made to enact laws to prevent employment opportunities generated here.

7. Volatility in foreign exchange rates was another adverse effect of liberalization and globalization for Indian economy. With inflow of portfolio capital in 2003-04 it lead to change in the value of Indian rupee to Rs 46 against dollar and this fluctuations settled in 2007, same fluctuations were seen in 2014 also and now rupee has settled at Rs 66. In 2008 liquidity crunch in the banking sector in America had its impact in exchange price. These frequent changes have brought pressure on Indian rupee value.

8. Globalization had negative impact on village and small scale industries and sounded as death nail as they could not withstand the competition arising from well organized MNCs.

Effects on Indian enterprises-

a. They suffer from size disadvantages.

b. The removal of protectionist policy made Indian enterprises inefficient and incapable to compete with MNCs.

c. The cost of capital is high in India, and it affected domestic investments.

d. MNCs forced many Indian companies for joint ventures and thus over took Indian companies.

e. Indian industries could not upgrade to changing technology and thus failed to compete with MNCs.

f. Indifferent tax policy by government made Indian commodities non competitive in the market.

g. The discriminative policy of Government affected Indian enterprises in the market.

h. The globalization has increased the gap between rich and poor.

i. MSMEs could not sustain foreign competition as they were not prepared to face the competition.

Thus many felt that the process of globalization unleashed in 1991 has created a new world, but is a world in which there is inflow of substantial capital in the country, but the

domestic corporate sector could not sustain the change and for the first time saw itself as the *target* rather than the *beneficiary* of the heightened activities of foreign investors.

Multi National Companies

Multinational Corporations or Multinational Companies are corporate organizations that operate in more than one country other than home country. Multinational Companies (MNCs) have their central head office in the home country and secondary offices, facilities, factories, industries, and other such assets in other countries. These companies operate worldwide and hence also known as global enterprises. The activities are controlled and operated by the parent company worldwide.

The headquarters of a multinational company are located in the home country. The post Second World War period saw the rapid growth of multinationals in Europe, America and Japan. The reason for the growth of multinationals are mainly because exporting may not be the best alternative because of trade barriers, perish ability, or a need to produce a product tailored to the local market. Thus, investing in a firm by purchasing stock or making loans appears to be an easy solution.

The firm wants greater control over management, product quality, and patented processes. Trade barriers or the needs of the local (foreign) market are much more common reasons for building foreign plants than the attraction of cheap labour.

In the 1950s and 1960s, MNCs adopted an ethnocentric outlook; that is, the orientation of the foreign operation was based on that of the parent company. The modern MNC has a geocentric orientation. This simply means that the whole organized is treated as an interdependent system operating in many countries.

Reasons for emergence of MNCs-

Firstly, the MNC can sell its products in the vast global market.

Secondly, it can raise money for its operations throughout the world.

Thirdly, they are able to establish production facilities in countries where labour cost is low and raw materials are abundant in supply.

Finally, MNCs can employ efficient managers by being able to recruit the most technically qualified and managerially efficient people from the whole world.

Multinational corporate structure

Horizontally integrated multinational corporations manage production establishments located in different countries to produce the same or similar products. (example: McDonald's).

Vertically integrated multinational corporations manage production establishment in certain country/countries to produce products that serve as input to its production establishments in other country/countries. (Example: Adidas)

The diversified multinational corporations do not manage production establishments located in different countries that are horizontally nor vertically nor straight, nor non-straight integrated. (Example: Microsoft or Siemens A.G.).

The chief characteristics of multinational corporations are-

1. Huge Assets and Turnover:

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

2. International Operations Through a Network of Branches:

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

3. Unity of Control:

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

4. Mighty Economic Power:

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

5. Advanced and Sophisticated Technology:

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

6. Professional Management:

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

7. Aggressive Advertising and Marketing:

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

Better Quality of Products:

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

Benefits of MNCs:

The MNCs have become a very powerful force in the world economy during the last few decades. They have exercised a revolutionary effect on international economic system in general and industrial organization in particular. It has been truly regarded as a remarkable economic phenomenon of the twentieth century. The benefits of these organizations are based upon the theory of foreign direct investments.

They are as follows-

(i) Employment Generation: MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

(ii) Automatic Inflow of Foreign Capital: MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of the entry of MNCs, India e.g. has attracted foreign investment with several million dollars.

(iii)Proper Use of Idle Resources: Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

(iv) Improvement in Balance of Payment Position: MNCs help the host countries to increase their exports. They help the host country to improve upon its Balance of Payment position.

(vi) Technical Development:

MNCs carry the advantages of technical development for host countries. MNCs are a vehicle for transference of technical development from one country to another.

(vii) Managerial Development:

MNCs employ latest management techniques. People employed by MNCs are in to research in management. It helps for professionalized management along the latest lines of management theory and practice. This leads to managerial development in host countries.

(viii) End of Local Monopolies:

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. MNCs compel domestic companies to improve their efficiency and quality.

(ix) Improvement in Standard of Living:

MNCs generate more jobs, increase in income, increased consumption and availabity of quality products and services, thus they contribute for improvement in the standard of living of people of host countries.

(x) Promotion of international brotherhood and culture:

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

Limitations of MNCs from the Viewpoint of Host Country:

(i) Danger for Domestic Industries: MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

(ii) Repatriation of Profits: MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

(iii)No Benefit to Poor People: MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

(iv) Danger to Independence: Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

(v) Disregard of the National Interests of the Host Country:

MNCs invest in most profitable sectors; and disregard the national goals and priorities of the host country. They do not care for the development of backward regions; and never care to solve chronic problems of the host country like unemployment and poverty.

(vi) Misuse of Mighty Status: MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits-once they have ended local competition and achieved monopoly. This may be the strategy of MNCs to wipe off local competitors from the host country.

(vii) Careless Exploitation of Natural Resources: MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

(viii) Selfish Promotion of Alien Culture MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

(ix) Exploitation of People, in a Systematic Manner: MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.

Foreign Direct Investments

Foreign direct investment is defined as the ownership of assets in one country by the resident of another country. The upsurge of FDI in the post World War II era focused on US multinationals and their worldwide operations in manufacturing industries. Foreign Direct Investment is the investment of funds by an organization from one country into another, with the intent of establishing 'lasting interest'. According to OECD (Organisation for Economic Co-operation and Development), lasting interest is determined when the organization acquires a minimum of 10% of voting power in another organization. Reinvestment of profits from overseas operations, as well as intra - organizational loans and borrowings to overseas subsidiaries are also categorized as FDI.

The definition also encompasses the international movement of elements that are complementary to capital - such as skills, processes, management, technology etc.

FDI can be Greenfield, wherein an organization creates a subsidiary concern in another country and builds its business operations there from the ground up. Greenfield investments provide the highest degree of control to the organization. It can construct the production plant as per its specifications, employ and train human resources as per company standards, as well as design and monitor its operational processes.

FDI can be Brownfield - wherein an organization expands by way of cross border mergers, acquisitions and joint ventures by either leasing or purchasing existing facilities for its production.

According to US Department of Commerce, when the organization of a country invests in the foreign country to acquire at least 10% stake of a foreign organization, then this investment is considered as FDI. Increase in foreign investment in a country is considered as a measure of economic development.

FDI provides an opportunity to the domestic organizations to form joint ventures with the foreign organizations. Every nation desires for attaining FDI, which is a capital resource that helps in increasing the production of goods and services.

FDI has many benefits over other types of foreign investment that make it attractive for developing countries having shortage of resource. It is a non-debt inflow that helps in transferring new technology, bringing new skills in markets, providing new markets for domestic products, and creating new employment opportunities.

FDI leads to-

1. Increased Employment and Economic Growth-Creation of jobs is the most obvious advantage of FDI. Increased FDI boosts the manufacturing as well as the services sector. This in turn creates jobs, and helps reduce unemployment among the educated youth - as well as skilled and unskilled labour in the country. Increased employment translates to increased incomes, and equips the population with enhanced buying power. This boosts the economy of the country.
2. Human Resource Development- This is one of the less obvious advantages of FDI. Hence, it is often understated. Human Capital refers to the knowledge and competence of the workforce. Skills gained and enhanced through training and experience boost the education and human capital quotient of the country. Once developed, human capital is mobile.
3. Development of Backward Areas- This is one of the most crucial benefits of FDI for a developing country. FDI enables the transformation of backward areas in a country into industrial centers. This in turn provides a boost to the social economy of the area.
4. Provision of Finance & Technology- Recipient businesses get access to latest financing tools, technologies and operational practices from across the world. Over time, the introduction of newer, enhanced technologies and processes have resulted in their diffusion into the local economy, resulting in enhanced efficiency and effectiveness of the industry.
5. Increase in Exports- All goods produced through FDI are not meant for domestic consumption. Many of these products have global markets. The creation of 100% Export Oriented Units and Economic Zones helps FDI investors in boosting their exports to other countries.

6. Exchange Rate Stability- The constant flow of FDI into a country translates into a continuous flow of foreign exchange. This helps the country's Central Bank maintain a comfortable reserve of foreign exchange. This in turn ensures stable exchange rates.
7. Stimulation of Economic Development- FDI is a source of external capital and higher revenues for a country. When factories are constructed, at least some local labour, materials and equipment are utilised. Once the construction is complete, the factory will employ some local employees and further use local materials and services. The people who are employed by such factories thus have more money to spend. This creates more jobs.
8. Improved Capital Flow- Inflow of capital is particularly beneficial for countries with limited domestic resources, as well as for nations with restricted opportunities to raise funds in global capital markets.
9. Creation of a Competitive Market- By facilitating the entry of foreign organizations into the domestic marketplace, FDI helps create a competitive environment, as well as break domestic monopolies. A healthy competitive environment pushes firms to continuously enhance their processes and product offerings, thereby fostering innovation. Consumers also gain access to a wider range of competitively priced products.

Some of the issues of FDI are-

1. Profit repatriation- Firms regularly repatriate their profits from investment to the account of their parent companies in the form of dividends or royalties transferred to shareholders as well as the simple transfer of accrued profits. It also helps them avoid larger taxes by using transfer prices. However, this profit repatriation results in huge capital outflows from the host country to the home country and negatively affects the balance of payment of the former.

2. Dual economy effect- FDI, especially, in the developing countries can lead to have a dual economy, which has one developed sector mostly owned by foreign firms and underdeveloped sector owned by domestic firms. Since the country's economy becomes overly dependent on the developed sector, its economic structure changes. Often this

developed sector is the capital intensive, while another one is labour intensive. Therefore, dual economy effect hampers the economic development of countries as most of their citizens are located in the non-developed labour intensive sector.

3. Balance of payment effect- the empirical studies reveal that a bidirectional relationship exists between foreign investments and imports. An increase in FDI inflows from the home country will result in an increase in imports in the host country from the home country. As more investment flows in, the host country economy becomes more and more dependent on the production technology of MNC's home country. The host country will have to import more inputs and intermediate goods from the MNE's home country, which might constrain the development in the domestic industry. If these investments are not export-oriented, the host country can suffer from trade deficits

4. Infrastructure development constraint- FDI constrains basic infrastructure development by diverting resources from public investment in infrastructure. Since FDI is attracted mostly to wealthy parts of the host country, the infrastructure in these regions will require a greater effort to be improved, especially depriving the poorer regions and the rural regions

5. Environmental issues- A large volume of FDI is concentrated in natural resource sectors of developing and less developed countries. Most of these countries have a less strict or non-existent regulatory regime. Sometimes countries deliberately attempt to exempt or loosen their regulatory requirements to attract FDI. However, while these countries can benefit from positive effects of investment, the negative effects of FDI on host country's ecosystems and environment might bring disaster in the long run.

FDI can cause political, social and cultural unrest and divisiveness in the host countries by introduction of unacceptable chart values, which include advertising, business customs, labour practices and etc, and by direct interference of the MNEs in the political regime or electoral process in the host country.

Foreign Trade in India

India is a very old participant in world trade. India’s foreign trade was largely determined by the strategic needs of the British colonial powers prior to its independence in 1947. India too was a supplier of raw materials and agricultural commodities to Britain and other industrial countries and it used to import the manufactured goods from Britain.

It was only after independence that India’s trade patterns began to change, India, as a newly independent country, had to import equipment and machinery that could not be manufactured domestically, in order to create new production capacity and build infrastructure, known as developmental imports.

India had to import intermediate goods and raw material to make full use of its production capacity, known as maintenance imports. It had to import consumer goods such as food grains that were in short supply domestically, in order to curb inflationary pressures. Such heavy dependence on imports adversely influences a country’s balance of trade.

India’s exports grew significantly from US$1,269 billion in 1950-51 to US$155.5 billion in 2007-08, whereas imports increased from US$1,273 billion to US$235.9 billion during the same period. In 1950 the Indian share in the world trade was 1.78% which came down to 0.6% in 1995. Currently it is 2.07% ($779 bn.) of the total world trade.

India's exports cover a wide range of items in agriculture, industrial and services sectors. Besides, project exports which include consultancy, civil construction and turnkey contracts etc. have also made a significant progress in recent years. Computer software exports have grown at a faster pace during the last decades in India. Imports have also increased substantially, the bulk of which comprise crude oil, petroleum projects, fertilizer, engineering and techno logs, precious and semi-precious stones, capital goods, raw materials, consumables and intermediaries for industrial production.

Direction of India’s Trade: Imports

Over the years, there has also been a significant change in value terms in the direction of India’s imports. India’s dependence on OECD countries for imports substantially

declined from 78 per cent in 1960-61 to 59.8 per cent in 1987-88, which further declined to 36.5 percent in 2006-07, which fell to 29.7 percent in 2011-12. India's import, from European which accounted for 33.3 per cent in 1987-88, declined to 17.5 per cent in 2006-07.

In 1960-61, the UK accounted for 19.4 per cent of India's imports, which remarkably declined to 8.2 per cent by 1987-88 and came down to a meager 2.19 per cent by 2006-07 to 2.8 percent in 2011-12.With emerging new trading partners like West Germany, Canada and USSR, it brought a relative change in the position of UK.

The share of India's imports from North America also declined significantly from 31 per cent in 1960-61 to 10.3 per cent by 1987-88, which further reduced to 7.41 per cent in 2006-07, mainly because of a substantial decline in the share of imports from US from 29.2 per cent in 1960-61 to 6.61 per cent in 2006-07.

The increase in the share of OPEC in India's imports jumped from 4.6 per cent in 1960-61 to its peak of 27.8 per cent in 1980-81 due to the rise in India's oil bill. However, this subsequently declined to 5.3 per cent in 2000-01 but remarkably grew later to 29.43 per cent in 2006-07, primarily due to the rise in oil prices and to 35.4 percent in 2011-12.

India's imports from developing countries grew remarkably from 17.3 per cent in 1987-88 to 31.27 per cent in 2006-07.

The share of Asia in India's imports steeply rose from 12.1 per cent in 1987-88 to 24.78 per cent in 2006-07 mainly because of the increased imports from other Asian developing countries, especially China, whose share in India's imports jumped from 0.7 per cent in 1987-88 to 9.13 per cent in 2006-07 to 11.8percent in 2011-12.

The share of India's imports from Africa also increased from 2.9 per cent in 1987-88 to 3.57 per cent in 2006-07.

Direction of India’s Trade: Exports

India’s over dependence on the OECD countries, which accounted for 66.1 per cent of India’s exports in 1960-61, further declined to 41.2 per cent in 2006-07 and to 33.8% in 2011-12. Exports to European Union declined from 25.1 per cent in 1987- 88 to 20.4 per cent in 2006-07.

In 1960-61, the UK was the largest destination for India’s exports with 26.9 per cent share, which declined to 11.1 % in 1970-71 to 6.55 per cent by 1987- 88, and further dropped to 4.39 per cent in 2006-07 to 2.8%in 2011-12. The US’s share in India’s exports was 19.3% in 1950-51 and declined to16 per cent in 1960-61 to 11.1 per cent in 1980-81, but the increase to 14.9 per cent and as of 2011-12 it accounted for 19.3%, and made US the single largest destination for India’s exports.

India’s exports to Japan has witnessed considerable fluctuations from 5.5 per cent in 1960-61 to 13.3 per cent in 1970-71, which dropped down to 2.23 per cent in 2006- 07 and it was 9.3% in 2011-12.

OPEC has emerged as an important export destination for India, from 1.4 per cent share in 1960-61 to 16.4 per cent share in 2006-07, India’s to Russia, which increased remarkably from 4.5percent in 1960-61 to 18.3 per cent in 1980-81, sharply declined from 16.1 per cent in 1990-91, following the breakup of the USSR, to 3.3 per cent in 1995-96.

India’s exports to SAARC jumped from 2. 6 per cent in 1987-88 to 4.98 per cent in 2006-07. Besides, its exports to China increased remarkably from a negligible 0.1 per cent in 1990-91 to 6.56 per cent in 2006-07 to 5.9% in 2011-12.

Composition of Imports:

The composition of India's imports has undergone changes since the opening up of the Indian economy. India's imports primarily consist of petroleum products, fertilizers, capital goods, edible oils, etc., wherein there is little flexibility to reduce its imports bill. However, the imports witnessed a significant shift since independence. India adopted an

inward looking development strategy after independence wherein import substitution constituted a major element of both trade and industrial policies.

Import substitution was the prime objective of India's trade policy till the mid - 1970s. This policy was largely based on the Imports and Export (Control) Act of 1947 and Import Trade Control order of 1955. Import substitution was significant in the area of industrial machinery, chemicals, paper, iron, steel and non-ferrous metals.

Facts of imports are as follows-

1. There has been an substantial increase in imports of Petroleum, oils and lubricants.
2. Rise in imports of non ferrous metals.
3. Considerable increase in non electrical machinery.
4. The imports of precious stones have shown rising tendency.

Composition of India's Trade: Exports

The composition of India's exports has become more broad- based with visibly decreased dependency on any one product category. Moreover, a remarkable shift in India's exports from agricultural products to manufactured goods had been a positive move. The share of manufactured goods in India's exports steadily rose from 45.3 per cent in 1960-61 to 80.7 per cent in 1999-2000. However, it subsequently started declining steadily and reached to about 68.6 per cent in 2006-07 further to 66.1 percent in 2011-12. Among the manufactured goods, gems and jewellery, which accounted a meagre 0.1 per cent in 1960-61, increased remarkably to a 20.4 per cent in 1999- 2000 but further declined to about 12.6 per cent in 2006-07.

The composition of exports of manufactured goods from India in 2006-07 consisted of gems and jewelry (18.4%), readymade garments (10.2%), machinery and instruments (7.7%), drugs, pharmaceuticals, and fine chemicals (6.9%), manufacturer of metals (5.8%), transport equipment (5.7%), primary and semi-finished iron and steel (5.1%), cotton yam, fabrics, and made ups (4.8%), electronic goods (3.4%), dyes, intermediates,

and coal tar chemicals (2.6%), leather and manufacturers (2.3%), handicrafts (1.6%), leather footwear (1.2%), and others (24.3%).

Over the years, the composition of services exports from India has undergone considerable change. Transportation accounted for 49.7 per cent in 1970-71 of India's total services exports declined to 10.8 per cent in 2007-08.The share of travel increased from 16.8 per cent in 1970-71 to 43.5 per cent in 1980-81, but declined subsequently to 12.9 per cent in 2007-08.

There were hardly any software exports from India till 1990-91, which rapidly became the largest constituent of India's services exports with 48.9 per cent share in 2003-04. However, this declined to 46.0 per cent in 2007-08.

The exports of the miscellaneous services category, which comprises of business services, financial services, and commercial services, grew remarkably from 14.4 per cent in 1970-71 to 34.5 per cent in 2006-07, however declined to 28.1 per cent in 2007-08.

India reveals that the largest services segment, software and IT-enabled services, has graduated to newer services, such as packaged software implementation, systems integration, network infrastructure management, and IT consulting. There remains a huge untapped potential for IT-enabled services.

India's entertainment industry with export earnings of about US$230 million annually, is likely to grow by 70-80 per cent over the next five to ten years. It covers film, music, broadcast, television, and live entertainment and is basically an intellectual-property-driven sector with small to large players spread across India.

Education process outsourcing (EPO) includes imparting online education, training, and coaching, and other related services through the Internet and has emerged as a significant segment for services exports.

Post liberalization the trends of Foreign trade in India is as follows-

There has been arise in both imports and exports, the trade volume has increased from $42.2 billion in 1990-91 to $793.8billion in 2011-12.India's trade ratio has seen improvement.

Exports- A marginal fall in exports of agri and allied products. The Share of manufacturing has shown upward trend. The engineering goods now contribute to 1/5th of the exports. There is increase in exports of petroleum and allied commodities. Gems and jewellery are occupying an important place in exports. Another highlight is ready garments. An improved performance in exports of drugs, pharmaceuticals and fine chemicals is noticed. Thus a change in composition of India's exports is visible.

Imports- the Major imports are petroleum, pearls and gem stones to support jewelry industry. There has been increase in imports of electronic goods and computers. The rest like chemicals, iron and steel and other goods imports have shown a declining trend.As of 2012-13 data- the toping trading partners of India are China, UAE, USA, Saudi Arabia, Switzerland, Singapore, Germany, Hong Kong, Indonesia, Iraq, Japan, Belgium, Kuwait, Korea and Nigeria. India's trade surplus is with UAE, USA, Singapore and Hong Kong.

EXIM Policy

The composition of foreign trade implies the composition of exports and imports of a country. It indicates through imports what types of goods a country lacks and how much of them it is a able to get. Exports bring out the fact about the goods that a country has and how much of these it can and is willing to sell. The import policy of India was formulated as a part of foreign trade policy of the country.

Import Policies followed during Pre-Reform Period:

During the post- independence period, the import policy of the country was formulated at different times in order to attain the following requirements:

(a) Limiting the volume of imports to the minimum level in order to conserve foreign exchange,

(b) Encouraging imports of those items required for industrialization of the country and

(c) Modifying imports for exports promotion.

The import policy of the country during the pre-reform period has two important constituents, i.e.: Import restrictions and Import substitution.

The country formulated the import policy of the country considering its limited foreign exchange reserve, requirements of capital goods for industrialization and necessity for import substitution. During the first decade of planning, the country adopted a liberal import policy and thus suffered a serious foreign exchange crisis at the end of the Second Plan. Considering the situation, the Government reversed its import policy and imposed heavy restrictions on imports.

In 1962, the Mudaliar Committee recommended import of raw materials and other components for various industries in power, transport, export-oriented industries, import substituting industries producing raw material and components etc.

After the devaluation of rupee in 1966, the import policy was liberalized for 59 priority industries which included export industries, capital building industries and industries

producing commodities for mass consumption. With the introduction of agricultural strategy in 1966, the Government permitted import of agricultural inputs like seed, fertilizers, pesticides etc. Thus, with the intention of following a blending of specified import restrictions and import substitution, during the pre-reform period, imports were divided into different categories, viz., consumer goods, intermediate goods and capital goods.

Accordingly, licenses for imports were categorized again based on user type like established , actual user, new comer, ad hoc, export promotion scheme related and others (like replacement license). Considering the increasing foreign exchange difficulties, more and more items were brought under import restrictions right up to 1977-78.

Post 1977-78, the Government followed a new era of import liberalization in the country and the same process was followed in 1980s. The broad details of the import liberalization measures as incorporated in export import policies included:

i. Policy for import of capital goods- A large number of capital goods were placed under OGL –Open General List, and these goods can be imported without any import license

ii. Policy for import of raw materials-even here a large number of raw materials, components and consumables were placed under OGL, thus it could be procured without any licensing formalities.

iii. Import policy for registered exporters- With the need to increase export earnings, import policy in 1980 was given export orientation. Main objective was to help registered exporters an assured, continuous supply of required production inputs for expanding exports on a sustaining basis.

iv. Policy for export trading house- Exporters who fulfilled certain minimum export requirements for a specified period were granted the status of Export Houses, Trading Houses, star Trading Houses and superstar trading houses. They fixed eligibility limit for recognition of Export Houses and Trading Houses.

v. Policy for import of technology-it made provision for liberal import of technology to help country's technological advancement.

Critical Evaluation of Import Policy

The regime was more marked by import control and had their own adverse impact on the economy mainly because of -

1. Delays and bureaucratic control
2. Increase in administrative and other expenses
3. Foreign exchange scarcity
4. Lack of coordination among different agencies.
5. Bias towards creation of capacity despite underutilised production capacity.
6. Discrimination against exports
7. Loss of revenue.

Export Policies followed during Pre-Reform Period:

The export policy of India as formulated since independence is all along guided by export promotion measures. At various times, the Government introduced different types of measures for the promotion of exports.The export policy of the Government of India in the pre-reform period has been classified by Bimal Jalan into three distinct phases.

Phase I covered up to the first oil shock of 1973. It was characterised by export pessimism with a stagnant demand for exports. This was mostly attributable to domestic policies leading to falling share of India's traditional exports and insufficient expansion of non-traditional exports.

Taking into consideration the conditions of balance of payments in the country, the Government of India adopted certain special measures for the promotion of exports since the Third Plan Period.

Various export promotion measures introduced by the Government were mainly related to:

(a) Institutionalization of our efforts to export through commodity specialisation and service specialisation;

(b) Fostering the competitive capacity of Indian exports and making the export business more attractive

Phase II covered the period starting from 1973 and continued for a decade. In this phase, exports were accorded high priority and the policies were followed accordingly. Thus in Phase II, export growth picked up considerably. In 1979, the Government appointed a thirteen-member "Tandon Committee" which submitted its reports in 1981.

Phase III experienced a more positive approach to export promotion strategy. During this phase government, enhanced incentives for export production and exports were incorporated as an integral part of industrial and development policies.

The Government set up Abid Hussain Committee for examining the effectiveness of the existing export promotion measures and the committee submitted its report in 1984 to plug the loopholes in the existing trade policy and also to attain self reliance.

During the Seventh Plan Period, a multi pronged strategy for the promotion of exports was adopted in order to identify sectors, industries and products which had export potentials along with providing necessary policy framework for those identified sectors. Accordingly, fourteen broad sectors were identified for providing special thrust in overseas markets. In order to facilitate these sectors, various measures were included in the trade policy, industrial policy, fiscal policy, export finance policy.

Two specific measures which were undertaken include:

(a) Duty Exemption scheme, i.e., permitting duty free imports of inputs required for export production and

(b) Blanket Exchange Permit Scheme (introduced in June 1987) for permitting 5 to 10 per cent of their foreign exchange earnings for export promotion activities.

Export Promotion Policies- an overview in pre reform period-

1. Cash Compensatory support (CCS)-It was introduced in 1966, to provide compensation for un rebated indirect taxes paid by exporters on inputs, higher freight

rates and market development costs. Its scope extended and became the largest single budgetary outlay for exports. This system was abolished in July 1991.

2. Duty Drawback System-The system is to reimburse exporters for the tariff paid on the imports of raw materials and intermediate and central excise duties on domestically produced inputs which enter into export production.

3. Import Entitlement Scheme for easy access to importable inputs –Government introduced The Import Entitlement scheme in 1957, to help exporters importing raw materials and other components required for export production. Exporters were provided with import license, pro rata to the value of exports and such facilities to promote exports. This scheme was withdrawn in 1966, but reintroduced later as Import Replenishment Scheme.

4. Advance Licenses and Duty Exemption Scheme-It was to provide for imports of specified raw materials without payment of any customs duty.

5. Setting up to Export Processing Zones (EPZs) and 100 per cent Export Oriented Units (EOUs)-EPZs setup to give impetus to exports, and these zones provide free trade environment for export production. The 100% export oriented Units was introduced in 1980, to provide duty free access to import raw materials, capital goods and technology on OGL.

6. Subsidies on domestic raw materials-This scheme were introduced under International Price reimbursement Scheme for steel industry.

7. Fiscal Concessions for exports-The 1st type of concession was integrated in the duty drawback system & the regime of cash compensatory support which was required to compensate indirect fares that were not refunded through the former. The 2nd type of concession was incorporated in income tax stipulations where earnings from exports were either partly exempted from income tax, or taxed at lower rate.

8. Export credit and assistance to Export Promotion Councils (EPCs)- Export Promotion Councils are government initiated authorities that promote and support export firms in developing their overseas trade and presence by providing technical and industry insights.

Export Promotional Council collects export and import data of its members, as well as other data which is relevant to International Trade to build a statistical base to compare industry growth.

EXIM POLICY

The policy of economic liberalization was put into operation with effect from 1991. A highly crucial aspect of economic liberalization is the liberalization in the field of foreign trade. The two basic components of the import policy of the government of India before 1991 were import restriction and import substitution. The stiff restrictions remained applicable upon imports until 1977-78. The trend towards import liberalization appeared from 1980's.

The trade policy reforms were guided mainly by the concerns over globalisation of the Indian economy, improving competitiveness of its industry, and manage adverse balance of payments situation. The main features of trade sector reforms introduced by the government after 1991 are as follows-

1. Freer Imports and Exports:

Simplification and liberalization of imports- The tariff line wise import policy was first announced on March 31, 1996 and 6,161 tariff lines were made free. By 2000, the freed tariff lines accounted for 8,066. The Exim Policy 2000-01 removed quantitative restrictions on 714 items. The Exim Policy 2001- 02 removed quantitative restrictions on the balance 715 items.

2. Reduction in Import Tariffs-

On the recommendations of the Chelliah Committee, the government has reduced the maximum rate of duty.The government of India reduced the peak rates of import duty from 110 percent to 85 percent. The government continued to scale down the peak rates of import tariffs in phases. As per the latest data, the peak rate of import duty on non-agricultural goods is only 10 percent.

3. Decanalisation-

A large number of exports and imports used to be canalised through the public sector agencies in India. The supplementary trade policy announced on August 13, 1991 reviewed these canalised items and decanalised 16 export items and 20 import items. The 1992-97 policy decanalised imports of a number of items including newsprint, non-ferrous metals, natural rubber, intermediates and raw materials for fertilizers.

4. Convertibility of Rupee on Current Account-

An important reform in the direction of liberalization in the fields of trade and payments was related to the convertibility of rupee with other currencies. The government made a two step downward adjustment of 18-19 per cent in the exchange rate of the rupee on July 1 and July 3, 1991.The partial convertibility of rupee was later introduced in 1992-93 by the introduction of LERMS (Liberalized Exchange Rate Management System).The full convertibility of rupee on current account was introduced in 1994-95. With this, the exchange rate of rupee no longer remained pegged. It became a market- determined rate.

5. Concessions and Exemptions-

In order to liberalise imports and to promote exports, the government extended a number of tax concessions and exemptions during the 1990's.

1. Reduction in the peak rate of import duty to 15 percent;

2. Reduction in the rates of duties in the information technology sector upon certain critical imports;

3. A 10-year tax holiday to the developers of Special Economic Zones (SEZ) for the building up of infrastructure; and

4. Extension of facilities and tax benefits to the exporters. In addition, the policy of providing tax benefits to information technology, telecommunication and entertainment sectors was adopted by the government.

Promotion of Exports of Services-

In order to promote the export of services, the Exim Policy 2002-07, announced in March 2003, included several measures. The advance license system was announced for the tourism sector. The firms were permitted to make duty-free import of consumable goods and spares up to 5 percent of their average export earnings over the previous three years, provided they were actual uses of the items to be imported.

7. Special Economic Zones (SEZ) Scheme-

In March 2000, the government announced the scheme for the establishment of Special Economic Zones (SEZ) for the boosting up of exports. Such zones could be set up in public sector, joint sector or by the State governments. It was also announced that some of the existing Export Processing Zones (EPZs) would be converted into Special Economic Zones.

The essential purposes for setting up the SEZ's were to ensure hassle-free exports and to increase the competitiveness of Indian exports in the international markets. In 2004-05, there were 15 functional SEZ's.

8. Export-Oriented Units (EOU) Scheme-

This scheme is complementary to SEZ scheme. It offers more extensive and wide options for the establishment of export-oriented units. It offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, and availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. The EOUs have put up their own infrastructure.

9. **Agriculture Export Zones-**

The Exim Policy of 2001 put forward the proposal of setting up of Agricultural Export Zones (AEZ). This scheme was meant for promoting agricultural exports and to organize the export effort on the basis of specific products and specific geographical areas. The scheme is based on the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end to end approach of integrating the entire process right from the stage of production till it reaches the market.

The AEZs are provided with the state-of-the-art services such as pre-post harvest treatment and operations, plant protection, processing, packaging, storage and related research and development.

10. Market Access Initiative Scheme-

This scheme was launched in 2001-02. Under this scheme, in-depth market studies are conducted related to the expansion of export of specific products in some selected countries. For generating the demand for domestic products in foreign markets, trade fairs and exhibitions are organized. The publicity campaigns are undertaken in foreign countries. The efforts are made to upgrade the quality of products in accordance with the requirements of the foreign buyers.

12. Trading Houses-

The trade policy of 1991 permitted the export houses and trading houses to import a wide range of products. The trade policy of 1992-97 allowed them the duty-free imports. A new category of trading houses called Super Star Trading Houses was introduced under the 1994-95 trade policy. The government also permitted for the setting up of trading houses with 51 per cent foreign equity for the purpose of promoting exports.

Highlights of EXIM Policy 2004-09

The new United Progressive Alliance (UPA) Government at the Centre changed the name of EXIM Policy and called it Foreign Trade Policy (FTP). The policy main objective was to double the India’s percentage share of global merchandise trade to 1.5 per cent by 2009 from 0.7 per cent in 2003, besides serving as an effective tool to generate employment, especially in semi-urban and rural areas.Exporters of all goods and services, including those from Domestic Tariff Area (DTA), were exempted from service tax.

The Highlights of the India’s Foreign Trade Policy 2004-2009 are as follows-

1. Change in strategy –

a. Notified comprehensive Foreign Trade Policy for the first time.

b. Objective of Foreign trade Policy was specified.

c. Key strategies were announced to promote trade.

2. Special Focus Initiatives-

a. Identification of export prospects with potential to generate employment in semi urban and rural areas as thrust sectors with specific sectoral strategies.

b. Special Focus Initiatives have been prepared for Agriculture, Handicrafts, Handlooms, Gems & Jewellery and Leather & Footwear sectors.

c. The threshold limit of designated Towns of Export Excellence is reduced from Rs.1000 crores to Rs.250 crores in these thrust sectors

3. Package for Agriculture

a. A new scheme called Vishesh Krishi Upaj Yojana was introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

b. Duty free import of capital goods under Export Promotion Capital Goods Scheme (EPCG).

c. Capital goods imported under EPCG for agriculture permitted to be installed anywhere in the Agri Export Zone.

d. Assistance to States for Developing Export Infrastructure and allied Activities (ASIDE) funds to be utilized for development for Agri Export Zones also.

e. Import of seeds, bulbs, tubers and planting material has been liberalized.

f. Export of plant portions, derivatives and extracts has been liberalized with a view to promote export of medicinal plants and herbal products.

4. Gems & Jewellery-

a. Duty free import of consumables for metals other than gold and platinum allowed up to 2% of Free on Board (FOB) value of exports.

b. Duty free re-import entitlement for rejected jewellery allowed up to 2% of FOB value of exports.

c. Duty free import of commercial samples of jewellery increased to Rs. 1 lakh.

d. Import of gold of 18 carat and above shall be allowed under the replenishment scheme.

5. Handlooms & Handicrafts-

a. Duty free import of trimmings and embellishments for Handlooms & Handicrafts sectors increased to 5% of FOB value of exports.

b. Import of trimmings and embellishments and samples shall be exempt from Counter Veiling Duty (CVD).

c. Handicraft Export Promotion Council authorized to import trimmings, embellishments and samples for small manufacturers.

d. A new Handicraft Special Economic Zone to be set up.

6. Leather & Footwear

a. Duty free entitlements of import trimmings, embellishments and footwear components for leather industry increased to 3% of FOB value of exports.

b. Duty free import of specified items for leather sector increased to 5% of Free On Board value of exports.

c. Machinery and equipment for Effluent Treatment Plants for leather industry shall be exempt from Customs Duty.

7. Export Promotion Schemes-

a. A new scheme to accelerate growth of exports called Target Plus was introduced.

b. Vishesh Krishi Upaj Yojana to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.

c. Served from India Scheme to accelerate growth in export of services so as to create a powerful and unique Served from India brand instantly recognized and respected the world over.

d. EPCG-Additional flexibility for fulfillment of export obligation under Export Promotion Capital Goods Scheme (EPCG), scheme to reduce difficulties of exporters of goods and services. It also facilitated Technological up gradation with provision of incentives

e. DFRC**-** Import of fuel under Duty Free Replenishment Certificate (DFRC) entitlement shall be allowed to be transferred to marketing agencies authorized by the Ministry of Petroleum and Natural Gas.

f. DEPB**-** The Duty Entitlement Pass Book in short DEPB scheme would be continued until replaced by a new scheme to be drawn up in consultation with exporters.

8. New Status Holder Categorization-A new rationalized scheme of categorization of status holders as Star Export Houses was introduced based on their performance.

9. Free Trade and Warehousing Zone-A new scheme to establish Free Trade and Warehousing Zone (FTWZs) has been introduced to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. This is aimed at making India into a global trading-hub. Foreign Direct Investment (FDI) would be permitted up to 100% in the development and establishment of the zones and their infrastructural facilities. Units in the FTWZs would qualify for all other benefits as applicable for Special Economic Zones (SEZ) units.

10. Procedural Simplification & Rationalization Measures-

(a) All exporters with minimum turnover of Rs.5 crores and good track record shall be exempted from furnishing Bank Guarantee in any of the schemes, so as to reduce their transactional costs.

(b) All goods and services exported, including those from Domestic Tariff Area (DTA) units, shall be exempted from Service Tax.

(c) Validity of all licences/entitlements issued under various schemes has been increased to a uniform 24 months.

(d) Number of returns and forms to be filed has been reduced. This process shall be continued in consultation with Customs & Excise.

(e) Enhanced delegation of powers to Zonal and Regional offices of Directorate General of Foreign Trade (DGFT) for speedy and less cumbersome disposal of matters.

(f) Time bound introduction of Electronic Data Interface (EDI) for export transactions, 75% of all export transactions to be on EDI within six months period.

11. Pragati Maidan- To showcase industrial and trade prowess to its best and leverage existing facilities, Pragati Maidan was transformed into a world class complex with state-of-the- art environmentally controlled, visitor friendly exhibition areas and marts huge Convention Centre to accommodate 10,000 delegates with flexible hall spaces, auditorium and meeting rooms with high- tech equipment, as well as multi-level car parking for 9,000 vehicles was developed within the envelope of Pragati Maidan.

12. Legal Aid- Financial assistance would be provided to deserving exporters, on the recommendation of Export Promotion Councils, for meeting the costs of legal expenses connected with trade related matters.

13. Grievance Redressal-A new mechanism for grievance redressal has been formulated and put into place by a Government Resolution to facilitate speedy redressal of grievances of trade and industry.

14. Quality Policy-

a. DGFT shall be a business driven, transparent, corporate oriented organization.

b. Exporters can file digitally signed applications and use Electronic Fund Transfer Mechanism or paying application fees.

c. All DGFT offices shall be connected via a central server making application processing faster. DGFT Head Quarters (HQ) has obtained ISO 9000 certification by standardizing and automating procedures.

15. Bio Technology Parks- Biotechnology Parks to be set up which would be granted all facilities of 100% EOUs.

16. Coacceptance/ Validation introduced- irrevocable letter of credit to provide wider flexibility in financial instrument for export transaction.

17. Board of Trade: The Board of Trade to provide a clear and dynamic role. An eminent person or expert on trade policy shall be nominated as President of the Board of Trade, which shall have a Secretariat and separate Budget Head and will be serviced by the Department of Commerce.

Foreign Trade Policy 2009-14

The Government of India, Ministry of Commerce and Industry announced New Foreign Trade Policy on 27th August 2009 for the period 2009-2014. Aiming to reverse contraction in exports for 10 consecutive months, the new FTP has several measures to ensure a healthy growth of foreign trade.

Objectives of Foreign Trade Policy 2009-14:

1. To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two years.
2. To Double India's exports of goods and services by 2014.
3. To double India's share in global merchandise trade by 2020 as a long term aim of this policy. *India's share in Global merchandise exports was 1.45% in 2008.*
4. Simplification of the application procedure for availing various benefits
5. To set in motion the strategies and policy measures which catalyze the growth of exports

6. To encourage exports through a “mix of measures including fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world and diversification of export markets.

The policy aims at developing export potential, improving export performance, boosting foreign trade and earning valuable foreign exchange. FTP assumes great significance this year as India’s exports have been battered by the global recession. A fall in exports has led to the closure of several small- and medium-scale export-oriented units, resulting in large-scale unemployment.

Main highlights/features of Foreign Trade Policy-

1. Focus Market Scheme- Twenty six new markets has been added under Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia- Oceania, including larger markets like South Africa, Brazil and Mexico. Incentive schemes have been expanded by way of addition of new products and markets. The incentive available under Focus Market Scheme (FMS) was raised from 2.5 per cent to 3 per cent.

   The incentive available under Focus Product Scheme (FPS) has been raised from 1.25 per cent to 2 per cent. A large number of products from various sectors was included for benefits under FPS. These include engineering products (agricultural machinery, parts of trailers, sewing machines, hand tools, garden tools, musical instruments, clocks and watches, railway locomotives etc.), plastic (value added products), jute and sisal products, technical textiles, green technology products (wind mills, wind turbines, electric operated vehicles etc.), project goods, vegetable textiles and certain electronic items.

   1. Focus Product Scheme benefit was extended for export of ‘green products’ and some products from the North East.
   2. Market Linked Focus Product Scheme (MLFPS) was expanded.
   3. The major products include pharmaceuticals, synthetic textile fabrics, value added rubber products, value added plastic goods, textile made-up, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminium among others.

4. Benefits to these products would be provided, if exports are made to 13 identified markets namely, Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand.

MLFPS benefits was extended for exports in additional new markets for products that included auto components, motor cars, bicycle and its parts, and apparels among others.

A common simplified application form was introduced to apply for the benefits under FPS, FMS, MLFPS and VKGUY. There has been higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) was announced.

3. Export Promotion Capital Goods Scheme – Relaxations were provided under EPCG mainly to - To increase the life of existing plant and machinery, export obligation on import of spares, moulds, etc., under EPCG Scheme had been reduced to 50 per cent of the normal specific export obligation. Taking into account the decline in exports, the facility of refixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country was extended for the 5 year policy period 2009-14.

4. Duty Entitlement Pass Book- DEPB rate includes factoring of custom duty component on fuel where fuel is allowed as a consumable in Standard Input and Output Norms the incidence of customs duty on the import content of export products was extended till December 2020.

5.Export Oriented Units-EOUs have been allowed to sell products manufactured by them in DTA (Domestic Tariff Area) up to a limit of 90% instead of existing 75%, without changing the criteria of 'similar goods', within the overall entitlement of 50% for DTA sale EOU allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguard.

6. Value Added Manufacturing (VAM)- To encourage Value Added Manufactured export, a minimum 15% value addition on imported inputs under Advance Authorization Scheme. Project Exports and a large number of manufactured goods were covered under FPS and MLFPS also.

7. Simplification of Procedures- Government announced various measures to ease the procedures and reduce transaction costs.

1. To facilitate duty free import of samples by exporters, number of samples/pieces has been increased from the existing 15 to 50. Customs clearance of such samples shall be based on declarations given by the importers with regard to the limit of value and quantity of samples.
2. Greater flexibility was permitted to allow conversion of shipping bills from one export promotion scheme to other scheme.
3. To reduce transaction costs, dispatch of imported goods directly from the port to the site was allowed under Advance Authorisation Scheme for deemed supplies.
4. Disposal of manufacturing wastes/scrap hence forth will be allowed after payment of applicable excise duty, even before fulfillment of export obligation under Advance Authorisation and EPCG Scheme.
5. The procedure for issue of Free Sale Certificate is simplified and the validity of the certificate has been increased from 1 year to 2 years.
6. Acceding to the demand of trade and industry, the application and redemption forms under EPCG scheme were simplified.
7. Withdrawal of fee for grant of incentives under the Schemes of FTP. Further, for all other authorizations/licence applications, maximum applicable fee is being reduced to Rs 100,000 from the existing Rs 1,50,000 (for manual applications) and Rs 50,000 from the existing Rs.75,000 (electronic applications).

8. Gems & Jewellery Sector

1. Duty Drawback is allowed on Gold Jewellery exports to neutralize duty incidence.
2. Plan to establish “Diamond Bourse (s) with an aim to make India and International Trading Hub announced.

3. Introduction of a new facility to allow import on consignment basis of cut & polished diamonds for the purpose of grading/ certification.

4. 13 value limits of personal carriage have been increased from $ 2 million to US$ 5 million in case of participation in overseas exhibitions.

5. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US$ 0.1 million to US$ 1 million.

6. Time limit of 60 days for re-import of exported gems and jewellery items, for participation in exhibitions is extended to 90 days in case of USA.

9. Agriculture Sector: Introduction of a single window system to facilitate export of perishable agricultural produce with an aim to reduce transaction and handling cost.This system will involve creation of multi-functional nodal agencies. These agencies will be accredited by APEDA.

10. Towns of Export Excellence (TEE)-The following cities have been recognized as towns of export excellence (TEE) a. Handicrafts: Jaipur, Srinagar and Anantnag , b. Leather Products : Kanpur, Dewas and Ambur and c.Horticultural Products: Malihabad

10. Scheme for Status Holders (Status Holders means star status holders)

1. Additional Duty Credit Scrip's shall be given to Status Holders @ 1% of the FOB value of past exports accelerate exports and encourage technological up gradation.

2. This facility shall be available for sectors of leather (excluding finished leather), textiles and jute, handicrafts, engineering (excluding Iron & steel & non-ferrous metals in primary and intermediate form, automobiles & two wheelers, nuclear reactors & parts, and ships, boats and floating structures), plastics and basic chemicals (excluding pharma products).

3. This facility shall be available up to 31 March, 2011.

4. Transferability for the Duty Credit scrip’s being issued to status holders under VKGUY Scheme permitted only for the procurement of cold chain equipments.

11. Announcements For Marine sector

1. Fisheries exempted from maintenance of average EO under EPCG Scheme (along with 7 sectors) however Fishing Trawlers, boats, ships and other similar items shall not be allowed for this exemption.
2. Additional flexibility under Target plus Scheme (TPS) / Duty Free Certificate of Entitlement (DFCE) Scheme for the marine sector.

12. Announcements for Leather Exports- On the payment of 50 % applicable export duty, Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi finished leather from public bonded ware houses.

13. Announcements for Tea Exports- The existing Minimum value addition under advance authorisation scheme for export of tea is 100 %. It has been reduced from the existing 100% to 50%.

14. Announcements for Pharma Exports: Export Obligation Period for advance authorizations issued increased from existing 6 months to 36 months. The Pharma sector included under MLFPS are for countries in Africa and Latin America & some countries in Oceania and Far East.

Annual supplement to FTP, 2013

To boost exports, a number of special focus initiatives have been identified/continued for Market Diversification, Technological Up gradation, Support to status holders, Agriculture, Handlooms, Handicraft, Gems & Jewellery, Leather, Marine, Electronics and IT Hardware manufacturing Industries, Green products, Exports of products from North-East, Sports Goods and Toys sectors.

Highlights are-

1. 2% Interest subvention scheme: continuation and expansion
   Two per cent Interest Subvention Scheme was available only to Handlooms, Handicrafts, Carpets and SMEs till 31st March 2012. It was extended 31st March 2013. It is also being extended to labour intensive sectors, namely, Toys, Sports Goods, Processed

Agricultural Products and Ready-Made Garments, in addition to four sectors benefitting from the scheme earlier.

2. Technological Upgradation / EPCG Scheme were extended 31st March 2013.

3. Support for export of products from North Eastern Region. To promote manufacturing activity and employment in the North Eastern Region of the country, export obligation under the EPCG Scheme shall be 25% of the normal export obligation. This would be applicable to the States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, and Sikkim.

Support for export of green technology products

1. To promote exports of 16 identified green technology products, export obligation for manufacturing of these products, under the EPCG Scheme, is being reduced to 75% of the normal export obligation.

2. New"e-BRC" Initiative: A major EDI initiative, an extremely challenging and significant EDI initiative, "e-BRC" has been launched by DGFT.

3. "e-BRC" would herald electronic transmission of Foreign Exchange Realization from the respective Banks to the DGFT's server on a daily basis. Exporter will not be required to make any request to bank for issuance of Bank Export and Realization Certificate (BRC). This will establish a seamless EDI connectivity amongst DGFT, Banks and Exporters. "e-BRC" would facilitate early settlement and release of FTP incentives / entitlements.

4. Towns of export excellence- New towns were declared as Towns of Export Excellence (TEE). These are Ahmedabad (Textiles), Kolhapur (Textiles), and Shaharanpur (Handicrafts)

5. Market & product diversification- New markets are being added to Focus Market Scheme (FMS). These countries are Algeria, Aruba, Austria, Cambodia, Myanmar, Netherland Antilles, and Ukraine

6. New markets are being added to the Special Focus Market Scheme (Special FMS). These countries are Belize, Chile, El Salvador, Guatemala, Honduras, Morocco, and Uruguay.
7. New items are being added to Market Linked Focus Product Scheme (MLFPS). This would have the effect of including 12 new markets for the first time.
8. MLFPS is being extended till 31st March 2013 for export to USA and EU in respect of items falling in Chapter 61 and Chapter 62.
9. New items are being added to the Focus Product Scheme (FPS) list.
10. New items are being added to VKGUY. These are roasted cashew kernel, and protein concentrates & textured protein substances.

These were the Policy measures to strengthen foreign trade in India.

Foreign Trade Policy 2015 - 2020

The Foreign Trade Policy (FTP) 2015-20 was unveiled by Ms Nirmala Sitharaman, Minister of State for Commerce & Industry, and Government of India on April 1, 2015. FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the 'Make in India' programme.

The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country's economic growth and development.

Salient Features of India's Foreign Trade Policy

1. Merchandise Exports from India Scheme (MEIS)

Earlier there were 5 different schemes (Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agricultural Infrastructure Incentive Scrip,

VKGUY) for rewarding merchandise exports with different kinds of duty scrips with varying conditions (sector specific or actual user only) attached to their use. All these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS) and there would be no conditionality attached to the scrip's issued under the scheme.

Government has expanded the coverage of the MEIS on 29 October 2015 by adding 110 new items. The incentive rate/country coverage of 2228 items has been enhanced.

2. Service Exports from India Scheme (SEIS)- Served from India Scheme (SFIS) has been replaced with Service Exports from India Scheme (SEIS). SEIS shall apply to 'Service Providers located in India' instead of 'Indian Service Providers'. Thus SEIS provides for rewards to all Service providers of notified services, who are providing services from India, regardless of the constitution or profile of the service provider. The incentives for (MEIS & SEIS) to be available for SEZs also. Export obligation would be reduced by 25 per cent and incentives available under the MEIS and SEIS would be extend to the units in the SEZs to make them more attractive for investors. E-Commerce of handicrafts, handlooms, books etc., is also eligible for benefits of MEIS.

3. Status Holders- the business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognized as Status Holders and given special treatment and privileges to facilitate their trade transactions, in order to reduce their transaction costs and time. The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House.

Manufacturers who are also Status Holders will be enabled to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under different Preferential Trading Agreements [PTAs], Free Trade Agreements [FTAs], Comprehensive Economic Cooperation Agreements [CECAs] and Comprehensive Economic Partnerships Agreements [CEPAs] which are in operation. They shall be permitted to self-certify the goods as manufactured as per their Industrial Entrepreneur Memorandum

4. BOOST TO "MAKE IN INDIA“- FTP to be aligned to 'Make in India', 'Digital India' and 'Skills India' initiatives. To integrate the FTP with Make in India, the government has reduced export obligation for capital goods purchased from Indian suppliers under the EPCG {Export Promotion of Capital Goods} scheme. The exporters who export with high level of domestic content get higher level rewards.108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, ‘Niryat Bandhu Scheme’ has been galvanised and repositioned to achieve the objectives of ‘Skill India’.

5. Trade facilitation and ease of doing business- The policy calls for online filing of documents/ applications and paperless trade in 24×7 environments; online inter-ministerial consultations and simplification of procedures/processes, digitization and e-governance.

7. Transferable Duty Scrips - A scrip literally means a “chit” and refers to a form of credit. The Duty free scrips are provided to the exporters under various export promotion schemes of the governments. Under these schemes, the exporters get incentives at a certain percentage of the export value and these incentives can also be used to reimburse duties on imported inputs. The scrips may be *transferable or non-transferable*. If they are transferable, the holder of these scrips can sell them in market at discount. If the scrips are non-transferable, they come with actual user condition and the holder can use it to import inputs or capital goods duty free.

Other measures include

1. Measures to facilitate & encourage export of defence goods
2. e-Commerce Exports: Benefits of foreign trade policy to export of items up to Rs. 25,000 per consignment
3. Benefit available to handloom products, books / periodicals, leather footwear, toys and customized fashion garments
4. New initiatives for EOUs {Export Oriented Units}, EHTPs {Electronic Hardware Technology Parks} and STPs {Software Technology Parks}. They can share infrastructure & inter-unit transfer of goods allowed.

5. Calicut Airport, Kerala and Arakonam ICDS, Tamil Nadu notified as registered ports for import and export.

6. Vishakhapatnam and Bhimavarm added as Towns of Export Excellence.

Prohibited Items

India's Foreign Trade Policy prohibits the following:

1. Import & Exports trade in "arms and related material " with Iraq
2. Any defense related equipment from North Korea
3. Any content which might enhance the nuclear energy adventures of Iran
4. Import of Charcoal from Somalia.

General Agreement on Trade and Tariff

GATT emerged from the "Ashes of Havana Charter". The General Agreement on Tariffs and Trade (GATT) is a multilateral trade treaty among countries to regulate international trade and tariffs in accordance with specific rules, norms or code of conduct.

The world witnessed a regime of rigorous and extensive trade barriers during 1930's and the period of Second World War. Efforts were made by United States and its allies in Western Europe to create an atmosphere and conditions for liberal trade after the War. At the UN Conference on Trade and Employment held in Havana in 1948, 53 countries adopted a Charter to create ITO. But the Havana Charter could not be ratified by the US Congress, and the proposal was abandoned.

A total of 53 nations signed a charter for its establishment. 23 nations agreed to sign a extensive tariff negotiations for trade concessions in Geneva and led to the emergence of GATT from 1st January 1948. India was also a founder member of GATT. As on 1994 the total members were 118 countries. GATT disappeared on 1st January 1995.

The preamble of the GATT agreement requires the members to enter "into reciprocal and mutually advantageous arrangement directed to the substantial reduction of tariffs and other barriers to trade and the elimination of discriminating treatment in international commerce."

Thus GATT was a multilateral treaty signed by the member countries and was called as "contracting parties". It is neither an organisation nor a court of justice; it is only a multinational treaty that covered 80%of world trade. It was a forum where the contracting parties met from time to time to solve their trade problems. It was a decision making body with a set of rules and code of conduct of international trade and a mechanism for trade liberalisation. It consisted of permanent council of representatives with headquarters at Geneva. Its function was to call international conferences to decide on trade liberalisation on a multilateral basis.

Member Countries

The original 23 GATT members were Australia; Belgium; Brazil; Burma, now called Myanmar; Canada; Ceylon; Chile; China; Cuba; Czechoslovakia, now Czech Republic and Slovakia; France; India; Lebanon; Luxembourg; Netherlands; New Zealand; Norway; Pakistan; Southern Rhodesia, now Zimbabwe; Syria; South Africa; the United Kingdom and the United States. The membership increased to 100 countries by 1993.

Objectives of GATT-

1. To follow unconditional most favoured nation (MFN) principle.
2. To carry on trade on the principle of non-discriminatory, reciprocity and transparency.
3. To grant protection to domestic industry through tariffs.
4. To liberalise tariff and non tariff measures through multilateral negotiations. The agreement provided for-

a. Multilateral trade negotiations

b. Consultation, conciliation and settlement of disputes, and

c. Waivers to be granted in exceptional cases.

Provisions of GATT

1. Most Favored Nation Clause-The most important requirement was that each member must confer most favored nation status to every other member. All members must be treated equally when it comes to tariffs. It excluded the special tariffs among members of the British Commonwealth and customs unions. It permitted tariffs if their removal would cause serious injury to domestic producers.

2. GATT prohibited restriction on the number of imports and exports. The exceptions were:

a. The countries could take recourse to them, if it was difficult to adjust balance of payments. In this connection, it was specified that the import quota fixation should be limited to the extent necessary to check a serious fall in the foreign exchange reserves, the import quota fixation should be done after due consultation with the IMF.

b. The LDC's could go for import quota restriction for protecting domestic industries when the use of tariff was not possible or applicable to them. Developed countries agreed to eliminate tariffs on imports of developing countries to boost their economies.

c. For agriculture and fisheries, quota restriction could be applied provided the domestic production was subject to equally restrictive controls.

d. When a foreign country was exporting products at artificially low prices or at the subsidised prices, the affected country was allowed by the GATT to take suitable protective action including the restriction of imports through quota.

e. In the event of a sudden increase in imports, a member country was allowed to take resort to temporary safeguard of import quota restriction for protecting domestic industry.

f. The import quota restrictions could be adopted by a country, if the imports were likely to harm the domestic production control and price support programmes.

g. The countries were allowed to form customs union or free trade areas under Article XXIV of the GATT agreement provided their aim was to promote trade among the constituent countries and not to raise trade barriers against other contracting parties.

The GATT had emphasized upon the need of continuous consultation among the contracting parties on the nature of the BOP problems, alternative corrective measures and the possible effects of quantitative restrictions upon the economies of other contracting parties.

3. Tariff Negotiations and Tariff Reduction: The GATT contained an entrenched clause that sought to stabilise member countries' tariffs. The Article II of the GATT specified that all concessions granted by contracting parties, as a consequence of negotiations under the GATT, must be entered in a 'Schedule of Concessions'.

It encouraged frequent negotiations among the contracting parties to reduce in a substantial measure the rates of import tariffs. The negotiations for tariff reduction were to be conducted on a reciprocal and mutually advantageous basis, keeping in consideration the varying needs of the contracting parties. The GATT allowed the use of some measure of tariff protection to the LDC's in view of their special needs of industrial development and also for obtaining revenues. The negotiation procedure concerning tariff reduction under the GATT was bilateral-multilateral.

4. Subsidies and Counter-Veiling Duties:It was recognised by the GATT that the subsidies were alternative to tariffs. The Tokyo Round of the GATT in 1970's considered it necessary to specify the code of conduct related to subsidies. The industrial countries agreed to a complete ban on export subsidies in the case of manufactured products.The LDC's were exempted from this stipulation. The member countries were required to avoid subsidies on the export of primary products in principle

5. Complaints and Waivers:Article XXII of the GATT made provision for dealing with any complaints from a contracting party related to the operation of the Agreement. The complainant party could request for consultation with the other contracting party, when the former felt that an action of the latter nullified or impaired the benefits accruing to that country under the Agreement. Article XXV of the GATT laid down the procedure for granting waiver to some contracting parties from the application of the provisions of the GATT. The waivers were not granted unless those were approved by two-thirds of the voting contracting parties.

6. Settlement of Disputes: The GATT had provided for the machinery for the settlement of any disputes among the contracting parties. Initially the contracting parties were involved into bilateral negotiations for resolving the matter. In case of failure, the matter could be referred to a panel of experts drawn from countries having no direct interest in the matter. The dispute settlement procedure of the GATT rested upon direct consultations, conciliation and third party adjudication. GATT had generally proved successful in resolving disputes among the contracting parties.

GATT Round of talks:

Between the period 1947 and 1995 there were 8 rounds of negotiations between the participating countries. The first 6 rounds were related to curtailing tariff rates, 7th round included the non-tariff obstacles.

The 8th round was entirely different from the previous rounds because it included a number of new subjects for consideration. This 8th round known as “Uruguay Round” became most controversial. The discussions at this round only gave birth to World Trade Organization (WTO).

The First GATT Conference or round of negotiations was held at Geneva in April 1947. This round of negotiations included 123 sets of bilateral negotiations and the results of this conference included-

a. To completly eliminate certain duties and preferences,
b. Scaling down of duty preferences,
c. The binding of duties at the existing levels; and
d. The binding of duty free treatment.

The Second GATT Conference was held in 1949 at Annecy (France). By 1949, 10 more countries had joined the GATT raising the number of contracting parties to 33. In this round of trade negotiations 147 sets of bilateral negotiations converting about 500 items were completed.

The Third GATT Conference was held in 1950-51 at Torquay (England). Six new countries had joined the agreement by then. Of the total 400 bilateral trade negotiations, only 147 could be completed.

The Fourth GATT Conference was held in 1955-56 at Geneva (Switzerland). At this conference, although the United States granted concessions in respect of its countries imports to the tune of 900 million dollars and secured concessions on exports amounting to 400 million dollars, yet it was not a success. No country was satisfied and several contracting parties had withdrawn from the negotiations.

The Fifth GATT Conference was held in 1960-61 again at Geneva. At this conference, the LDC's pointed out that the limit to which they could extend concessions on the basis of the principle of reciprocity has been already crossed and they were no more in a position to follow that principle. They also pointed out that the developed countries had avoided negotiations on products which were of vital interest to them.

The Sixth GATT Conference (1963-67), known as the Kennedy Round, was held at Geneva. 54 countries participated in this round of trade negotiations. The results of Kennedy Round included the tariff reduction by the advanced countries like the U.S.A, the EEC countries, Japan and Canada on an average to the extent of 35 percent.

The Seventh GATT Conference known as the Tokyo Round (1973-79) was held at Tokyo. This conference deliberated upon the issues including tariff reduction, removal or reduction of non-tariff barriers, coordinated scaling down of all trade barriers in selected sectors, trade liberalization in agriculture, multilateral system of safeguards, the tropical products and special interests of the LDC's.

The Eight rounds-The Trade Ministers of the GATT nations met at Punta del Este, Uruguay in Sept. 1986. The decisions taken by them paved the way for the Uruguay Round of multilateral trade negotiations which were launched in October 1986 in Geneva. Three prominent bodies were involved in the conduct of these negotiations. They included the Trade Negotiations Committee (TNC) to oversee the entire Round, the Group of Negotiations on Goods (GNG) to deal with negotiations related to commodities and the Group of Negotiations on Services.

Role of GATT in the Dunkel Draft

Eighth Round of GATT negotiation was originally thought to last for four years, but the complex issues involved in it led to the conclusion of negotiations at 15th December, 1993. Arthur Dunkel, the Director- General of the GATT since 1980, finalized a nearly 500 page draft called as Dunkel Draft, on his own and circulated it among the member countries in December 1991 on a take-it or leave-it basis.

The draft dealt with all the issues under discussion in the Uruguay Round including services, intellectual property rights, sui generis protection in the field of biotechnology, farm subsidies, free trade in food grains, buffer stocks and public distribution system, textiles and clothing, foreign investment, research and development, tariff and non-tariff restrictions and settlement of disputes. Dunkel wanted to set up the agreement by April, but the row over farm subsidies between the U.S.A. and the European Community (EC) prevented any agreement. Trade Negotiations Committee passed a resolution on 31st August, 1993 to conclude Uruguay rounds talks by 15th December, 1993.

The wrangling continued between the EC, the U.S.A. and Japan until the United States enforced deadline of December 15, 1993, when the final agreement was reached after effecting several modifications in the Dunkel Draft from over a period of 7 years Uruguay round negotiations. On 15th April, 1994, 123 Ministers of member countries ratified the results of Uruguay rounds at Markeesh.

The key features of the Uruguay Round Final Settlement are:

a. An agreement on agriculture to increase market access, reduce export subsidies and tariffs and eliminate non-tariff barriers.
b. An agreement on textiles that emphasizes in particular the phased removal of quota restrictions.
c. Agreements to reduce most import tariffs on industrial products by one third over the next five years; tariffs on some products, including pulp and paper, will be eliminated completely in major developed country markets over the next 8-10 years.
d. A commitment to increase the proportion of import tariffs on industrial products that are bound, with developed countries (including transition economies) agreeing to bind virtually all tariffs and developing countries binding 65% of tariffs; one of the largest increases in tariff bindings in developed country markets will be forest products.

e. Agreements on secured market access and trade rules for services, trade-related intellectual property rights and trade-related investment measures.

f. Improved trade rules controlling the use of subsidies, countervailing duties, anti-dumping measures and safeguards.

g. Establishment of the WTO, which will oversee all Uruguay Round agreements, administer the GATT Trade Policy Review Mechanism and provide a permanent forum for discussion of new trade issues, such as trade impacts on the environment, international competition policy and trade in telecommunications.

Failures of GATT

GATT was evolved to promote free multilateral trade in the world based on specified norms of trade behaviour applicable to all the contracting parties, but the functioning of the GATT exposed several deficiencies:

1. No Enforcement Authority -It had attempted to prescribe an international code of conduct in the sphere of trade. But there was no enforcement authority to oversee the compliance of GATT regulations by contracting parties and to settle their trade disputes.

2. Problems in the Formulation of General Rules- The members of GATT were diversifying in nature, they had varied in economic and political motives and countries were also at different stages of development. These reasons created difficulty in framing and implementing uniform general rules of conduct concerning trade, tariffs and payment.

3. Little Benefits for the LDC's- Though the majority of the members of the GATT were in the froe LDC's, yet GATT had provided little benefit to these countries. The GATT failed to assure just terms of trade for them. They could not secure easy and liberal access to the markets of developed countries. The GATT did not permit any compensation to the less developed countries on account of injury to their economies caused by the actions of developed countries and such countries.

4. Quantitative Trade Restrictions-The GATT had certainly ensured the sealing down of tariff structure but the quantitative trade restrictions remained for a long time outside the GATT ambit. Consequently, the developed countries had used

with impunity the quantitative trade restrictions such, as import quotas, export subsidies, voluntary export restraints, and health and safety regulation.

5. Non-Representative Body- The membership of the GATT had progressively expanded over the years. But for a long time, the East European countries of erstwhile Soviet block and China remained outside the GATT. It was therefore criticized as a non-representative body.

6. The ‘Escape’ and ‘Safeguard’ Clauses- The contracting parties could adopt protective measures in times of severe balance of payments problems. Though these clauses were supposed to be temporary measures but in practice had become almost permanent feature of the international trading system.

7. Free Trade Area or Customs Union- The Article XXIV of the GATT made provision for the member countries could organise themselves into free trade areas or customs unions. The strong regional trading block such as European Union (EU), North American Free Trade Association (NAFTA), Association of South East Asian Nations (ASEAN) and Asian Pacific Economic Co-operation (APEC) emerged. They have created serious distortions in the world trade. They have undermined the basic GATT principles of non-discrimination and reciprocity and weakened the GATT.

8. Commodity to Commodity Based Negotiations- The practice of commodity to commodity based negotiations invariably benefitted the countries having stronger bargaining power vis-a-vis others.

9. Neglect of Agriculture- Agriculture was outside the purview of GATT. The contracting parties continued to follow the farm support policies resulting in food surpluses that could be exported only with the help of export subsidies. It was only at Kennedy and Tokyo Rounds that the agreements could be arrived at about some categories of primary products. The issue of farm subsidies by European Union (EU) had brought the Uruguay negotiations almost on the verge of collapse in 1992. Even in December 1993 agreement, there was the provision only of some scaling down of the export subsidies on farm products.

The final chapter of the trade negotiations under GATT was the Uruguay round. GATT was not able to deal with world trade mainly in the areas of agriculture, loopholes in the multilateral system, and efforts at liberalizing trade met with little success. In the textiles and clothing sector, an exception to GATT's normal disciplines was negotiated in the 1960s and early 1970s, leading to the Multifibre Arrangement. Even GATT's dispute settlement systems were causing concern.

The Uruguay round negotiations lasted for about seven and a half years, all issues related to trade were discussed in these negotiations, previous GATT articles were reviewed and most importantly the Final Act concluding the Uruguay Round and officially establishing the WTO regime was signed during the April 1994 ministerial meeting at Marrakesh, Morocco, and hence is known as the Marrakesh Agreement. The Marrakesh agreement was the document that gave the legal sanction to the establishment of the World Trade Organisation on January 1, 1995

World Trade Organisation

Global commercial policy led to the emergence of WTO mainly to promote free trade among different countries.The Uruguay round of talks that concluded on April 15th 1994 at Marrkaesh, Morocco led to emergence of WTO. This transformation turned GATT from a trade accord into a permanent membership organisation, responsible for governing the conduct of trade relations among its members, GATT obligations remain at the core of the WTO.

India along with 123 countries along with EC countries signed the final Act, led to emergence of this trade organisation on 1/1/1995. WTO is the successor of GATT. It is a permanent body; it has a legal status and enjoys privileges and immunities along with IMF and IBRD. There were 77 countries in WTO as on 1/1/1995.

WTO is a multilateral trading system. WTO's agreements are negotiated and signed by a large majority of the world's trading nations, and ratified in their parliaments. These agreements are the legal ground-rules for international commerce. They are contracts, guaranteeing member countries important trade rights. They also bind governments to keep their trade policies within agreed limits to everybody's benefit.

The main objective of WTO is to establish a Multilateral trading system to promote free and fair trade among the trading nations. Dunkel Draft on which WTO was found emphasized for liberalisation of trade based on comparative costs. It made provision for trade for both goods and services. There are 164 members from both developed and underdeveloped countries.

WTO – Status

It is a legal and institutional foundation for multilateral trade. It is a permanent organisation created by international treaty ratified by the government and state legislatures of member countries. It consists of a document on General agreement consisting of 38 article code and 500 pages of specific agreements reached at Uruguay round talks.

The first Director General WTO Peter Sutherland has said, "The WTO binds nations in a global co-operative endeavour to raise incomes and create good jobs through fair and open trade."

The Preamble of WTO:

The Preamble of the World Trade Organisation (WTO) states that "there is a need for positive efforts to ensure that developing countries and especially the least developed among them, secure a share in the growth of international trade commensurate with the needs of their economic development."

The preamble of the WTO, while reiterating the objectives of the GATT, viz., raising standards of income, ensuring full employment and extension of trade, extends these objectives to services.

Objectives:

The important objectives of WTO are:

1. To improve the standard of living of people in the member countries.

2. To ensure full employment and broad increase in effective demand.

3. To enlarge production and trade of goods.

4. To increase the trade of services.

5. To ensure optimum utilization of world resources.

6. To protect the environment.

7. To accept the concept of sustainable development

Functions:

The main functions of WTO are:

1. To implement rules and provisions related to trade policy review mechanism.

2. To provide a platform to member countries to decide future strategies related to trade and tariff.

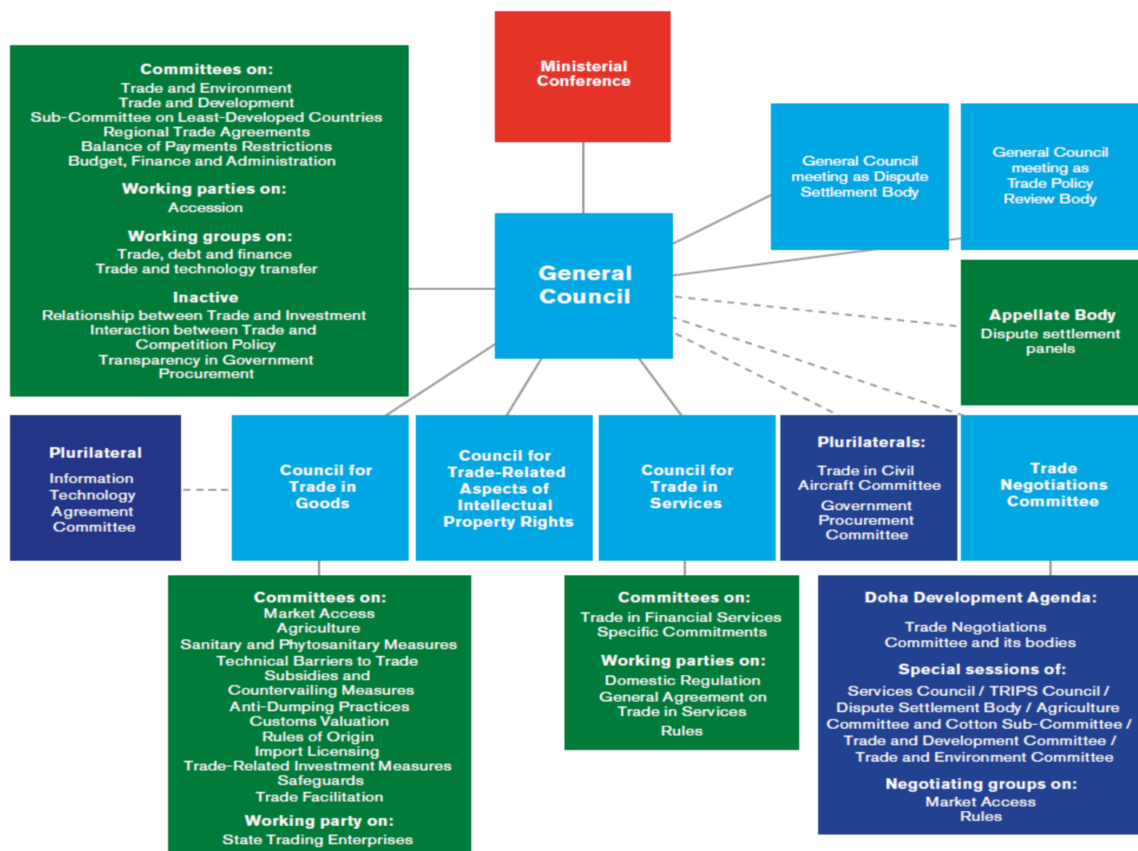
3. To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.

4. To administer the rules and processes related to dispute settlement.

5. To ensure the optimum use of world resources.

6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

Structure



The WTO's top level decision-making body is the Ministerial Conferences which meets at least once in every two years. Below this is the General Council (normally

ambassadors and heads of delegation in Geneva, but sometimes officials sent from members' capitals) which meets several times a year in the Geneva headquarters.

The General Council also meets as the Trade Policy Review Body and the Disputes Settlement Body. In the next level, the Goods Council, Services Council and Intellectual Property (TRIPs) Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as, the environment, development, membership applications and regional trade agreements

The WTO secretariat, based in Geneva, has around 600 staff and is headed by a Director-General. Director-General is appointed for 4 years term by Ministerial council. He has 4 Deputies from different member states.

The Guiding Fundamental Principles and Features of WTO

1. Non-Discrimination*:* All trading partners will be granted the most favoured nation (MFN) status, that is, each member state of WTO will treat every other member state equally as the most favoured nation doing trade. Foreign goods, services, trademarks, patents and copyrights shall be given the same treatment as is given to nationals of a country.

2. Free Trade-: The objective of WTO is to promote free trade among nations through negotiations. WTO has worked for progressive liberalisation of trade through reduction in tariffs and removal of quantitative restrictions on imports by member countries.

3. Stability in the Trading System:Under WTO agreements member states are committed not to raise tariff and non tariff trade barriers arbitrarily. This provides stability and predictability to the trading system.

4. Promotion of Fair Competition: WTO objective is to promote multilateral trading system through transparent, fair and undistorted competition among the various countries. WTO agreement provides for discouraging unfair competitive practices such as export subsidies and dumping.

5. Special Concern for Developing Countries: WTO has shown special concern for the developing countries as it has given them more time to adjust to agreements under it and also some special privileges.

6. Market Access Commitment: WTO agreements which seek to establish multilateral trading system require the member countries to undertake market access commitment on reciprocity basis.

7. Decision at the Ministerial Level Meeting: Another important feature of WTO agreement is that it has upgraded decision making at the ministerial level. Important decisions regarding trade related matters are to be taken at the Ministerial level meetings. Ministerial level meetings have now been incorporated in the legal structure of WTO.

8. Wider Range of Issues: WTO is that it will deal with not only issues and disputes relating to trade in goods but also the whole range of issues concerning trade in services and intellectual property rights.

9. Multilateral Trading System:The most important features of WTO is that it seeks to establish just and fair multilateral system of international trade wherein the developed countries, the developing countries, and the least developing countries all have equal opportunities for market access for their products in foreign countries and wherein discriminatory trade barriers and unjust Government support to exports by different countries have been eliminated.

WTO Agreements

The WTO's rule and the agreements are the result of negotiations between the members. The current sets were the outcome to the 1986-93 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade. They are as follows-

Multilateral trade agreements on Trade in Goods- it includes GATT 1947 amendments.

Article II - Schedules of Concessions spells on the agreement is to record the national schedules "other duties or charges" levied in addition to the recorded tariff and to bind them at the levels prevailing at the date established in the Uruguay Round Protocol.

Understanding on the Interpretation of Article XVII speaks about the provisions for State-trading Enterprises. The agreement specifies on increasing surveillance of their activities through stronger notification and review procedures.

Balance of payments provisions- In this agreement, the contracting parties imposing restrictions for balance of payments purposes should do so in the least trade disruptive manner and should favour price-based measures, like import surcharges and import deposits, rather than quantitative restrictions. The agreement also enumerates the procedures for consultations by the GATT Balance of Payments Committee and as well as for notification of BOP measures.

The Interpretation of Article XXIV -Customs Unions and Free Trade Areas-n The agreement clarifies and reinforces the criteria and procedures for the review of new or enlarged customs unions or free trade areas and for the evaluation of their effects on third parties. The agreement also clarifies on the procedure to be followed for achieving any necessary compensatory adjustment in the event of contracting parties forming a customs union seeking to increase a bound tariff.

The understanding on the Interpretation of Article XXVIII- Modification of GATT Schedules- The agreement is for new procedures for the negotiation of compensation when tariff bindings are modified or withdrawn, including the creation of a new negotiating right for the country for which the product in question accounts for the highest proportion of its exports. This is intended to increase the ability of smaller and developing countries to participate in negotiations.

Agreement on Agriculture

The Agreement on Agriculture makes itself on the concessions and commitments. The members are to undertake on market access, domestic support and export subsidies; the Agreement on Sanitary and Phytosanitary Measures; and the Ministerial Decision concerning Least-Developed and Net Food-Importing Developing countries.

The agricultural package provides for commitments in the area of market access, domestic support and export competition. These include provisions that encourage the

use of less trade-distorting domestic support policies to maintain the rural economy, that allow actions to be taken to ease any adjustment burden, and also the introduction of tightly prescribed provisions that allow some flexibility in the implementation of commitments. Specific concerns of developing countries have been addressed including the concerns of net-food importing countries and least-developed countries.

In the area of **market access**, non-tariff border measures are replaced by tariffs that provide substantially the same level of protection.

Tariffs resulting from this "tariffication" process, as well as other tariffs on agricultural products, are to be reduced by an average 36 per cent in the case of developed countries and 24 per cent in the case of developing countries, with minimum reductions for each tariff line being required. Reductions are to be undertaken over six years in the case of developed countries and over ten years in the case of developing countries. Least-developed countries are not required to reduce their tariffs.

Members are required to reduce the value of mainly direct *export subsidies* to a level 36 per cent below the 1986-90 base period level over the six-year implementation period, and the quantity of subsidised exports by 21 per cent over the same period. In case of developing countries, the reductions are two-thirds those of developed countries over a ten-year period (with no reductions applying to the least-developed countries) and subject to certain conditions, there are no commitments on subsidies to reduce the costs of marketing exports of agricultural products or internal transport and freight charges on export shipments.

In addition to the green box policies, other policies need not be included in the Total Measurement of Support (Total AMS) reduction commitments. These policies are direct payments under production-limiting programmes, certain government assistance measures to encourage agricultural and rural development in developing countries and other support which makes up only a low proportion (5 per cent in the case of developed countries and 10 per cent in the case of developing countries) of the value of total agricultural production. The subsidies are to be calculated at the international price for the commodity.

Green Box -Subsidies with no, or minimally trade distorting, effect have been put in this box. These are not subject to any reduction commitments. It includes all government service programmes.

Blue Box -It contains those subsidies whose continuation is subject to a limitation on production.

White Box- It includes such subsidy practices in developing countries like investment's subsides, agricultural input subsidies available to low income or resource for poor farmers and measures to encourage diversification form growing illicit narcotic crops.

Sanitary and Phytosanitary measures

The application of sanitary and phytosanitary measures concern food safety, animal and plant health regulations. The agreement recognises that governments have the right to take sanitary and phytosanitary measures but that they should be applied only to the extent necessary to protect human, animal or plant life or health and should not arbitrarily or unjustifiably discriminate between Members where identical or similar conditions prevail. The Agreement spells out procedures and criteria for the assessment of risk and the determination of appropriate levels of sanitary or phytosanitary protection.

Food stocking and Food Aid

The special Decision sets out objectives with regard to the provision of food aid, the provision of basic foodstuffs in full grant form and aid for agricultural development. It also refers to the possibility of assistance from the International Monetary Fund and the World Bank with respect to the short-term financing of commercial food imports. A committee on agriculture has been established to monitor and review the implementations of the agricultural agreements.

Agreement on Textiles and Clothing

The object of this negotiation is to secure the eventual integration of the textiles and clothing sector — where much of the trade is currently subject to bilateral quotas negotiated under the Multifibre Arrangement (MFA) - into the GATT on the basis of

strengthened GATT rules and disciplines. The integration of the sector into the GATT would take place as follows:

Phase 1 on 1 January 1995; each party would integrate into the GATT products from the specific list in the Agreement which accounted for not less than 16 per cent of its total volume of imports in 1990.

Phase 2, on 1 January 1998, products which accounted for not less than 17 per cent of imports would be integrated.

Phase 3 on 1 January 2002, products which accounted for not less than 18 per cent of 1990 imports would be integrated. All remaining products would be integrated at the end of the transition period on 1 January 2005 in 4th phase.

All MFA restrictions would be in place as on 31 December 1994 and would be carried over into the new agreement and maintained until such time as the restrictions are removed or the products integrated into GATT.

The agreement also stipulates that, as part of the integration process, all members shall take such actions in the area of textiles and clothing as may be necessary to abide by GATT rules and disciplines so as to improve market access, ensure the application of policies relating to fair and equitable trading conditions, and avoid discrimination against imports when taking measures for general trade policy reasons. Integration means trade in tops and yarns, fabrics, made-up textiles and clothing governed by GATT.

Agreement on Technical Barriers to Trade (TBT)

This agreement will extend and clarify the Agreement on Technical Barriers to Trade reached in the Tokyo Round. It seeks to ensure that technical negotiations and standards, and testing and certification procedures, do not create unnecessary obstacles to trade. However, it recognizes that countries have the right to establish protection, at levels they consider appropriate, for example for human, animal or plant life or health or the environment.

A Code of Good Practice for the Preparation, Adoption and Application of Standards by standardizing bodies, is included in to the agreement. The objective of its agreement is to ensure that the technical regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade. It visualizes that mandatory product standards do not create such barriers if based on internationally agreed standards. It also recognizes that countries have a right to establish protection, at levels they consider appropriate and that countries should not be prevented from taking such measures as are necessary to ensure that those levels of protection are met.

Technical regulations and standards cover product characteristics, process and production characteristics, terminology and symbols and packaging and labeling requirements as they apply to the products. The TBT encourages countries to use international standards where appropriate, but does not require change in the level of protection as a result of standardization.

Agreement on Trade Related Aspects of Investment Measures

The agreement recognizes that certain investment measures restrict and distort trade. It provides that no contracting party shall apply any TRIM inconsistent with Articles III (national treatment) and XI (prohibition of quantitative restrictions) of the GATT.

The agreement requires mandatory notification of all non-conforming TRIMs and their elimination within two years for developed countries, within five years for developing countries and within seven years for least-developed countries. It establishes a Committee on TRIMs which will, among other things, monitor the implementation of these commitments.

The measures are confined for quantitative restrictions and national treatment. It is related in the areas of investments in identified areas, extent of foreign investments, export obligations. It stressed for foreign investment companies to be treated on par with national companies.

Agreement on Anti-dumping

Article VI of the GATT provides for the right of contracting parties to apply anti-dumping measures i.e. measures against imports of a product at an export price below its “normal value.It has detailed the rules governing the application of such measures in Anti-dumping Agreement concluded at the end of the Tokyo Round.

The revised Agreement provides for greater clarity and more detailed rules in relation to the method of determining that a product is dumped, the criteria to be taken into account in a determination that dumped imports cause injury to a domestic industry, the procedures to be followed in initiating and conducting anti dumping investigations, and the implementation and duration of anti dumping measures. In addition, the new agreement clarifies the role of dispute settlement panels in disputes relating to anti dumping actions taken by domestic authorities.

The objective of this agreement is to provide the right to the contracting parties to apply for anti dumping measures. These measures are against the imports of a product, if such imports cause any injury to a domestic industry in the territory of the contracting party. The ADA allows member nations to apply antidumping measures on a unilateral basis after elaborate investigations.

The anti-dumping investigation determines whether:

i. An imported product has been dumped;

ii. It has caused material injury to the domestic industry of a like product; and

iii. There is a causal link between dumped imports and the injury.

Agreement on Subsidies and Countervailing Measures

The agreement contains a definition of subsidy and introduces the concept of a “specific” subsidy for the most part, it is a subsidy available only to an enterprise or industry or group of enterprises or industries within the jurisdiction of the authority granting the subsidy. The agreement establishes three categories of subsidies.

The following subsidies to be are

1. Prohibited subsidies – are subsidies with high trade distorting effects

2. Actionable subsidies-are actionable by trading partner if its interest is adversely affected.

3. Non-actionable subsidies- are not specific subsidies to an enterprise or an industry or a group of industries.

General agreement on trade in services

The Services Agreement which forms part of the Final Act rests on three pillars. The first is a Framework Agreement containing basic obligations which apply to all member countries.

The second concerns national schedules of commitments containing specific further national commitments which will be the subject of a continuing process of liberalization.

The third is a number of annexes addressing the special situations of individual in services sectors.

A basic most favoured nation (m.f.n.) obligation states that each party "shall accord immediately and unconditionally to services and service providers of any other Party, treatment no less favourable than that it accords to like services and service providers of any other country". However, it is recognized that m.f.n. treatment may not be possible for every service activity and, therefore, it is envisaged that parties may indicate specific m.f.n. exemptions. Conditions for such exemptions are included as an annex and provide for reviews after five years and a normal limitation of 10 years on their duration. Transparency requirements include publication of all relevant laws and regulations.

TRIPS Agreement

The areas of intellectual property that it covers are:

1. Copyright- It was recognized that the Berne Convention provided adequate basic standards of copyright protection for the literary and artistic works. The term of

protection is at least 50 years for performers and producers of phonograms, and 20 years for broadcasting organizations

2. Trademarks- Any sign , or any combination of signs, capable of distinguishing the goods and services of one undertaking from those of other undertakings constitutes trademark. The owners of registered trademark have the exclusive right to prevent all third parties to use the similar and identical goods and services without the consent of the Owner.

3. Geographical indicators-It refers to the indentity of a goods as a originating in the territory of a member, or a region or locality in that territory where a given quality or reputation of good is essentially attributed to its geographical origin. Member are required to provide legal means for interested parties to prevent use of any indication which misleads the consumer as to the origin of goods and any use which could constitute unfair competition.

4. Industrial design-They are protected for 10 years. The owners can prevent the manufacture, sale or importation of articles bearing or embodying designs which is a copy of the protected design for commercial purposes.

5. Patents- Patents shall be available for inventions, whether products or processes in all fields of technology provided they are new with inventive step and are capable of industrial application. Patent owners shall have rights to assign or transfer by succession the patent and to conclude licensing contracts. The agreement requires 20 year patent protection.

6. Integrated circuits- The agreement provides protection to the layout designs of integrated circuits for a period of 10 years. This protection shall lapse of 15 years.

7. Trade secrets- Trade secrets and know-how having commercial values shall be protected against breach of confidence and other acts. Test data submitted to government to obtain marketing approval for pharmaceuticals or agricultural chemicals shall be protected against unfair commercial use. This agreement refers to the controls of anti-competitive practices in contractual property rights.

Trade Policy Review Mechanism

The Trade Policy Review Mechanism (TPRM) was introduced into GATT in 1989 following the Mid Term Review of the Uruguay Round. The mechanism was confirmed as an integral part of the WTO in Annex 3 of the Marrakesh Agreement establishing the World Trade Organization. Before 1995, trade policy reviews were restricted to trade in goods.

In conformity with WTO rules, since 1 January 1995 reviews have also covered new like trade in services and intellectual property rights. An agreement confirms the Trade Policy Review Mechanism was introduced at the time of the midterm review, and encourages greater transparency in national trade policy making. It carries out review of trade policies and practices for smooth functioning of multilateral trade and plurilateral trade. To meet this requirement it envisaged for establishment of TBRP.

The purpose of the TPRM is to "contribute to improved adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements and, where applicable, the Plurilateral Trade Agreements, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of Members".

All WTO Members are subject to review under the TPRM. The Annex mandates that the four Members with the largest shares of world trade (currently the European Union, the United States, Japan and China) be reviewed each two years, the next 16 are reviewed each four years, and others be reviewed each six years. A longer period may be fixed for least-developed country Members. As a result of an amendment to Annex 3 in July 2017, these review cycles will be three, five and seven years respectively, beginning on 1 January 2019.

The reviews are conducted by the Trade Policy Review Body (TPRB)on the basis of a statement by the Member under review and a report prepared by economists in the Secretariat's Trade Policy Review Division. The TPRB’s debate is stimulated by a discussion, selected beforehand for this purpose.

Plurilateral Trade agreements

It consists of agreement on Trade in Civil craft, on government procurement, international diary agreement and international bovine meat agreement.

Fair trade in civil aircraft- The Agreement on Trade in Civil Aircraft entered into force on 1 January 1980. It now has 32 signatories.

The agreement eliminates import duties on all aircraft, other than military aircraft, as well as on all other products covered by the agreement - civil aircraft engines and their parts and components, all components and sub-assemblies of civil aircraft, and flight simulators and their parts and components. It contains disciplines on government directed procurement of civil aircraft and inducements to purchase, as well as on government financial support for the civil aircraft sector.

Government procurement –it was first negotiated during the Tokyo Round and entered into force on 1 January 1981. It is designed to make laws, regulations, procedures and practices regarding government procurement more transparent and to ensure they do not discriminate against foreign products or suppliers.

During the Uruguay Round and later in parallel with the Doha Round, the Agreement was revised twice through negotiations among its signatories. Its latest version came into force on 6 April 2014. The Agreement has two elements - general rules and obligations, and schedules of each participant's entities, whose procurements of listed goods, services and construction services are subject to the agreement, if they exceed the threshold levels indicated in the schedules.

The general rules and obligations mainly concern tendering procedures. They have evolved through different versions of the Agreement to enhance fair and non discriminatory conditions of international competition and to reflect new developments in the procurement field, e.g. the wide use of electronic means in tendering.

Dairy and bovine meat agreements: ended in 1997

The International Dairy Agreement and International Bovine Meat Agreement were scrapped at the end of 1997. The countries that had signed the agreements decided that the sectors were better handled under the Agriculture and Sanitary and Phytosanitary agreements.

Rules and Procedures Governing the Settlement of Dispute

The Dispute settlement understanding is the central pillar of the multilateral trading system of the World Trade Organisation framed as a legal text containing the rules for dispute settlement in the WTO. The current dispute settlement system of WTO was created during Uruguay Round.

It is embodied in the Understanding on Rules and Procedures Governing the Settlement of Disputes, commonly referred to as the Dispute Settlement Understanding and abbreviated "DSU". The dispute settlement system of the GATT is generally considered to be one of the cornerstones of the multilateral trade order.

The DSB emphasizes the importance of consultations in securing dispute resolution, requiring a Member to enter into consultations within 30 days of a request for consultations from another Member. If after 60 days from the request for consultations there is no settlement, the complaining party may request the establishment of a panel. Where consultations are denied, the complaining party may move directly to request a panel. The parties may voluntarily agree to follow alternative means of dispute settlement, including good offices, conciliation, mediation and arbitration.

Duration of a Dispute Settlement procedure

These approximate periods for each stage of a dispute settlement procedure are target figures. The agreement is flexible. In addition, the countries can settle their dispute themselves at any stage.

1. 60 days: Consultations, mediation, etc.
2. 45 days: Panel set up and panellists appointed

3. 6 months: Final panel report to parties

4. 3 weeks: Final panel report to WTO members

5. 60 days: Dispute Settlement Body adopts report

The participants in the dispute settlement system are the Member governments of the WTO), which can take part either as parties or as third parties. The WTO Secretariat, WTO observer countries, other international organizations, and regional or local governments are not entitled to initiate dispute settlement proceedings in the WTO. The Dispute Settlement Understanding (DSU) sometimes refers to the Member bringing the dispute as the "complaining party" or the "complainant"

Further provisions are set with rules for compensation or the suspension of concessions in the event of non implementation. Within a specified time frame, parties can enter into negotiations to agree on mutually acceptable compensation. And in place it is not been agreed, a party to the dispute may request authorization of the DSB to suspend concessions or other obligations to the other party concerned. The DSB will grant such authorization within 30 days of the expiry of the agreed time frame for implementation.

WTO and its Impact on India

The main challenges India faced under the new international economic regime as a member of WTO are-

1. WTO on Indian Agriculture - It legitmised various trade distorting practices of the developed countries in their favour. The provisions under AoA for UDCs are focused to reduce tariff commitments by an average of 24 per cent in equal steps over 10 years (upto 2004) from 1995 and for developed countries (DCs) it is 36 per cent over the period of 6 years (up to 2000)

   This resulted in selling the Indian agricultural goods are comparatively at higher prices due to high cost of cultivation. This discouraged the Indian farmers. The domestic grain market became non remunerative to the Indian farmers, even when the agricultural growth rate slided down to 4.6 per cent in 2000-2001. The average tariff barriers on 600 agricultural items have been reduced.

   The custom duties on Indian goods entering the foreign market (USA, EU) continue to be high e.g. 180 per cent for wheat, while it is less than 80 per cent in India. It is disincentive to the investors. To bring at the level of equivalence, India should step up to enhance its export. India could get the benefit of competitiveness only in 46 items out of 406 exportable items.

   As per the agreement, there are Product Specific (PS) and Non Product Specific (NPS) subsidies. NPS subsidies are given to fertilises, irrigation, pesticides, credit and other input subsidies.

   PS subsidies cover the support to 22 products, of which 19 (rice, wheat, jowar, maize, barley, gram, groundnut, rapeseed, toria, cotton, soya, urad, moong, fur, tobacco, jute and sugarcane) are included in the list of commitments.

   The economic help is further classified as Amber box subsidies covering statutory minimum price, grant to agricultural universities, water, services etc. under NSP and PS subsidies to 22 commodities in India. Green box subsidies cover help, consultancy and

basic services etc. And under blue box, subsidies coves direct subsidies, investment subsidies and subsidies on capital etc which are more beneficial to DCs.

The DCs agreed to cut the value of export subsidies by 36 per cent over a period of 6 years from 1995 and the UDCs to cut the same by 24 per cent over a period of 10 years. The DCs were to reduce 21 per cent in quantities of subsidised exports and UDCs to reduce 14 per cent of the same during same period. The DCs were allowed to reduce the cost of marketing and transporting exports under certain conditions.

On the contrary, The EU (UK, France, Germany etc.) countries gave an average 265 per cent of export subsidy, Brazil 60 per cent, Thailand 40 per cent, Pakistan 30 per cent and this has created a panic situation in the agricultural economy of India. Besides, imposition of import duties is neglected, QRs have been withdrawn, no direct export subsidy is given to the exporters of agricultural commodities. Thus, India had to oppose such hike in export subsidies in the Agricultural Round of talks.

TRIPS

The implementation period for India begins from 1995 and ends by 2005, India must grant product patents over pharmaceutical and agricultural chemical products. The patent terms will run from the date of the application field to 20 years thereafter.

It has far reaching implication for developing countries including India. Under the new agreement, inventor's rights widely cover patents, trademarks, copyright, industrial design, layout of integrated circuits, geographical indications and trade secrets. The phasing-out period is specified as 10 years for drugs and agro-chemicals and 5 years for the rest of the products.

The TRIPs brought in adverse effects on pharmaceutical industry in India, when new discoveries would become available at very heavy cost of royalties. According to the new agreement, when the product patents will be brought into force in the year 2005 in the developing India, drug prices will increase. The indigenous pharmaceutical industry following the process patent would be in an adverse position. Under TRIPs seeds will be patented by which the input costs of Indian farmers will increase.

Further the extension of IPR on agriculture had an negative impact on Indian Economy, as plant breeding and seed production was of public domain. Thus patenting of plant varieties would be beneficial for MNCs. It would also impact food security programme.

Trade related Investment Measures

These measures assure free entry for foreign as well as Indian companies on the same terms and conditions. It means Indian companies will have to compete with the MNCs on the basis of survival of fittest. It has impact on small scale companies as they cannot compete with MNCs in the changed global competitive environment. As the foreign enterprises can set their business, it leads to takeover and acquisitions. On the other hand foreign investment leads to foreign exchange earnings and better technology in the country.

GATS

India will have to open up its service sector to other WTO member countries. This will result to entry of overseas service providers into the service sectors in the country The GATS agreements has the potential to open up all aspect of a national economy to foreign competition. There are several income generating services include brokerage, communications, non merchandise insurance, leasing and rental equipment, technical and professional services. GATS have been beneficial to some extent in India.

The areas that impacted India are Trade and NTBs. They were non transparent and complex and created complexities for India. The other was Labour standards and environment. There was ttrespassing the sovereignty of Nation states. There is inequality within the structure of WTO.

International Monetary Fund

The origin of the IMF goes back to the days of international chaos of the 1930s. The restrictions on multilateral trade and payments increased during the world war II. This fear led the British economist John Maynard Keynes during the War to prepare a comprehensive plan of international monetary cooperation for implementation after the war. This plan came to be known as the "Keynes Plan"

The other plan was prepared by the American expert Harry D. White and called the 'White Plan", the basic features of these plans were taken together and merged into a common plan which was evolved at the United Nations Monetary and Financial Conference of 44 nations held at Bretton Woods. New Hampshire in the USA in July 1944. Thus at the Bretton Woods Conference held in July 1944, delegates from 44 non communist countries negotiated an agreement on the structure and operation of the international monetary system.

The conference proposed the establishment of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD) and the International Trade Organization (ITO). Of these, the IMF and the IBRD were established while the ITO could not be set up and a partial substitute the General Agreement on Tariffs and Trade (GATT) was established as an interim arrangement.

The Articles of Agreement of the IMF provided the basis of the international monetary system. The IMF commenced financial operations on 1 March 1947, though it came into official existence on 27 December 1945, when 29 countries signed its Articles of Agreement (its charter). As of May 2012, the IMF has near global membership of 188 member countries. The entire world belongs to the IMF. India is one of the founder members of the Fund.

The Fund aimed to provide exchange rate stability, temporary assistance to member countries falling short of foreign exchange and international sponsoring of measures for curbing fundamental disequilibrium or causes of fundamental disequilibrium in the balance of payments of countries.

Objectives:

Article 1 of the Articles of Agreement (AGA) spell out 6 purposes for which the IMF was set up.

They are as follows:

I. To promote international monetary cooperation through a permanent institution this provides the machinery for consolation and collaboration on international monetary problems.

II. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objective of economic policy.

III. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

IV. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

V. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments, without resorting to measures destructive of national or international prosperity.

VI. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members.

The three general objectives of the IMF are:

(i) The elimination or reduction of existing exchange controls,

(ii) The establishment and maintenance of currency convertibility with stable exchange rates, and

(iii) The widest extension of multilateral trade and payments.

In essence, the Fund is an attempt to achieve the external or international advantages of gold standard system without subjecting nations to its internal disadvantages, and at the same time maintaining the internal advantages of paper standard while bypassing its external disadvantages.

The major functions of the IMF:

1. It functions as a short term credit institution.

2. It provides machinery for the orderly adjustments of exchange rates.

3. It is a reservoir of the currencies of all the member countries from which a borrower nation can borrow the currency of other nations.

4. It is a sort of lending institution in foreign exchange. However, it grants loans for financing current transactions only and not capital transactions.

5. It also provides machinery for altering sometimes the par value of the currency of a member country. In this way, it tries to provide for an orderly adjustment of exchange rates, which will improve the long-term balance of payments position of member countries.

6. It also provides machinery for international consultations.

The principal function of the IMF is to supervise the international monetary system. These are: granting of credit to member countries in the midst of temporary balance of payments deficits, surveillance over the monetary and exchange rate policy of member countries, issuing policy recommendations. It is to be noted that all these functions of the IMF may be combined into three. They are- regulatory, financial, and consultative functions

Organization and Structure of the IMF-

The organisation of the IMF is described in Article XII of the Agreement and consists of Board of Governors. The Executive Directors, a Managing director and staffs. The IMF is run by a Board of Governors, an Executive Board and an international staff.

Every member country delegates a representative (usually heads of central banks or ministers of finance) to the Board of Governors, the top link of the chain of command. It meets once a year and takes decision on fundamental matters such as electing new members or changing quotas.

The Executive Board is entrusted to the management of day today policy decisions. The Board comprises 24 executive directors who supervise the implementation of policies set by the member governments through the Board of Governors

The IMF is headed by the Managing Director who is elected by the Executive Board for a 5 year term of office. Rights and obligations, i.e., the balance of Powers in the Fund is determined by a system of quotas. Quotas are decided by a vote of the Board of Governors. Quotas or subscriptions roughly reflect the importance of members in the world economy. It is the quota on which payment obligation, credit facilities, and voting rights of members are determined.

IMF monitors country’s exchange rate and macroeconomic policies, it holds regular dialogue with all the member countries at the regional and global levels.

IMF periodically, holds consultations with each of it’s member countries. it is referred under Articles of IV Consultations. It focuses on exchange rate, fiscal and monetary policies, BOP and external debt management, international and regional implications of its policies and identification of vulnerabilities of member countries. IMF also monitors from macroeconomic perspectives, structural policies, governance and environmental issues.

IMF now through its surveillance tries to promote exchange stability and maintain orderly exchange arrangements among the member countries. IMF also monitors global

economic conditions, countries economic policies in the global context and developments in international capital markets

Working of the fund

Quota subscriptions are central to the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy.

A member country's quota determines its maximum financial commitment to the IMF, its voting power, and has a bearing on its access to IMF financing.

When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members of broadly comparable economic size and characteristics. The IMF uses a quota formula to help assess a member's relative position.

After the 14th quota review (enforced on January 26, 2016), the United States, continues to be the largest quota holder (as of September 12, 2016) with quota holding of SDR 82.99 billion (about US$116 billion).

The smallest quota holder is Tuvalu, with a quota of SDR 2.5 million (about US$3.5 million). India's quota holding is SDR 13.11 bn.

A member's quota determines that country's financial and organizational relationship with the IMF, including: Subscriptions- A member's quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF.

A member must pay its subscription in full upon joining the IMF: up to 25 percent must be paid in SDRs or foreign currencies acceptable to the IMF (such as the US dollar, the euro, the Chinese renminbi, the Japanese yen, or the British pound sterling), while the rest is paid in the member's own currency.

Voting power-The quota largely determines a member's voting power in IMF decisions. Each IMF member's votes are comprised of basic votes plus one additional vote for each SDR100, 000 of quota.

The 2008 reforms fixed the number of basic votes at 5.502 percent of total votes. The current share of basic votes in total votes represents close to a tripling of their share prior to the implementation of the 2008 reforms.

Access to financing-The amount of financing a member can obtain from the IMF (its access limit) is based on its quota. For example, under Stand-By and Extended Arrangements, a member can borrow up to 145 percent of its quota annually and 435 percent cumulatively. However, access may be higher in exceptional circumstances.

In 2008 reforms, the 14th General Review of Quotas made certain changes, they are:

a. doubled quotas from approximately SDR238.5 billion to approximately SDR477 billion (about $677 billion at current exchange rates),
b. shifted more than 6 percent of quota shares from over-represented to underrepresented member countries,
c. shifted more than 6 percent of quota shares to dynamic emerging market and developing countries (EMDCs),
d. Significantly realigned quota shares.
e. China became the third largest member country in the IMF, and there are now four EMDCs (Brazil, China, India, and Russia) among the 10 largest shareholders in the IMF, and
f. Preserved the quota and voting share of the poorest member countries. This group of countries was defined as those eligible for the low-income Poverty Reduction and Growth Trust (PRGT) and whose per capita income fell below $1,135 in 2008 (the threshold set by the International Development Association) or twice that amount for small countries.

India’s quota share is 2.76%, her voting weight will be near to that i.e. it is 2.76 % a present (though India’s vote share is 2.64% after the 14th Quota review). As per the IMF rules, for an important resolution to be passed, at least 85% of the votes should be secured. This means that the US, with 16.54 % of voting power, enjoys a veto power. Till date, IMF quota has been reviewed 12 times.Thus, a member’s quota indicates basic aspects of its financial and organizational relationship with the Fund.

IMF Lending

The IMF Articles of Agreement clearly state that the resources of the Fund are to be used to give temporary assistance to members in financing BOP deficit on current account. Of course, the financial assistance provided by the Fund is loan. The following technique is employed: If a country calls on the Fund it buys foreign currencies from the IMF in return for the equivalent in the domestic currency.

In legal and technical terms, it is called a 'drawing' on the Fund. The technique suggests that the IMF does not lend, but sells the required currency to the members on certain terms. This unique financial structure of the Fund clearly suggests that the Fund's resources cannot be lent for long time. It is meant to cover short run gaps in BOP.

The IMF's unique financial structure does not allow any member to enjoy financial assistance over a long time period. The total amount that a country is entitled to draw is determined by the amount of its quota.

A member is entitled to draw an amount not exceeding 25 p.c. of its quota. The first 25 p.c. called the 'gold tranche' or 'reserve tranche' can easily be drawn by countries with BOP problems. This 25 p.c. of the quota is the members' owned reserves and therefore no conditions are attached to such drawings. This may be called 'ordinary, drawing rights; even the Fund cannot deny its use. The 'credit tranche' of 100 p.c. each equalling 25 p.c. of a member's quota are also available subject to the IMF approval and hence, 'conditional'.

Borrowing methods used by the Fund are:

(i) Stand-by Arrangements:

This method of borrowing has become the most normal form of assistance by the Fund. Under this form of borrowing, a member state obtains the assurance of the Fund that, usually over 12-18 months, requests for drawings of foreign exchange up to a certain amount will be allowed if the country concerned wishes. The stand-by arrangements can be extended up to 3 years while repayments are required to be made within 3-5 years of

each drawing. The term “stand-by” here means that, subject to conditionality, a member has a right to draw the money made available when required.

Extended Fund Facility (EFF):

Stand-by arrangements to stabilise a member’s BOP run usually for a period of 12-18 months. Developing countries suffer from chronic BOP problems which could not be remedied in the short run. Such protracted BOP difficulties experienced by the LDCs were the result of structural imbalances in production and trade. It then necessitated an adjustment programme and redemption scheme of longer duration.

The EFF is designed to provide assistance to members to meet their BOP deficits for longer period (3-4 years) and in amounts larger in relation to their quotas. Repayment provisions of EFF cover a period of 4-10 years

Compensatory Financing:

(i) A member country can also draw up to 100% of its Quota under compensatory financing,

(ii) This facility is designed to extend the support to those member countries producing primary goods and is suffering from fluctuations in receipts from exports.

Oil Facility:This facility was extended to members facing balance of payment facilities due to rise in oil prices.

Enlarged Access Policy- Under this scheme a member can borrow 150% of Limited Quota per year or 450% over a period of three years to cumulative use of funds resources to 600% of the Quota.

Structural Adjustment Facility (SAF) and the Enhanced SAF (ESAF):

In 1986 a new facility—the SAF was introduced for the benefit of low income countries. It was increasingly realized that the so-called stringent and inflexible credit arrangements were too inadequate to cope with the growing debt problems of the poorest members of the Fund.

Credit facilities for economic reform programmes are available at a low interest rate of 0.5 p. c compared to 6 p.c. for most Fund facilities. Loans are for 10 years with a grace period of five and a half years. LDCs facing protracted BOP problems can get assistance under SAF provided they agree to undertake medium-term structural adjustment programmes to foster economic growth and improve BOP conditions. An extended version of SAF—ESAF—was introduced in 1987. The ESAF has been replaced by a new facility, called Poverty Reduction and Growth Facility in 1999.

Poverty Reduction and Growth Facility (PRGF):

The PRGF that replaced the ESAF in November 1999 provides concessional lending to help the poorest member countries with the aim of making poverty reduction and economic growth —the central objectives of policy programmes.

Under this facility, low income member countries are eligible to borrow up to 140 p.c. of its quota for a 3-year period. Rate of interest that is charged is only 0.5 p. c and repayment period covers 5 1/2-10 years, after disbursement of such facility. However, this financial assistance under this facility is 'conditional'.

Supplemental Reserve Facility (SRF):

This instrument provides additional short-term financing to member countries facing exceptional BOP difficulties because of a sudden and disruptive loss of market confidence reflected in capital outflows of countries concerned. Consequent upon the eruption of East Asian financial crisis, the SRF was introduced in 1997. The top three largest borrowing nations are Greece, Portugal and Ireland from the IMF. In 1996, it launched Multilateral Debt Relief Fund Initiative and enhanced Heavily Indebted Poor Countries Initiative to assist the poor countries.The other two schemes to mention are-Exogenous shock facility in 2005 and Emergency assistance.

Technical assistance by IMF-

It has providing technical assistance since 1964 in the areas of-

a. Designing and implementation of fiscal and monetary policy;

b. Drafting and reviewing economic and financial legislation, regulations and procedures; and

c. Institution and capacity building in central banks, treasuries, tax and customs departments and statistical services.

These assistances are provided through missions, short and long term assignment of experts and regional technical assistance centres.

Scope of IMF

The statutory purpose of IMF includes facilitating trade, promotion of exchange stability rates, avoiding competitive currency devaluations, and helping in orderly corrections of BOP problems. IMF deals only with the governments of member countries and not private individuals or institutions. It provides only short term loans to member countries, it insists on monetary cooperation among member countries.

Restrictions on the members of the fund-

1. The member countries should utilise the funds or loans only for the purposes said.
2. No member can bring change in the monetary policy without the consent of the Fund.
3. All the member countries will buy and sell gold at rates determined by the fund.
4. No member country can impose any type of restrictions on current international payments without securing the permission from IMF.
5. Every member country will buy and sell foreign currencies at the rate fixed by the fund.

IMF And International Liquidity

The primary component of international liquidity that a country possesses is its international reserves which are made up of gold holdings and foreign exchange assets in US dollars and pound sterling. The subsidiary resources of international liquidity are provided by IMF. It is largely the flexible operation of IMF policies that has resulted of

late in a significant expansion of subsidiary liquidity. The Fund, since its inception, had been trying hard to cope with the problem of international liquidity, in various ways, that is, by increasing the quantity, by changing the composition, by ensuring equitable distribution of the available sources.

The Fund managed the various forms and means of providing international liquidity like gold, foreign exchange, quotas and other borrowing facilities and credit arrangements.

International liquidity covers a wide spectrum of availabilities. Two types of classification have come into use in recent years. The first distinguishes between "owned" reserves and borrowing facilities; the second between liquidity that is available automatically or without prior conditions that significantly restrict the user's right of access, and liquidity that is available only on prescribed or negotiated conditions as to use or as to the policies to be pursued by the country using it.

IMF and India

India is one of the founder members of IMF. India's position was 5th in the quota fund, with increase in fund quota it got a permanent Executive Director in IMF. Post 1970s though quotas of Japan, Canada and Italy increased more that India, yet India posses the permanent Executive Director. India's quota in the fund is SDR 4158 million, it ranks 13th. RBI has the right to keep the currencies of other member countries in its reserves in addition to the Pound Sterling.

Advantages to India

1. International regulation by IMF in the field of money has certainly contributed towards expansion of international trade and thus prosperity. India has been benefitted from these fruitful results.

2. Large Financial Assistance. Not only indirectly but directly also, her membership has been of great advantage. India has been one of the most frequent borrowers from the IMF.

From the inception of IMF up to March 31, 1971, India purchased foreign currencies of the value of Rs. 817.5 crores from the IMF, and the same have been fully repaid. Recently, since 1970, the assistance that India as other member countries of the IMF, can obtain from it, has been increased through the setting up of the Special Drawing Rights (SDRs).India had recourse to borrowing from the Fund in the wake of the steep rise in the prices of its imports, food, fuel and fertilizers.

A total of Rs. 753.8 crores had been drawn till the end of August 1975, when the second oil facility drawing of Rs. 207 crores took place. In November 1981, India was given a massive loan of about Rs. 5,000 crores to overcome foreign exchange crisis resulting from persistent deficit in balance of payments on current account.

The membership of the IMF has benefited India in yet another important way. India wanted large foreign capital for her various river projects, land reclamation schemes and for the development communications. Since private foreign capital was not forthcoming, the only practicable method of obtaining the necessary capital was to borrow from the International Bank for Reconstruction and Development (i.e. World Bank).

The membership of the IMF is a necessary condition precedent to the membership of the World Bank. Thus, India's membership of the IMF has entitled her to be a member of the World Bank and its affiliates viz., International Finance Corporation (IFC) and International Development Association (IDA).

3. Importance of India in the International field as it has secured permanent place in the Board of Directors. India has played a major role in policy formulation.

4. The Economic Advice from the fund in solving the economic problems of India is appreciable.
5. The fund has always provided timely help in times of crisis.
6. India has been able to increase its quota over a period of time.

Special Drawing Rights

Special Drawing Rights, also known as paper gold. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves.

It was approved in principle at the Fund's annual meeting at Rio de Janeiro in September 1967. The Articles of Agreement of the Fund were amended with effect from July 28, 1969, to authorize the Fund to allocate SDRs to its members in proportion to their quotas, in order "to meet the need, as and when it arises, for a supplement of existing reserve assets". It is an International financing instrument created in 1970 by the International Monetary Fund (IMF) to coincide with the disfavor of the US dollar as the principal currency of the world trade. Also called paper gold, an SDR is neither paper nor gold but an accounting entry. It is not backed by any currency or precious metal, and is used only among governments and IMF for balance of payments settlements. SDRs are a measure of a country's reserve assets with IMF.

According to the SDR scheme, it will be a sort of gold paper. The value of SDR was fixed in gold. The value of the SDR being fixed had to be maintained by the member countries one SDR = one US dollar's worth of gold at the then official rate of 35 an ounce or 0.888671 grams fine gold.

The SDR is now defined in terms of a basket, or collection, of the five major currencies of the world: the US dollar, the Deutsche mark, the Japanese yen, the French franc and the pound sterling.

The value of the SDR at any given time in terms of a given currency may be calculated by using the exchange rates of the constituent currencies against the dollar and the rate of the given currency against the dollar. A new system of valuation, thus, replaced the previous system under which the SDR was valued in terms of gold or US dollar. The SDR now is a unit of account.

The new unified 'standard basket' will compose of the currencies of any 5 member countries having the largest export of goods and services during the last five years and

widely used in world trade and payments period. At present these are the US dollar Deutsche mark, Japanese yen, French franc and pound sterling.

Under the Articles of Agreement, the IMF may allocate SDRs to members participating in the SDR Department in proportion to their quotas (known as a general allocation). A special one-time allocation in 2009 enabled countries that joined the IMF after 1981 (i.e., after previous allocations) to participate in the SDR system on an equitable basis. The SDR mechanism is self-financing and levies charges on allocations which are then used to pay interest on SDR holdings. The members can buy and sell SDRs in the voluntary market. If required, the IMF can also designate members to buy SDRs.

Until 1971, SDR was linked to gold and was equivalent to $1. with the breakdown of the fixed parity system in 1973, the major currencies shifted to floating exchange rate regimes, it was decided to stabilize the exchange value of SDR. Subsequently, the growth in international capital markets facilitated borrowing by creditworthy governments and many countries accumulated significant amounts of international reserves. These developments lessened the reliance on the SDR as a global reserve asset.

However, recently, the 2009 SDR allocations totaling SDR 182.6 billion played a critical role in providing liquidity to the global economic system and supplementing member countries' official reserves amid the global financial crisis. As of March 2016, 204.1 billion SDRs (equivalent to about $285 billion) had been created and allocated to members. SDRs can be exchanged for freely usable currencies.

The quotas of all currencies in the fund general account are also valued in terms of SDR. SDR allocations initially create credit balances in each member's account in the SDR Department. Each country pays interest on its allocation and receives interest on its credit balance at the same SDR floating interest rate. The SDR interest rate is a weight at an average of the yields on specified risk free short term instruments in the US, UK, European and Japanese money markets whose currencies compose the SDR. The US dollar component is the three-month US Treasury bill.

Allocation of SDRs –

The IMF may allocate SDRs to member countries in proportion to their IMF quotas. Such an allocation provides each member with a costless, unconditional international reserve asset. The SDR mechanism is self-financing and levies charges on allocations which are then used to pay interest on SDR holdings. If a member does not use any of its allocated SDR holdings, the charges are equal to the interest received.

General allocations of SDRs have to be based on a long term global need to supplement existing reserve assets. Decisions on general allocations are made for successive basic periods of up to five years. When a country accepts additional SDRs in exchange for freely usable currencies, its credit balance rises above its allocation. The country has lent the excess of its credit balance over its allocation at the SDR interest rate. If a country does not use its SDRs and does not accept SDRs in exchange for freely usable currencies, its credit balance equals its allocation and it has no cost or benefit because the interest payments received and paid exactly offset each other.

The first allocation was for a total amount of SDR 9.3 billion, distributed in 1970-72; the second allocation was distributed in 1979-81, worth SDR 12.1billion, and the third-for SDR 161.2 billion—was made on August 28, 2009. The Fourth Amendment to the Articles of Agreement became effective August 10, 2009 and provided for a special one-time allocation of SDR 21.5 billion. The 2009 general and special SDR allocations together raised total cumulative SDR allocations to SDR 204.1 billion. About 70% of SDRs are distributed to 26 rich countries and the remaining 30%to the developing countries.

Uses-

SDR is an international unit of account which is held in the funds Special Drawing Account. As the international monetary asset, the SDR are held in the international reserves of central banks and governments to finance their deficit BOPs or surpluses of BOPs. All forms of loans and their repayments are expressed in the SDR. They are used as a means of payment by the Fund members to meet BOP deficits and their total reserve

position with the fund. Thus SDR acts as an international unit of account and means of payment.

There are three principal uses of SDRs-

Transactions designation – fund designates a participant in SDR scheme who has strong bop and reserve position to provide currency in exchange for SDRs to another participant needing its currency.

Transaction with general account- participants pays charges in SDRs to the general account of the fund resources and also to purchase their own currency from it.

Transactions by agreement – it allows for sale of SDRs for currency by agreement with another participant.

The fund pays interest on all holdings of SDRs kept in the special drawing account and charges interest at the same rate on allocations to participants.

Merits –

a. They are the new form of international monetary reserves created for freeing the international monetary system from its exclusive dependence on the US dollar.

b. Reduced the global dependence the supply of gold and fluctuations of gold price.

c. They cannot be demonetized like gold or become scarce when the demand for dollar increases globally.

d. SDRs are costless to produce. They are created to improve international liquidity to correct the fundamental disequilibrium in BOP of fund members.

e. Fund members are not required to change their domestic policies as they are expected under the fund aid programme.

f. SDRs act both as unit of account and as a means of payment of international monetary system.

Criticisms –

a. Inequitable distribution- it has adopted unfair distribution of international liquidity. The allocation of SDRs to participating countries is proportional to their quotas. Thus allocation to developing countries is too low compared to their requirements and thus reduces their borrowing capacity.

b. Not linked with development finance- SDR scheme does not link the creation of international reserves in the form of SDRs with the need for development finance on the part of developing countries. The need for liquidity on the part of developing countries is great and under these circumstances, there is need to create more SDRs with fair distribution so that more unconditional liquidity is made available for the greater needs of developing countries.

c. High Interest Rate-The interest rate originally payable on net use of SDRs is 1.5 per cent. This has been gradually raised through time in order to make a more acceptable asset to hold. Now both users of SDRs pay and holders of SDRs receive, a market rate of interest based on interest rates prevailing in US, Britain, France, Germany and Japan which are quite high for developing countries.

d. Failure to Distribute Social saving- The present rules for allocation distribute the social saving to a participant country in proportion to his contribution or its demand for SDRs. If the supply of SDRs equals the demand for it, there will no redistribution of resources between countries. But this is not so in the case of developing countries whose holdings of SDRs are very low as compared to the 26 developed countries. Thus the present scheme of SDRs fails to transfer social savings to the developing countries.

e. Failure to meet International Liquidity Requirements-Unfortunately, due to the rigid attitude of the United States and some other developed countries, the Fund has not been able to resume allocation of SDRs from January 1982, despite the repeated pleas of the developing countries over these years. Thus, the Fund has failed in its objective of increasing international liquidity through SDRs.

WORLD BANK

The International Bank for Reconstitution and Development) was set up as a result of the decision taken in Bretton Woods Conference New Hampshire. The conference was held in July 1944 and attended by 44 nations. Decision was to set up two organizations i.e.

(a) the I.M.F. and

(b) I.B.R.D to solve the monetary and financial problems of the countries due to the impact of War II.

The I.B.R.D. or World Bank was set up on December 27, 1945, when its Articles of Agreement was signed by 29 members Government in Washington. United States has a controlling voting interest. The objective is to eliminate the long term disequilibrium in the BOP of the ember countries by advancing long term loans to them for development purpose. The World Bank's initial aim was to help rebuild European countries devastated by World War II. Its first loan was to France in 1947 for post-war reconstruction.

The role of reconstruction support and the Bank shifted its attention to the needs of its members in Latin America, Africa, and Asia. In the 1950s and 60s, the funding of large infrastructure projects, such as dams, electrical grids, irrigation systems, and roads was the Bank's primary focus. In the 1970s, the Bank shifted its attention to poverty eradication. Development projects reflected people oriented objectives rather than exclusively the construction of material structures. Projects related to food production, rural and urban development, and population, health and nutrition were designed to reach the poor directly. Bank operations also expanded to identify and encourage policies, strategies, and institutions that helped countries succeed. The Bank initiated sectoral and structural adjustment loans deemed necessary for the success of its projects.

In the 1980s, the Bank continued to enlarge its focus on issues of social development, Issues of social life, including education, communications, cultural heritage, and good governance. Over the years, World Bank Group has been a leader in the field of international

development and poverty reduction, but it has also worked alongside or in support of other governments, institutions, and organizations that share its goals.

World Bank at a Glance

The World Bank is not a bank in the conventional sense of the word, it consists of two organizations. One is the International Bank for Reconstruction and Development. It provides loans, credit, and grants.

The second is the International Development Association. It provides low or no interest loans to low income countries.

The Bank works closely with three other organizations in the World Bank Group:

The International Finance Corporation (IFC) provides investment, advice, and asset management to companies and governments.

The Multilateral Investment Guarantee Agency (MIGA) insures lenders and investors against political risk such as war.

The International Centre for the Settlement of Investment Disputes (ICSID). It settles investment disputes between investors and countries.

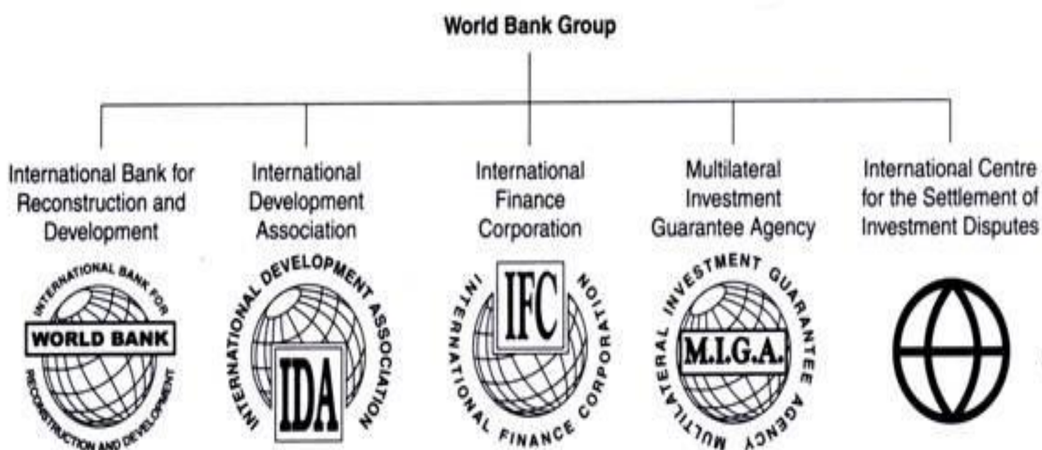


Fig. 4.1 The World Bank Group

World Bank Purpose

The World Bank provides low-interest loans, interest-free credit, and grants. It focuses on improving education, health, and infrastructure. It also uses funds to modernize a country's financial sector, agriculture, and natural resources management.

The Bank's stated purpose is to "bridge the economic divide between poor and rich countries." It does this by turning "rich country resources into poor country growth." It has a long-term vision to "achieve sustainable poverty reduction."

The Bank focuses on several areas to achieve the set goal:

a. To overcome poverty by spurring growth, especially in Africa.
b. Help reconstruct countries emerging from war, the biggest cause of extreme poverty.
c. Provide a customized solution to help middle income countries remain out of poverty.
d. Spur governments to prevent climate change.
e. Work with partners to bring an end to AIDS.
f. It also manages international financial crises and promotes open trade.
g. Work with the Arab League on three goals. They are to improve education, build infrastructure, and provide micro-loans to small businesses.
h. Share its expertise with developing countries. Publicize its knowledge via reports and its interactive online database.

Objectives of the Bank

The following objectives are assigned by the World Bank:

1. To provide long-run capital to member countries for economic reconstruction and development.

2. To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.

3. To provide guarantee for loans granted to small and large units and other projects of member countries.

4. To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.

5. To promote capital investment in member countries by the following ways;

(a) To provide guarantee on private loans or capital investment.

(b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

Organization and Structure:

The organization of the bank consists of the Board of Governors, the Board of Executive Directors and the Advisory Committee, the Loan Committee and the president and other staff members. All the powers of the bank are vested in the Board of Governors which the supreme policy is making body of the bank.

The board consists of one Governor and one Alternative Governor appointed for five years by each member country. Each Governor has the voting power which is related to the financial contribution of the Government which he represents. The Board of Executive Directors consists of 21 members, 6 of them are appointed by the six largest shareholders, namely the USA, the UK, West Germany, France, Japan and India. The rest of the 15 members are elected by the remaining countries.

The board of Executive Directors meets regularly once a month to carry on the routine working of the bank. The president of the bank is pointed by the Board of Executive Directors. He is the Chief Executive of the Bank and he is responsible for the conduct of the day-to-day business of the bank. The Advisory committees appointed by the Board of Directors. It consists of 7 members who are expects in different branches of banking. There is also another body known as the Loan Committee. This committee is consulted by the bank before any loan is extended to a member country.

Capital Structure:

The initial authorized capital of the World Bank was $ 10,000 million, which was divided in to 1 lakh shares of $ 1 lakh each. The authorized capital of the Bank has been increased from time to time with the approval of member countries.

On 30th June 1988 the authorised Capital Stock of the I.B.R.D. Comprised 7,16,500 authorised Shares of the par value of S.D.R. (Special Drawing Rights) 1,00,000 each. In July 1994 the total authorised bank capital was $ 185 billion with a capital increase of $ 9.3 billion. The Bank's 189 member countries share ownership. The United States has a controlling voting interest

The main functions can be explained with the help of the following points:

1. World Bank provides various technical services to the member countries. For this purpose, the Bank has established "The Economic Development Institute" and a Staff College in Washington.

2. Bank can grant loans to a member country up to 20% of its share in the paid up capital.

3. The quantities of loans, interest rate and terms and conditions are determined by the Bank itself.

4. Bank grants loans for a particular project duly submitted to the Bank by the member country.

5. The debtor nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

6. Bank also provides loan to private investors belonging to member countries on its own guarantee, but for this loan private investors have to seek prior permission from those counties where this amount will be collected.

Activities of the World Bank: The WB offers two basic types of loans—

Investment loans for the support of economic and social development projects and development policy loans to support countries' policy and institutional reforms.

The WB grants loans only to the developing countries annually at nearly $20 billion a year usually for a period of 15 to 20 years for the purpose of building roads, dams and other physical capital that contribute to their economic development. Its lending rate is bit low and is fixed every six months.

The Bank offers hard currency loans. It accepts hard currency at the time of repayment. The Bank functions as an agent on the international capital markets for countries which are unable to obtain sufficient loans on concessional terms.

Its loan provisions are:

(i) Project loans,

(ii) Sectoral loans, and

(iii) Structural adjustment loans

The World Bank has made remarkable success in achieving its basic objectives. Its concern for developing countries deserves special attention. It has taken up various poverty reduction strategies and poverty focused lending. The Bank programmes give high priority to sustainable, social and human development and strengthened economic management.

World Bank's lending procedure-

1. Loans out of its own funds- Bank collects capital contributions from member countries which accounts for a sizeable fund, out of this fund it lends to member countries in need of finance.

2. Loans out of borrowed capital- It borrows funds from other member countries and provides loans to needy members for a specified time period.

3. Loans through Bank guarantee- It encourages private investors of a country to lend their funds from other countries by guaranteeing the repayment of loans and interest.

Conditions on which the Bank may Guarantee or Make Loans

The Bank may guarantee, participate in, or make loans to any member or any political sub-division thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to the following conditions:

1. When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

2. The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

3. A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

4. In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

5. In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole. In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

6. Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development

Bank's Operation

Lending Operations:

Loans are granted to member countries only after the Bank is fully satisfied about the economic position of the borrowing country as well as the soundness of the specified projects for which assistance is sought. In granting loans, the Bank is prepared to take reasonable risks but insists that funds obtained from it should be used for purposes which are constructive and practical.

The Bank has powers of supervision and control to ensure that funds are used for the purposes for which the loan is granted. Normally, the Bank makes medium or long-term loans, the term being related to the estimated useful life of the equipment or plant being financed.

The Bank has made loans mainly for specific development projects in the field of agriculture, power, transport and industry

. **Technical and Advisory Assistance:**

In addition to providing financial assistance to member countries, the Bank has been rendering signal service to its members by providing them suitable technical assistance to assess their total economic resources and to set up priorities to be followed in their development programmes.

Technical assistance on a boarder scale has also been provided, for instance, in development programming through Survey Missions, which make intensive studies of national resources and formulate recommendations to serve as the basis of long-term development programmes.

In addition to the training programme, the Bank, with financial assistance from the Rockefeller and Ford Foundations, has set up in Washington an Economic Development Institute to provide an opportunity to selected groups of senior officials from the less developed countries to participate annually in an international course of studies designed

to give them a broad perspective of the problems of economic development and to increase their efficiency.

3. Inter Organizational Cooperation- It is engaged with other formal agreements or organizations like FAO, UNESCO, WTO, UNCTAD, UNDP, UNIDO, IFAD, ILO, African Development Bank and ADB.

4. Economic and Social Research- In 1983, bank came up with a Research Policy Council to provide leadership in the guidance, coordination and evaluation of all research. A small and more technically oriented research Projects approval committee has been set up.

5. It regularly holds meetings of creditor countries to provide loans to developing countries.

6. It makes efforts for Settlement of disputes among member countries.

India and World Bank

India is a founder member of the Bretton Woods, i.e., the IMF and the World Bank. It has a permanent place on the Bank's Executive Board. India has been the largest recipient of development finance from the World Bank. India's shares in the Bank's total lending to all countries in 1988, was 15%. In 1980-81, the World Bank granted loans worth Rs. 139 crore to India which increased to Rs. 395 crore in 1985-86 and to Rs. 1992 crore in 1999-2000, and it increasing every year.

World Bank's subsidiary Institution International Development Association (IDA) provides loans from its soft window. In 1980-81, India received loans of Rs. 522 crore from IDA. This amount increased to Rs. 1198 crore in 1985-86 and to Rs. 3464 crore in 1999-2000, and it increasing every year. The World Bank's assistance to India has been mainly for development purposes. The major projects financed by the Bank are railway, generation of power, multipurpose projects, development of aviation, iron and steel industry, coal, mining, agriculture, telecommunication.

World Bank has also extended loans of financial institutions like Industrial Development Bank of India (IDBI) and Industrial Credit and Investment Corporation of India (ICICI).The World Bank has also provided useful technical assistance in Indians development plans. It has sent a number of missions to India to evaluate the working and progress of her five year plans.

The World founded Aid India Club in 1950, to provide massive assistance to finance India's development plans. Aid India Club is a consortium of the major lending countries, such as, UK, USA. Germany, France, Japan Canada, etc. The Aid India Club provided financial assistance to India to the tune of Rs. 1999 crore in 1980-81, which increased to Rs. 2552 crore in 1985-86 and to Rs. 9208 crore in 1999-2000.

Criticism

World Bank has been attacked by many thinkers that loan assistance provided the bank is adequate. Bank has been providing assistance only for specific development projects. The rate of interest charged is high on loans extended. Over the years bank has shown more inclination to provide assistance to China. Post Pokharan atomic test its financial assistance has declined. India also has failed proper utilization of financial assistance in the scheduled time.

Evaluation of the functioning of World bank

1. Share of Developing countries in Bank's capital is inadequate.
2. Inadequate financial Aid.
3. Discriminatory treatment.
4. High interest and commission charges
5. Insistence on repaying capacity.
6. Loans for specific projects only.
7. Insistence on repayment in foreign currencies.

8. Loans for agriculture and allied occupations

9. Partiality for private sector

10. Domination by western countries.

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