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ECONOMICS PAPER – III
INDIAN ECONOMY

SUBJECT CODE : 85607

Prof. Ravindra Kulkarni

Vice Chancellor

University of Mumbai, Mumbai.

Prin. Dr. Ajay Bhamare

Pro Vice-Chancellor,

University of Mumbai.

Prof. Santosh Rathod

I/c, Director

CDOE, University of Mumbai.

Programe & Course Co-ordinator : **Dr. Rajashree Pandit**

& Editor

Assistant Professor (Economics),

CDOE, University of Mumbai, Mumbai.

Course Writer

: Dr. Gopal Eknath Ghumatkar

Assistant Professor of Economics,

CDOE (Earlier IDOL), University of Mumbai,

Mumbai – 400098.

: Dr. Pratiksha Narayan Tikar

Assistant Professor of Economics,

CDOE (Earlier IDOL), University of Mumbai,

Mumbai – 400098.

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Revised Syllabus of Courses of B.Com. (Accounting and Finance)
Programme at Semester VI
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1. Elective Courses (EC)

6. Economics Paper – III (Indian Economy)

Modules at a Glance

Sr. No.	Modules	No. of Lectures
01	Introduction Agricultural Sector	15
02	Industrial Sector	15
03	Service Sector and External Sector	15
04	Money and Banking	15
Total		60

Sr. No.	Modules / Units
1	Introduction Agricultural Sector
	Introduction Demographic features- Poverty, Income inequality and Unemployment Urbanization and its effects Agricultural Sector Institutional Structure- Land reforms in India Technological changes in agriculture Agricultural pricing and agricultural finance Agricultural marketing National agricultural policy
2	Industrial Sector
	Growth and pattern of industrialization Industrial Policy of 1991. Public sector enterprises and disinvestment policy Small scale sector- problems and prospects
3	Service Sector and External Sector
	Service Sector Nature and scope of service industry Recent trends in Banking industry, Insurance Industry, Healthcare Industry and Tourism Industry External Sector Structure and directions of Foreign trade India's Balance of payments since 1991 FDI, foreign capital and transnational companies in India. Role and impact of SAARC, ASEAN and WTO
4	Money and Banking
	Money market and its features Monetary policy of RBI Progress of commercial banking in India Development of capital markets SEBI and its functions

MODULE - 1

1

INTRODUCTION: AGRICULTURAL SECTOR - I

Unit Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Demographic features - Poverty, Income inequality and Unemployment
- 1.3 Urbanization and its effects
- 1.4 Agricultural Sector
- 1.5 Institutional Structure - Land reforms in India
- 1.6 Technological changes in agriculture
- 1.7 Questions

1.0 OBJECTIVES

This unit will be focused on following objectives:

- To understand the term poverty
- To understand the concept of income inequality
- To know about the various employment generation programmes to the students
- To study the several effects of urbanization
- To know about the land reforms in India
- To study the importance and technological changes in agricultural sector

1.1 INTRODUCTION

In this unit we will study the importance of agriculture sector in India, demographic features as poverty, income inequality and unemployment. Also we will study the term urbanization and effects of urbanization. This unit also will be focused on institutional structure, land reforms in India and technological changes in agriculture.

1.2 DEMOGRAPHIC FEATURES

1.2.1 POVERTY:

1.2.1.1 Concept of Poverty:

Eradication of poverty has long been the important objective of Indian economic development. The problem of poverty is now generally accepted as the biggest challenge to development planning in India. All the political parties in India, in one form or another has adopted poverty eradication as an important goal. Various schemes and programmes aimed at achieving these objectives have been launched over the years. But the problems of poverty continue to persist in India.

1.2.1.2 The Measurement of Poverty:

Human Development Report, 1997 has introduced a concept of "human poverty" which sees "impoverishment as multidimensional". Poverty means more than a lack of what is necessary for material well-being. It can also mean the denial of opportunities and choices most basic to human development, that is,

- i) To lead a long, healthy, creative life.
- ii) To have a decent standard of living.
- iii) To enjoy dignity, self-esteem, the respect of others and the things that people value in life.

According to the World Bank poverty is the inability of people to attain a minimum standard of living. It is deprivation of the basic necessities of life such as food, clothing and housing. According to World Bank poverty is multidimensional in nature. In addition to low income (living on less than \$ 1 a day), illiteracy, ill health, gender inequality, and environmental degradation are all aspects of being poor".

Human Development Report 1997 has introduced the human poverty index (HPI) to measure poverty in developing countries. While human development index (HDI) measures progress in a community or country as a whole, the HPI measures the extent of deprivation, the proportions of people in the community or country who are left out of progress.

The Human Development Report 2010 measures poverty in terms of a new parameter, namely, multidimensional poverty index (MPI). It has replaced the human poverty index (HPI) used since 1997. The MPI indicates the share of the population that is multidimensional poor adjusted by the intensity of deprivation in terms of living standards, health and education. Poverty is, therefore, multi-dimensional concept, though some facets of poverty may be more critical than others. Illiteracy, low income, unemployment, malnutrition, frequent illness, high infant and child mortality and lower life expectancy are attributes of poverty. High birth rates also co-exist with poverty, though it is not high birth rates that breed poverty but it is poverty that breeds more children.

1.2.1.3 Measurement of Poverty:

According to M.L. Dantwala, "the poor are those who live below what is called the 'Poverty Line', which is defined in terms of per capita household expenditure". In the Indian planning literature, the poverty line is determined by the concept of expenditure considered necessary for a minimum level of living or minimum needs. Since the prices have risen, the minimum in money terms is revised upwards from time to time.

The Task Force on Minimum Needs and Effective Consumption, constituted by the Planning Commission in 1977, defined the poverty line as a per capita monthly expenditure of Rs. 49.09 in the rural areas and Rs. 56.40 in urban areas (at 1973-74 prices), corresponding to a per capita daily calorie requirement of 2400 in rural and 2100 in urban areas. The calorie requirements represent the minimum biological needs averaged over different categories of population. The national poverty line based on Lakdawala methodology is Rs. 356 per capita per month in rural areas and Rs. 539 per capita per month in urban areas at 2004-05 prices.

It should be noted that, by not taking into consideration other basic needs besides nutrition, incidence of poverty is likely to be under estimated. Therefore, measuring poverty on the basis of certain social indicators like life expectancy, illiteracy, etc. is being strongly advocated.

The methodology for estimation of poverty has been reviewed from time to time. The planning commission constituted an expert group under Prof. S.D. Tendulkar in December 2005, which submitted its report in December 2009. The Planning Commission has accepted the recommendations of the Tendulkar Committee. As per the Tendulkar Committee, the national poverty line at 2004-05 prices was a monthly per capita consumption expenditure of Rs. 446.68 in rural and Rs. 578.80 in urban areas in 2004-05.

1.2.1.4 Extent and Trends in the incidence of Poverty:

The incidence (or extent) of poverty in India in the recent years is explained below by looking into the estimates of poverty given by the Planning Commission and the World Bank. The incidence of poverty is measured in terms of the percentage of the total population living below the poverty line, In other words, the percentage of population below the specified poverty line is a measure of the incidence of poverty, and that is, how many are poor. It brings out the extent of poverty in the country. Several economists and organizations have conducted studies about the extent of poverty in India.

A) Planning Commission's Estimates Based on The Lakdawala Methodology:

The Planning Commission has been estimating the incidence of poverty at the national and state levels using the methodology used in the report of the Expert Group on poverty (i.e. Lakdawala Committee). Incidence of poverty has been estimated by the Planning Commission as an integral

Component of formulating appropriate growth strategies. The estimates of incidence of poverty at the national level based on Uniform Recall Period (URP) method is given in table 1.1.

Table 1.1: Estimates of Incidence of Poverty in India Based on Lakdawala Methodology (by URP Method) (percent)

	Rural	Urban	All India
1993-94	37.3	32.4	36.0
2004-05	28.3	25.7	27.5

The Planning commission's study on poverty as given table 1.1 brings out the following facts about poverty:

- 1) Steady Decline in Poverty:** The incidence of poverty has witnessed a steady decline from 36 percent in 1993-94 to 27.5 per cent in 2004-05.
- 2) Wide Rural-Urban Disparities:** Wide disparities are visible in the poverty ratios between rural and urban areas. The poverty ratio is higher in the rural areas than in urban areas.
- 3) Poverty Ratios in 2004-05:** The Poverty ratio is estimated at 28.3 percent in rural areas, 25.7 percent in urban areas and 27.5 percent for the country as a whole in 2004-05.

B) Planning Commission's Estimates Based on Tendulkar Committee:

The Planning Commission set up an expert group (Tendulkar Committee) to suggest a new poverty line and estimates in December 2005. It submitted its report in December 2009. According to Tendulkar Committee, the poverty line should meet not just food expenditure requirements, but also the basic needs of education and health. It has arrived at a poverty line of Rs. 446.68 per capita monthly consumption expenditure in rural areas and of Rs.578.8 per capita monthly consumption expenditure in urban areas at 2004-05 prices. The committee arrived at new estimates of poverty.

Table 1.2 : Tendulkar Committee Estimates of Poverty in India (percent)

Year	Rural	Urban	All India
1993-94	50.1	31.8	45.3
2004-05	41.8	25.7	37.2

According to Tendulkar Committee the poverty in India in 2004-05 was 10 percent more than estimated by Planning Commission, i.e. 37 percent and the rural poverty is 42 percent instead of 28 percent in 2004-05. According to Tendulkar Committee, every third Indian lives below poverty line. These recommendations have been accepted by the Planning Commission.

C) Multidimensional Poverty:

The Human Development Report 2010 measures poverty in terms of multidimensional poverty index (MPI) replacing the human poverty index (HPI) used since 1997. The MPI indicates the share of the population that is multi-dimensionally poor adjusted by the intensity of deprivation in terms of living standards, health and education. According to this parameter India's MPI is 0.296, the population below poverty line is 41.6 percent in terms of PPP\$ 1.25 a day and 28.6 percent in terms of national poverty line. Further India is not favourably placed when compared with countries like China and Sri Lanka and even Pakistan (see Table 1.3.).

Table 1.3: Multidimensional Poverty Index

Country	Multidimensional Poverty Index (2000-08)	Population Below Income Poverty Line (2000-08)	
		PPP \$ 1.25 a day	National Poverty Line
		(2000-08)	(2000-08)
China	0.056	15.9	2.8
Sri Lanka	0.021	14	22.7
India	0.296	41.6	28.6
Pakistan	0.275	22.6	-

Source: HDR 2010, Economic Survey, 2011.

1.2.1.5 Poverty Alleviation Programmes:

Poverty eradication is one of the major objectives of planned economic development. Economic growth has always been recognized as an important among various factors contributing to poverty alleviation. It is now recognized that it is not the rate of growth but the composition of growth which determines the pace of the "trickle down" effect of growth.

India's anti-poverty programmes are mainly run by the Central Government. There are three main types of poverty alleviation programmes : (1) rural works, (2) self-employment and (3) food subsidy. All three have been subject to reforms in the recent years. Plan allocations have been enhanced in areas of health, education, sanitation and other facilities in order to promote capacity building and wellbeing of the poor. Anti-poverty programmes have been strengthened and restructured through special programmes for the weaker sections of the-society.

The major poverty alleviation programmes currently operating in the country are discussed below:

1) Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGA) February 2006:

This flagship programme of the government aims at enhancing livelihood security of households in rural areas by providing at least 100 days of

guaranteed wage employment in a financial year to every household whose adult members volunteer to do unskilled manual work. For the year 2011- 12, Rs. 40,000 crore has been allotted for this programme. This has led to substantial increase in the purchasing power and has strengthened the livelihood resource base of the rural poor in India.

During the year 2011-12, 3.80 crore households have been provided employment under the scheme till January 2012. At national level, the average wage paid under the MGNREGA has increased from Rs. 65 in 2006-07 to Rs. 120 in 2011-12.

2) Swarnajayanti Gram Swarozgar Yojana (SGSY) : April 1999.

It is a major ongoing scheme to help the poor rural families to cross the poverty line by assisting them to take up income generating economic activities through a mix of bank credit and government subsidy. The scheme involves selection of key activities, planning of activity clusters, organization of the poor into self-help groups (SHGs) and building of their capacities through training and skill development, creation of infrastructure and technological and marketing support. SGSY was introduced by amalgamating former self employment programmes into a single self-employment programme. Since inception of the scheme in April 1999 up to December, 2011, 42.05 lakh self-help groups (SHGs) have been formed and 168.46 lakh swarojgaries have been assisted with bank credit and subsidy. The total, investment under the SGSY is Rs. 42,168.42 crore.

NRLM:

The SGSY has now been restructured as the National Rural Livelihood Mission (NRLM). The NRLM aims at reducing poverty by enabling poor households to access gainful self-employment and skilled wage employment opportunities.

3) Sampoorna Grameen Rozgar Yojana (SGRY) : Sept. 2001

The objective of SGRY is to provide additional wage employment along with food security, creation of durable community, social and economic assets and infrastructure development in the rural areas. The schemes of Jawahar Gram Samridhi Yojana (JGSY) and Employment Assurance Scheme (EAS) have been fully integrated with SGRY. SGRY programme in many districts has been included in National Rural Employment Guarantee Scheme (NREGS) during 2006-07 and 2007-08. Since April 2008, SGRY programme is part of National Rural Employment Guarantee Scheme (NREGS).

4) Pradhan Mantri Gramodaya Yojana (PMGY):

It was launched in 2000-01 in all states and the Union Territories (UTs) in order to achieve the objective of sustainable human development at the village level. The PMGY gives additional central assistance to states and UTs for selected basic minimum services in order to focus on certain

priority areas. Initially, it focused on five critical areas, i.e., primary health, primary education, rural shelter, rural drinking water and nutrition. Rural electrification has been added as an additional component from 2001-02.

5) Pradhan Mantri Gram Sadak Yojana (PMGSY) : Dec.2000

It is a 100 percent centrally sponsored scheme. It is a programme to provide road connectivity through good all weather roads to all the eligible unconnected rural inhabitants. 1,42,750 kms. of road works had been completed till December 2007 and an expenditure of Rs. 27,382 crore has been incurred.

6) Antyodaya Anna Yojana : Dec. 2000

It provides foodgrains at a highly subsidized rate of Rs. 2 per kg for wheat and Rs. 3 per kg for rice to the poor families under the Targeted Public Distribution System. Initially 25 kgs of foodgrains was made available to each family per month. This quantity has been increased to 35 kgs with effect from April 2002.

7) Swarna Jayanti Shahari Rozgar Yojana (SJSRY) : 1997 Revised in April 2009

It aims at providing gainful employment to urban unemployed or underemployed poor by encouraging the setting up of self-employment ventures or provision of wage employment. It replaced various programmes operated earlier for urban poverty alleviation. It is being funded on a 75 : 25 basis between centre and the states. The budget allocation for the SJSRY scheme for 2011- 12 is Rs. 813 crore. A total of 3,63,794 beneficiaries have been assisted in the year 2011-12.

8) Indira Awaas Yojana (IAY) : 1999-2000.

It aims at providing dwelling units, free of cost, to the poor families of the Scheduled Castes (SCs), Scheduled Tribes (STs), freed bonded labourers and also the non-SC/ST persons below the poverty line in the rural areas. Upto December 2006, about 153 lakh houses had been constructed or upgraded with an expenditure of Rs. 29,246 crore.

9) Annapurna Yojana : 2000.

It aims at providing food security to meet the requirements of those senior citizens who, though eligible for pensions under the National Old Age Pension Scheme, are not getting the same. Foodgrains are provided at a subsidized rate. It is a 100 percent centrally sponsored scheme.

10) Valmiki Ambedkar Awas Yojana (VAMBAY) : Dec. 2001

It seeks to improve the conditions of the urban slum dwellers living below the poverty line who do not possess adequate shelter. The primary objective of this scheme is to facilitate construction and upgradation of

dwelling units for the slum dwellers. A component of the scheme is to provide a healthy environment through community toilets.

11) National Food For Works Programme (NFFWP) : Nov.2004

This programme is open to all rural poor who are in need of wage employment and desire to do manual unskilled work. It is implemented as a 100 per cent centrally sponsored scheme and the food grains are provided to the states free of cost.

12) Rural Employment Generation Programme (REGP):

It was launched in 1995 with the objective of creating self employment opportunities in the rural areas and small towns. Since the inception upto March 2004, 1.86 lakh projects have been financed and 22.75 lakh job opportunities have been created.

13) Prime Minister's Rozgar Yojana (PMRY):

It was started in 1993 with the objective of creating self employment opportunities to the educated unemployed youth by assisting them to set up any economically viable activity.

14) Public Distribution System and its impact on Poverty:

The Public Distribution System (PDS), seeks to enhance food security particularly for the economically weaker sections of the society. The PDS is the instrument for ensuring availability of certain essential commodities at easily affordable prices especially for the poor. A well-targeted and properly functioning public distribution system (PDS) is an important constituent of the strategy for poverty alleviation. PDS with a network of about 4.74 lakh. Fair Price Shops (BPS) is perhaps the largest Distribution network of its type in the world.

In order to make PDS more responsive to the needs of the poor, the Targeted Public Distribution System (TPDS) was introduced in June 1997. This system attempts to target families below the poverty line (BPL) at heavily subsidized rates.

1.2.1.6 Limitations of Poverty Alleviation Programmes:

The poverty alleviation programmes in India have been criticized on following grounds:

1) Failed to Provide Employment:

Various schemes of poverty alleviation have failed to provide employment. Our employment programmes have not realized their potential.

2) Failure with respect to Disabled:

The poverty alleviation programmes have failed to do justice to disabled who cannot participate in normal economic activities and to women.

3) Meagre Government Spending:

The spending by the central government on all poverty alleviation programmes amount to about 6 to 7 percent of total government of India's budgetary expenditure, or 1 percent of GDP. This spending of central government on poverty eradication programmes is considered to be very meagre (less).

4) Ignore Consequences of Activities:

The poverty alleviation schemes also ignore consequences of earning activities of the poor in terms of health hazards and pollution problems.

5) Lack of Adequate Income:

Income and employment-oriented poverty alleviation programmes did not provide adequate income to meet even adequate food requirements.

6) Inadequate Self-employment Programmes:

The self-employment and wage employment guarantee programmes may not be justified with increasing population pressures.

7) Other Factors:

Lack of political will, unequal distribution of income and administrative inefficiency are also responsible for the poor performance of the various schemes.

On account of above reasons the impact of the poverty alleviation programmes have been very modest in scale and very ineffective. A proper growth strategy will create more job opportunities in the rural areas, It will give more importance to accumulation of human capital by the poor by addressing the inefficiencies and inequalities in the health and education sector.

1.2.2 INCOME INEQUALITY:

1.2.2.1 Introduction:

It is the ownership of factors of production i.e. land and capital or the ability to render services i.e. labour of different types and the ability to organize business activities that enable people to earn income. Income earned by people however is not the same. For various reasons which we will discuss later, there is a vast difference in the amount of income earned.

Equitable distribution of income takes place when people receive income according to their needs and abilities. In reality, everywhere, especially in market-oriented economies, a majority gets a small share of the national income and a small minority appropriates a large share. Studies by Simon Kuznets, and Irma Adelman & Cynthia Morris reveal the income inequality in different countries. According to Kuznets, the process of industrialization and urbanization lead to worsening of income distribution

in developing countries because in the early stages, growth is concentrated in the modern sectors. However as development progresses inequality is reduced.

Recent studies by Professor Deepak Lal have not supported the Kuznets and Adelman-Morris conclusions. His study suggests a strong general relationship at all phases between growth and inequality reduction. Another study by G Fields in 1991 concludes that:

- (i) In most of the cases poverty decreases as growth increases and inequality tends to shrink rather than widen.
- (ii) Faster the rate of growth, quicker is the reduction in inequalities.
- (iii) There is no clear relationship between the degree of inequality in the initial phase and subsequent rate of growth.

1.2.2.2 Extent of Income Inequality in India:

Distribution of income is unequal in India as it is in all other countries. In the post independent period under the Five Year Plans the government has devised various means to reduce extreme inequalities in our economy. Various measures implemented made their impact felt by reducing the inequality to a certain extent both at the bottom and top levels. Inequality in the distribution of income is reflected in the percentage shares of income or consumption accruing to portions of the population ranked by income or consumption levels. The portions ranked lowest by personal income receive the smallest shares of total income. The Gini index provides a convenient summary measure of the degree of inequality.

1.2.2.3 Policy Measures to Reduce Inequality:

It is necessary for the government to formulate and implement certain policy measures to mitigate inequality in income distribution. The measures may be in the form of :

1) Fiscal Measures:

Fiscal policy through its budgetary instruments can attempt to redistribute income. The important instruments are:

- (a) Progressive Direct Taxes:** Income tax, wealth tax, capital gains tax, gift tax and estate duty, when levied in a progressive manner, help withdraw more money from the rich. The poor will be exempted from these taxes by exempting minimum income or wealth from tax. The success of all these tax instruments depends on its effective implementation. Loopholes in tax laws enable the taxpayers to legally avoid tax payments. If tax evasion cannot be checked effectively, income inequalities may aggravate.
- (b) Subsidies:** Cost of agricultural inputs like fertilizers, water supply, electricity, pumps and other equipment can be subsidized so that small and marginal farmers may produce more. Measures should be

taken to safeguard the misuse of subsidies. Education and medical services can be provided to those below poverty line at a highly subsidized rate or almost free.

- c) **Indirect Taxes:** Taxes on commodities and services may turn out regressive if they are levied indiscriminately. They may help reduce inequality if such taxes are selective. Consumer durables, specially the luxurious ones like air conditioners, cars etc. and services in five star hotels, when taxed heavily help to mop up excess income of the top rich.

2) Monetary Measures:

One of the reasons why the bottom section of the income group has remained so poor is their inability to acquire money capital for improving their income. Monetary policy through discriminatory rate of interest can provide the minimum required money capital at a very low rate of interest. Treating them under the priority sector will help those secure loans at the right time with minimum and simple procedure.

3) Public Distribution System:

The real income of the bottom income group could increase if they are supplied with essential consumer items through ration and fair price shops. Such public distribution should be confined only to the lowest income group.

4) Social Security Measures:

The low income group comprise agricultural and industrial labourers, old people without any regular source of income and the unemployed. Social security measures go a long way in providing either minimum or some additional income to supplement their meagre income. The social security may comprise:

- (i) **Old Age Pension:** Old people with no source of income can be provided a regular monthly income by the government to enable them to subsist.
- (ii) **Unemployment Benefits:** With the increasing number of unemployed vis-a-vis limited employment opportunities the government is expected to support the jobless.
- (iii) **Social Security Insurance:** Under this scheme, workers and their dependants are covered. The scheme can also be accepted by households voluntarily for a price, even by those who belong to higher income group. Medical, disablement and maternity benefits are provided under this schemes.

5) Employment Schemes:

Employment in rural and urban areas are provided through various schemes like National Food for Works Programme, (SGSY), (SGRY),

(PMGY), and many other schemes. In order to wipe out absolute poverty and extreme inequality it is necessary that the government provide permanent employment to at least one member of an absolutely poor family.

6) Institutional Changes:

Land reforms are the example of institutional changes whereby land is distributed among the landless and ownership is given to the tiller. Such institutional reforms bring a change in the distribution of income earning assets in favour of the poor.

7) Self Employment:

Unemployed specially the educated can be trained and assisted to set up tiny, cottage and small industries, service oriented jobs like electricians, machine repairers etc. Promoting self-employment schemes besides providing employment reduces inequality too.

8) Rural Development:

Rural India has a larger share of unemployment and poverty. The situation leads to the migration of people to the urban area aggravating the urban problems. Promoting rural development through providing infrastructure and rural industrialization would help preventing migration, providing employment and reduction in economic inequality.

All these measures cannot bring a lasting solution to the inequality of income distribution. In our country these measures must be combined with rapid economic growth and effective control of population growth in order to have the desired result. Otherwise we may end up distributing poverty instead of promoting equality.

1.2.3 UNEMPLOYMENT:

1.2.3.1 Introduction:

The problem of unemployment, as the problem of poverty, is considered to be a biggest challenge to development planning in India. A high rate of unemployment in rural areas is expected to accelerate migration to urban areas and it is likely to increase the pressure on limited infrastructure. At the same time, the capability of the state to create jobs for people in general or even for certain vulnerable sections of population is extremely limited in the present climate of economic liberalization.

1.2.3.2 Nature of Unemployment in India:

In India the unemployment is a multi-dimensional phenomenon. It is a widespread problem affecting almost every segment of the society. The nature of unemployment in the country is analysed by classifying the unemployment into 1) Rural Unemployment and 2) Urban unemployment.

1. Rural Unemployment:

Since large percentage of Indian population reside in the rural sector with the main occupation as agriculture and allied activities. The rural unemployment is generally divided into Disguised, Seasonal and Open Unemployment.

(a) Disguised Unemployment:

It is a state of unemployment in which more people are engaged in agricultural operations than required. The marginal productivity of such workers is zero. It means that all the workers are not needed to maintain the existing level of production.

(b) Seasonal Unemployment:

Agriculture by its very nature is a seasonal activity. For a significant part of the year the Indian farmers are out of work. In the absence of supplementary sources of employment, they remain unemployed during the slack agricultural season.

(c) Open Unemployment:

Those who do not have any work come under this category.

They are able and willing to work, but there is no work for them. Such unemployment is in the nature of involuntary idleness. With the decline of cottage industries and handicrafts, many rural people have no alternative means of livelihood.

The main causes responsible for rural unemployment are high growth rate of population, illiteracy, dependency on monsoon, lack of rural development and infrastructural facilities, lack of mobility of people, and so on.

2. Urban unemployment:

In Urban areas, the main occupations are related to secondary and tertiary sectors in which generally semi-skilled and skilled labourers are engaged. The main two types of unemployment in the urban sector are industrial and educated unemployment.

(a) Industrial Unemployment:

Industrial unemployment is the result of slow growth of industrial development vis-a-vis growth of labour force. Further, unemployment in the industrial sector has increased due to low growth rate of employment in the organised sector.

(b) Educated Unemployment:

An important aspect of urban unemployment is the lack of job opportunities for the educated people. With increasing literacy level, the problem of educated unemployment is becoming severe.

1.2.3.3 Extent of Unemployment in India:

In India the National Sample Survey Organization (NSSO) provides information about unemployment and employment. The NSSO uses three different concepts:

(i) Usual Principal Status (UPS) unemployment:

It is measured in number of persons. It shows number of persons who remained unemployed for the major part of the year. The UPS unemployment rate is regarded as the measure of chronic open unemployment during the reference year.

(ii) Current Weekly Status (CWS) unemployment:

It is also measured in number of persons. It shows the number of persons who did not find even an hour of work during the survey week. It is also a measure of chronic unemployment, but with reduced reference period of a week.

(iii) Current Daily Status (CDS) unemployment:

It is measured in person days. It shows the number of persons who did not find work on a day or some days during the survey week. The CDS captures the unemployed days of the chronically unemployed, the unemployed days of the usually employed who become intermittently unemployed during the reference week and unemployed days of those classified as employed according to the current weekly status criterion.

1.2.3.4 Causes of Unemployment:

The important causes of unemployment are the following:

1. Population Growth and Increase in Labour force:

The most important cause of unemployment is of course the population explosion, which in turn causes an increase in labour force. In rural areas agriculture is becoming more crowded without the corresponding increase in productivity. Indian agriculture has thus become a reservoir of ever increasing underemployed and surplus population.

2. Inappropriate Technology:

The increasing population and labour force against inadequate supplies of capital inputs has made Indian economy labour abundant and capital scarce. The technologies used in many sectors are capital intensive. These distortions lead to hiring of more capital and less labour worsening the employment situation.

3. Inappropriate Educational System:

The Educational system of India is still inappropriate. The physical capacity of the existing training institutes is limited and the quality of the training provided is also not up to the mark. Training courses in

government run institutes are often not sufficiently reflective of market demand.

4. Slow Economic Growth:

The overall economic development in Indian economy has not been adequate to create sufficient employment opportunities in the country. Thus, job creations were always falling short of the number of job seekers causing backlog of unemployment

5. Lack of Infrastructural Facilities:

Lack of transportation, electricity, etc. creates Underutilized capacity. This means that even if the productive unit has capacity to achieve 100% employment, but due to lack of infrastructure, it is unable to provide more employment.

6. Protective Labour Laws in India:

Since Independence, labour laws for the workers in the organised sector in India have mainly emphasized worker protection and welfare. In the public sector, there is little incentive to work hard which results in poor productivity. If we want a rapid increase in employment and in real earnings per employee, then there is an urgent need to reform the labour laws in India.

1.2.3.5 Policy Strategies for Employment Generation in India:

The policy strategy to generate employment must try to achieve two objectives.

1. Create more employment opportunities to absorb the net addition to the labour force.
2. Improve the quality of existing employment in several sectors so that real wages rise through improved productivity.

The Planning Commission's Task Force on Employment Generation has recommended the following policy strategy for employment generation.

1. Accelerating Economic Growth:

The higher the rate of economic growth, the larger will be the resultant employment. Achieving a growth rate of 8 and sustaining the growth of rate into the future over a period 10 years will require an appropriate macro-economic policy framework.

2 Sector Specific Policies:

It is necessary to focus on policies in specific sectors which are critical for employment generation and for the quality of employment. Thus, special policy intervention is needed in sectors such as agriculture and allied activities, Food Processing, Small-scale industries (SSIs), & Services Sector.

3. Special Employment Programmes:

There should be special programmes catering to the specific needs of landless labourers, marginal farmers, village artisans, tribal people living in remote areas of the country and also people in hilly areas.

4. Skill Development and Reforms in Educational System:

Focused training will help to improve the capabilities of labour force. As the economy grows and diversifies, we will need people with varied skills.

5. Improving employment situation in poorer states:

A regionally balanced employment strategy requires a much faster growth rates of state domestic product in the poor states.

6. Reform of Labour Laws:

Our labour laws are widely regarded as being too rigid. They therefore have the effect of discouraging growth of employment in the organised sector. Such reforms in labour laws can generate more employment and higher earnings per employee.

Conclusion:

Accelerating growth is essential to expanding employment opportunities. We need to take measures both from the demand and supply sides in order to generate more employment.

1.2.3.6 Government Policies to generate Employment:

The government has been financing various types of special programmes designed to create additional employment opportunities to supplement the employment generated by the economy in the normal course. Some of the important programmes explained below:-

1. Employment programmes for the Rural Poor:

The major ongoing employment programme for the rural poor are the Swarnajayanti Gram Swarozgar Yojana (SGSY), which is a self employment programme involving merger of the erstwhile IRDP and various component programmes, and Sampoorna Grameen Rozgar Yojana (SGRY), which is a wage employment programme involving integration of the schemes of Jawahar Gram Samriddhi Yojana (JGSY) and Employment Assurance Scheme (EAS). National Food For Work Programme (NFFWP), Rural Employment Generation Programme (REGP), The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS).

2. Employment Programmes for the Urban Poor:

Along with the effort in rural areas, there have been special employment programmes for urban areas focusing on both wage employment as well as self-employment for the urban poor. This will help them to gain collective

strength to tackle the issues of poverty facing them and participate in the effective implementation of urban poverty alleviation programmes.'

3. Self-Employment for Educated Youth:

In addition to the above programmes strategy was also tried to provide employment opportunities for growing number of educated youth who may not be from poor families but who face severe difficulties in finding gainful employment.

4. Khadi and Village Industries:

An important element in the Government's strategy to promote employment in rural areas is the support provided for Khadi and for a number of traditional village industries including beekeeping, handmade paper, ghani oil, pickle, masala, dalia, agarbatthi, leather products, soap, etc.

5. Other Programmes:

Other programmes of Centre and States which are primarily for generating self employment among special sectors of labour force are :

- i) National Minorities Finance and Development Corporation
- ii) National Backward Classes Finance and Development Corporation
- iii) National SC/ST Finance and Development Corporation
- iv) National Handicapped Finance and Development Corporation
- v) Support for Training and Employment Programme, and
- vii) National Credit Fund for Women.

1.3 URBANIZATION AND ITS EFFECTS

1.3.1 Meaning of Urbanization:

Urbanization has become very common in developing as well as developed countries. It is a process wherein general people migrate from rural to urban area in search of brighter social as well as economic feasibilities such as better education, good health care, proper sanitation, comfortable housing, immense business opportunities and versatile transportation. Urbanization is a gradual process, which is influenced by various economic, political and geographical factors.

Broadly, urbanization refers to the growth of towns and cities as people move from rural areas to urban centres with a hope to lead a better life. These days, the percentage of total population living in urban areas is increasing in most of the countries of the world. Hence, urbanization can also be termed as the progressive increase in the number of people living in towns and cities.

Urbanization has become one of the common features of economic development in the world. As urbanization and economic development are closely associated, the economic development of a country indicates enhancement in the level of per capita income and standard of living of its growing population. The process of urbanization depends on the shift of surplus population from rural to urban areas along with the gradual growth of some industrialized urban centres. Due to social and economic pressures, people from backward villages tend to move towards urban areas in search of jobs as newly established industries and ancillary activities offer more job opportunities to the people migrating to cities. The pace of urbanization provided by the industrial growth is fast but gradually it starts declining when the proportion of urban population to total population of the country becomes very high.

1.3.2 Causes of Urbanization:

The major cause of urbanization is a rapid movement of people towards cities and towns as they view the rural areas as places with hardship, backwardness or primitive lifestyle. Therefore, when large populations move to more developed areas like towns and cities, it leads to the phenomena of urbanization.

We can classify the causes of urbanization as follows:

1) Industrialization:

There is a trend representing a shift from the old agricultural practices to non-agricultural jobs creating a modernized society. In recent past, an increasing number of people have been attracted to move from rural to urban areas for better employment opportunities riding on industrial revolution. People have got the chance to work in various industrial sectors to stir the economic development.

2) Commercialization:

All types of trades contribute immensely to urbanization. In the modern era, the distribution of goods, services and commercial transactions have developed many modern marketing institutions and exchange methods resulting in the rapid growth of towns and cities. It is a general perception in people's mind that commercialization and trade in towns and cities offer better opportunities as well as returns as compared to rural areas.

3) Social benefits:

There are numerous social benefits attributed to life in cities and towns. People get better facilities in urban area like educational, sanitation, housing, health care, recreation and living standards to lead a good social life in general. Due to these reasons, more and more people are prompted to migrate into cities and towns to obtain a wide variety of social benefits and services which are not presently available in rural areas.

4) Employment opportunities:

Ample job opportunities are there in urban areas that certainly attract people living in rural areas to seek better livelihood. Because of this reason people frequently migrate into urban areas in search of well-paying jobs in developmental sectors such as public health, education, transport, sports, recreation and business enterprises. Higher value-added jobs are being generated by such services as well as industries leading to more employment opportunities in urban areas.

5) Modernization and changed lifestyle:

Modernization and drastic change in today's lifestyle of people plays a very important role in the process of urbanization. Now-a-days urban areas are becoming more technology savvy with a highly sophisticated communication, infrastructure, medical facilities, dressing code, enlightenment, liberalization and social amenities availability. Most of the people have the view in their minds that they can lead a better and happy life in cities. As a result, people are migrating towards the cities and the cities are growing rapidly by absorbing more and more people day after day.

6) Rural-urban transformation:

Many localities have become more fruitful and prosperous due to the discovery of minerals, resource exploitation or certain agricultural activities hence cities start emerging. It is a well-known fact that the increase in productivity leads to economic growth and higher value-added employment opportunities. This trend normally contributes to the development of land for use in commercial properties, socio-economic support institutions, transportation and residential buildings.

1.3.3 Effects of Urbanization:

Urbanization can have both positive and negative effects:

Positive Effects:

1) Better living standards:

Urbanization leads to creation of employment opportunities, advancement in technology and infrastructure, improvement in transportation and communication, quality in educational and medical facilities and improved standards of living.

2) Better market potential:

Living in a city generates the market potential of the population that holds much greater variety of shopping opportunities as compared to rural areas. Most of the cities have shopping malls along with different stores that stay open for long hours and cater to entertainment, food, recreation and cultural activities to attract consumers. However, many stores are owned

by national and international chains, making it difficult for small independent businesses to succeed.

3) Better services:

Urban centres are able to provide a variety of services that small rural centres cannot. These might include a public transportation system, water and sewage services, variety of educational and recreational facilities and larger and more specialized healthcare facilities as well.

Negative Effects:

1) Housing problems:

Due to an increasing attraction towards urbanization, population has witnessed a high level of increase during recent years. Due to continuous pressure of population living in urban centres, there is a continued scarcity of houses. This is mainly due to insufficient expansion space for housing and public utilities, poverty, unemployment and also costly building materials that can be afforded only by few rich individuals.

2) Overcrowding:

In big cities, a huge number of people live in a very small space causing consistent congestion in urban areas. Problem of over-population is increasing day by day as a large number of people and immigrants move into cities and towns in search of better life. People from rural or undeveloped areas always have the urge of migrating into city that normally leads to congestion of people within a small area.

3) Unemployment:

The problem of joblessness is the highest in urban areas especially among the educated people. According to one estimation, more than half of unemployed youths around the globe live in metropolitan cities. The increasing relocation of people from rural or developing areas to urban areas is significantly contributing towards urban unemployment. Though the income in urban areas is higher the higher cost of living make the earnings remarkably low.

4) Development of slums:

The cost of living in urban areas is certainly very high. Big cities are not able to handle the influx of residents combined with random and unexpected growth resulting in shanty towns and large suburban slum areas. Mostly these areas represent a spread of unlawful resident settlements with a variety of associated problems.

5) Water scarcity:

Today we have reached a stage where no city in India gets sufficient water to meet the needs of dwellers completely. In many cities people get water from the municipal sources for even less than half an hour that too only on alternate days. In dry summer season, people face acute scarcity in water

supply when they need it the most. Many small towns have no main water supply at all and have to depend on sources like individual tube wells, household open wells or even rivers.

6) Sanitation problems:

Due to rapid increase in population of most of the urban areas, it is common to find there are inadequate sewage facilities. Serious resource crisis in the management of sewage facilities is being faced by municipalities and local governments. As a result, sanitation in these parts becomes poor and sewage flow is rumpled as this is drained into neighbouring streams, rivers, lakes, or seas. As a result communicable diseases such as typhoid, dysentery, plague and diarrhoea spread very fast leading to suffering and even deaths. Overcrowding situation also results in water scarcity as supply falls short of demand quite often.

7) Poor health:

The health of an urban poor is considerably worse off than the urban middle and high income groups and is maybe even worse than the rural population. Congested urban areas affect the proper utilization of public health care services because of their social, economic and living conditions. Slum areas experience poor sanitation and insufficient water supply which make their population susceptible to communicable diseases. Many health issues like allergies, asthma, infertility, food poisoning, cancer and even premature deaths occur mainly due to poor environmental conditions like air pollution in urban areas.

8) Traffic-congestion:

Transportation system faces major challenges when more people move to towns and cities. The growth of suburbs leads to increased reliance on automobiles for commuting to work resulting in frequent traffic problems as well as air pollution mainly due to burning of fossil fuels. More people use more number of vehicles which leads to traffic congestion and vehicular pollution. In urban areas, people drive to work and this creates a severe traffic problem especially during the rush hours. As the cities grow in dimension, people move to market to access their needs which ultimately cause traffic congestion.

9) Trash disposal:

As Indian cities are growing in number and size very fast, the problem of trash disposal is assuming alarming levels. Huge quantities of garbage produced by big cities are posing serious health problems to a common man. Many cities do not have proper arrangements to dispose of the garbage and the existing landfills are already full to their brim. Waste putrefying in the open invites diseases carrying flies and rats and also a poisonous liquid known as leachate which leaks out from below and contaminates ground water. People who live near such garbage and raw sewage fall easy victims to several diseases like dysentery, malaria, plague, jaundice, diarrhoea, typhoid etc.

10) Rising crimes:

Many areas of large cities face certain problems due to lack of resources, overcrowding, poverty, unemployment and lack of social services and educational facilities. This often leads to many social problems including vandalism, crime, violence, and drug abuse. In fact, most of the social crimes like murder, rape, kidnapping, riots, assault, theft, robbery and hijacking are more prominent in urban vicinity. Poverty related crimes are also highest in fast-growing urban areas. All such acts related to urban crime normally disturb the peace and placidity of cities and towns. The problem of urban crime is becoming more complicated these days because criminals often get protection from politicians, bureaucrats and elite classes of the urban society. Some of the criminals even reach high political positions by using their money and muscle power.

1.3.4 Conclusion:

Urbanization is changing the landscape of human settlement with significant implications for living, environmental and developmental conditions in different parts of the world. Sustainable development to acquire urbanization depends mainly on successful management of urban growth especially in low-income and lower-middle-income countries where most rapid urbanization is expected during next few decades. Integrated policies are needed to improve the lives of both urban and rural dwellers to strengthen and develop linkages between urban and rural areas.

Under present scenario, urban growth is closely interlinked to three dimensions of sustainable development, i.e., economic, social and environmental. Appropriate policies are needed to ensure that the benefits of urbanization are shared properly. No one should left behind to use infrastructure and social services.

Majority of all the major programmes of urban development suffer from the resource crunch. Right from the beginning of the planning period, urban development has been low on the development agenda and only 3-4 per cent of the total plan outlay is being allocated to the urban sector.

Strategies should be made focusing on the needs of the urban poor and other vulnerable groups for housing, health care, education, decent jobs and safety. As such not a single country of the world is able to achieve modernization by excluding its cities. There is no doubt that a careful and strategic planning of urbanization can make the life of human beings more comfortable and our world more beautiful.

1.4 AGRICULTURAL SECTOR

Agriculture sector plays an important role in Indian agriculture as Indian Indian economy was earlier relied and known as an agrarian economy. Even today, India's more than 50 percent of population depend upon agriculture for its livelihood. The first agricultural reform took place in the

form of Green Revolution which contributed tremendously in Indian economy. In this unit, we will study the post reform agriculture policy.

At the time of independence, India's agriculture was in a state of backwardness. Productivity per hectare and per worker was extremely low. The techniques employed were age-old and traditional. Because of low productivity, agriculture merely provided subsistence to the farmers. Following causes explain the backward and traditional nature of Indian agriculture.

1. Feudal relations of production:

At the time of Independence, three types of land tenure system were prevalent in the country – zamindari, mahalwari and ryotwari. The zamindari system was based on exploitation since zamindars pressurized peasants in a variety of ways. Ryots in the Ryotwari system also leased out their land to tenants for cultivation and these tenants were also subjected to the exploitation. After Independence, the State governments enacted laws to abolish the intermediaries. However, these were entirely inadequate to have any drastic impact on the agrarian structure.

2. Usurious capital and rural indebtedness:

During the pre-Independence period, moneylenders charge exorbitant rates of interest, manipulate accounts to their advantage and often seize the land of small and marginal farmers on one or the other pretext. Since long the Indian peasant has been living the life of bonded land slave. After Independence, the government has initiated a number of steps to curb their activities. One of the important policy measure being the development of cooperative credit institutions and the increasing participation of banks in providing rural credit. However, because of a number of factors, the small and marginal farmers continue to depend on moneylenders for fulfilling their credit.

3. Labour market dualism:

Because of the excessive pressure of population on land, wages in the agricultural sector tend to be considerably lower as compared to the modern (industrial) sector. This leads to a labour market dualism. This dualism is explained by the fact that large number of workers remain sticking to traditional agriculture despite low wage due to either to ignorance of better opportunities outside agriculture, or to their inability to obtain a modern sector job despite wishing to do so, or to the cost of moving being unacceptably high in relation to the expected wage premium. These cheap labour leads to the adoption of labour-intensive methods of production.

4. Outmoded farming techniques:

Most of the Indian farmers continue to use outmoded farming techniques. The traditional agriculture depends on the biological sources of energy, rains and drug manure. Returns to farmers under this technique of

production are very meagre and the nature of farming is appropriately described as subsistence farming. However, with the advent of the new agricultural strategy in 1966, modern techniques of production and new high-yielding varieties of seeds, agricultural productivity registered substantial increases in these areas. However, since large areas of the country continue to use outmoded agricultural techniques.

1. **Fluctuations and instability in crop output:** The Indian agriculture has rightly been called a gamble in monsoons. 'Even now as much as 60 per cent of gross cropped area continues to depend on rainfall. Therefore, nature continues to play a major role in determining the level of agricultural production.
2. **Diversities in the agricultural sector and the problem of generalization:** India is a large country having substantial agricultural diversities. Different regions exhibit entirely different characteristics so that no one plan can be conceived for all agricultural regions of the country. For e.g., take a case of rainfall. Western Rajasthan and a part of the Thar Desert have a very uncertain rainfall of 4 to 5 inches a year, whereas Cherrapunji in Assam has an annual rainfall of more than 450 inches. While considerable areas face drought conditions in a particular year, some areas encounter the fury of floods. Some areas face the problems of waterlogging and salinity. There are substantial regional inequalities in regard to sub-division and fragmentation of holdings.

The presence of large diversities in the agricultural sector makes it necessary to devise separate agricultural policies for different regions. It is not possible to generalize and formulate a single agricultural policy for the nation as a whole.

1.5 INSTITUTIONAL STRUCTURE- LAND REFORMS IN INDIA

1.5.1 Introduction:

Changes brought about in the agrarian structure through direct intervention are characterized as land reforms. The need for direct intervention in the form of land reforms was required in India because of the exploitative nature of the land tenure system prevailing during the pre-Independence period. There were three types of land tenure systems prevailing in the country:

A) Zamindari system or the Landlord-Tenant system:

In this system the ownership of the land is separated from the managerial and labouring function. Here the landlord acts as an intermediary between the State and the actual tiller, and is responsible for the payment of land revenue to the State.

B) Mahalwari system or Communal system of farming:

Under this system the ownership of land is maintained by a collective body usually the village serves as a unit of management, land is distributed among individual peasants, revenue is collected from them and paid to the government by the body.

C) Ryotwari or the Owner- cultivator system:

Under this system, the bulk of the rights of use and control of land are held by the family which provides the primary labour force on the farm. The Owner –Cultivator is responsible directly to the State and pays land revenue.

1.5.2 Objectives of Land Reforms in India:

In India the land reforms programme has remained one of the major policies for rural development ever since the inception of the planning process. The major objectives are as follows-

- Restructuring of agrarian relations to achieve egalitarian social structure;
- Elimination of exploitation in land relations;
- Improvement of socio-economic conditions of rural poor by widening their land base;
- Actualization of the goal of ‘land to the tiller’
- Increasing agricultural production and productivity;
- Facilitating land base development of rural poor;
- Infusion of a greater measure of equality in local institutions.

1.5.3 Progress of Land reforms in India:

1. Abolition of the Zamindari system:

The Zamindari system manifested absentee landlordism and was largely responsible for the deteriorating conditions of tenant-farmers. Immediately after Independence, every State enacted its own legislation for the abolition of intermediary interests. The legislation brought about 20 million cultivators into direct contact with the State. A considerable area of cultivable wasteland and private forests belonging to the intermediaries has been vested in the State. This has facilitated the distribution of 57.7 lakh hectares to landless agriculturists.

2. Tenancy Reform Legislation:

Tenants can be classified into (i) Occupancy tenants, (ii) sub-tenants, (iii) tenants-at-will. Occupancy tenants enjoy permanent rights like the owner and do not face the fear of eviction as long as they pay rent on time.

Whereas tenants at will and sub-tenants existence depends on the mercy of landlords. Therefore, to protect these people special laws have been enacted and implemented.

A. Regulation of rent:

In the pre-Independence period, the rent charged by Zamindars from the tenants was exorbitant.

Legislations were enacted after 1947 to regulate the limits of rents and reduce the burden on tenants. The Fifth Five Year Plan stated that maximum rent should be fixed at one-fourth or one-fifth of the total produce. Except Punjab, Haryana, Jammu and Kashmir, Tamil Nadu and Andhra Pradesh, this limit generally observed by all the States. However, legislations fixing maximum limit of rent have been violated. Because of the strong socio-economic and political hold of the landowners in the countryside, they have been able to extract considerably more rent from the peasants than the rent fixed by the legislations.

B. Security of tenure:

legislation for security of tenure had three essential aims: (i) ejectments do not take place except in accordance with the provisions of the law; (ii) land may be resumed by an owner, if at all, for personal cultivation only; (iii) in the event of resumption, the tenant is assured of a prescribed minimum area. However the degree of protection to tenants afforded by the law in a particular area depends upon the following factors:

- a) Definition of the term tenant
- b) The circumstances in which landowners are allowed to resume tenanted land for cultivation
- c) Definition of the term personal cultivation
- d) Status of land records.

In all tenancy laws of the country persons cultivating the lands of others on payment of rent are treated as tenants. However, in some States like U.P. and west Bengal, sharecroppers are not regarded as tenants. Thus all laws aiming at protecting tenants do not help them. The right of resumption combined with flaws in the definition of personal cultivation rendered all tenancies insecure. The landlord could eject any tenant on the plea of personal cultivation. Many landlords compelled their tenants to give up the tenancies on their own accord. In this manner they succeeded in circumventing the tenancy laws because no laws can help the tenants if they give up their right voluntarily.

Laws relating to security of tenure can be implemented effectively only if correct and up-to-date land records are available. A person can claim that he is a tenant only if his name appears as such in the land records. However, it has been observed that in many States either no records of tenancy exists or are incomplete and out-of-date.

C. Ownership Rights of tenants:

Some tenants have passed legislations to confer right of ownership on tenants. In some states the laws fall short of expectation. West Bengal, Karnataka and Kerala have achieved more success than the other States. It has been observed that for a long period of time, many tenants did not exercise their rights to purchase ownership of land they cultivated, because either they could not afford to pay the purchase price or many tenants were unwilling to purchase land.

D. Land Rights of Women:

Historically, land reform has excluded women. But in some second generation land reform movement in India, women raised the demand for land to be allotted in their names. Women's ownership of land becomes necessary condition for adequate use of credit and necessary flexibility in management of farm resources.

E. Ceilings on Land Holdings:

By a ceiling on land holdings mean the fixing of the maximum size of holding that an individual cultivator or a household may possess. Beyond this maximum size all land belonging to the landlords is taken over by the government to be redistributed among the landless labourers. The basic objective of such a measure is to reduce wide disparities of income and wealth found in the agrarian structure.

Progress of Ceiling Legislation:

- **The unit of application:** A family is the unit of application of ceilings. The family is defined as consisting of husband, wife and children.
- **The level of ceilings:** For lands which have an assured supply of water and where at least two crops are raised, the ceiling depending upon the productivity of land and other factors, has been fixed at 10 to 18 acres. In places where irrigation is done by private sources, for purposes of fixation of ceiling 1.25 acres is to be the equivalent of one acre of land irrigated by public sources, but this is subject to the condition that in both the cases the upper limit does not exceed 18 acres. In areas where there is a provision for irrigation for the raising of only one crop, the upper limit of the ceiling has been fixed at 27 acres. For the remaining types of land, the upper limit is 54 acres.
- **Performance:** The success of the ceiling laws is judged by the area of surplus land that becomes available for redistribution among landless, marginal and small farmers. The area actually declared surplus is only a small part that should have been available as surplus. The wide disparity between official estimates and State Government's declarations of surplus land has come to light after a comparison between data from the different Agricultural Censuses with the State's estimates.

F. Consolidation of Holdings:

A major cause of low agricultural productivity is the fragmentation and sub-division of holdings, resulting in uneconomic holdings. The average size of a holding can be raised through consolidation of holdings. Legislation to prompt consolidation of holdings has been enacted in different States after Independence where agrarian reforms had already been undertaken. While separate organizations were set up for this work in Punjab, Haryana and U.P. and the entire area of these States was covered by plans of consolidation, the work was done by normal agencies of revenue administration in other States with varying degrees of intensity. It has been recommended in the recent plans that consolidation should be made compulsory in the command of the large irrigation projects.

G. Land Records:

Correct and up-to-date land records are an essential condition for effective implementation of land reforms programme. It is also necessary to ensure smooth flow of credit and agricultural inputs to landholders. States are increasingly paying attention to this vital aspect of the programme. Land records are now being computerized, throughout the country, although the progress is slow.

1.6 TECHNOLOGICAL CHANGES IN AGRICULTURE

1.6.1 Introduction:

The “GDP, productivity and economic development” of India has relied on the “agricultural sectors”. The researcher has reflected the significance and effectiveness of “technological change” to improve the contribution of the “agricultural sector” to the economy. Important “Technological advancement in agriculture” has been discussed to visualise the contribution of acts in the implementation of the “transformation objective” of India. The various types of “technological changes” implemented by the “agricultural sector” have been reflected in the study. Moreover, important acts related to the “agricultural transformation” of India as per the “technological development” has been reflected in the research.

1.6.2 Concept of technological change in agriculture:

The concept of “sustainable farming” has been introduced by applying “technological change in the agricultural field”. The adoption and implementation of techniques to “improve productivity and fertility” of soil have been termed as “technological change in agriculture”. The “survivability of farmers” has been improved after the introduction of “technological change” and the advancement in the “agricultural field”. The “agricultural experts” have used the “technologies to forecast” the fluctuation in the “weather condition, decision making and data-driven strategies” to maximise the productivity of crops. Proper awareness among the farmers related to “technological change” has created scope for appropriate “utilisation of natural resources”.

1.6.3 Technological advancement in agriculture:

The implementation and adoption of “technological advancement” have created opportunities to use “updated and advanced technologies” to improve the “productivity and contribution” of the “agricultural sector” in the Indian economy. The application of “blockchain, remote sensing and GIS technologies” has created scope for the development of “E-agriculture” in the “rural development” of India. Some of the major “advanced technologies” in the “agricultural field” are reflected below:

The application of “Bees and drones technologies” has created advancement in “production and reserve planning” in the agricultural sector.

Improvisation and Implementation of “AI and IoT” have provided the benefit of a time-saving approach during the practising of agricultural activities.

The “traceability and supply chains” in the agricultural field have been appropriately improved after the application of “Blockchain technology”.

The utilisation level of soil in the agricultural sector has been appropriately updated after the application of “Urban and vertical farming” to create “technological change in agriculture”.

1.6.4 Types of Technological changes in agriculture:

There are two basic types of “technological change” in the agricultural field – “human-based and machine-based” technologies. Apart from this “technological change” has provided an emphasis on improving the “quality of seeds” to improve productivity of crops.

The “technological change” has focused on “plant protection and mechanisation” types of agricultural development.

The “fertility of the soil” has been measured by the application of “moisture sensor technology” in the “machine-based” type of change.

The application of “temperature analysis technology” has provided satisfaction to the “human-based technological change” in the agricultural field.

The farmers have put appropriate attention to the “adoption of GPS technology” to identify the “fertilisation capacity” of soil.

1.6.5 Technological development in agriculture:

The emergence of technologies has provided benefits to the cultivation of “primary products” in the “agricultural sector”. The application of “technological advancement” has provided proper knowledge to the farmers about the fluctuating condition of “weather, dynamic situations” in the market related to the price of the particular products. The proper implementation of “technological development” in the “agriculture sectors” of India has provided various remarkable benefits.

The “yielding of crops” has been much steadier after proper improvisation in the “technological development” of agricultural areas.

The proper adoption of technologies has avoided the usage and wastage of inefficient water and fertilisers to improve productivity.

“Sustainability” has been created after proper analysis of “technological development” by providing safety to the farmers.

1.6.6 Technological progress in agriculture:

“Technological change” has created “efficiency in the productivity” and contribution of the “agricultural sector” in the country. As the “population of India” has been immense due to this adoption of “technological progress” in agriculture, the purpose has been very steady. As a consequence, this country has reflected a very “low rate” of adoption and implementation of “AI and IoT” for farming. However, the “substitute sector” of agriculture in other countries has reflected a “high rate of adoption” of “machine-based” agricultural techniques.

1.6.7 Revolution:

- 1974 single active ingredient roundup herbicide was released
- 1975 rotary combines are introduced
- 1982 first genetically modified plant cell
- 1994 satellite technology advances farming
- 1996 the first GMO crops had become commercially available to the people
- 2000s software and mobile devices that were created helped farmers get better harvests
- 2015 data revolutionizes farming potential
- 2020 AI, helped revolutionized machine learning and automation in agriculture.

1.6.8 Conclusion:

The progress and development of the “agricultural sector” have depended on the approach of adoption in the dynamism of the “agricultural sectors” of the country. As concluded that advancement in the adoption of effective technologies has improved the revenue of agricultural sectors in the country. The introduction of “bees and droned technologies” has appropriately analysed and forecast the “weather condition” to improve effectiveness in the production of crops. The application of “advanced agricultural technologies” has improved the accessibility and usage of “farming software and online data collection” about the relevant outcomes of adoption of the particular technology.

1.7 QUESTIONS

- Q1. Describe several poverty alleviation programmes.
- Q2. Discuss the limitations of poverty alleviation programmes.
- Q3. What are the policy measures to reduce income inequality?
- Q4. Explain the nature of unemployment in India.
- Q5. Discuss the several causes of unemployment in India.
- Q6. What are the causes of Urbanization?
- Q7. What are the effects of urbanization?
- Q8. What are the causes behind the backward and traditional of Indian agriculture?
- Q9. Describe the progress of Land reforms in India.
- Q10. Write a note on 'Technological Changes in Agriculture'.

AGRICULTURAL SECTOR - II

Unit Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Agricultural pricing
- 2.3 Agricultural finance
- 2.4 Agricultural marketing
- 2.5 National agricultural policy
- 2.6 Questions

2.0 OBJECTIVES

- To study the meaning, sources, features, objectives and suggestions for rationalism of agricultural pricing.
- To study the term agricultural finance and agricultural marketing.
- To know about the national agricultural policy.

2.1 INTRODUCTION

In this unit, we will discuss the role of agricultural finance in Indian agriculture sector in post reform period. A developed agricultural marketing plays a crucial role in the development of agricultural sector in India.

2.2 AGRICULTURAL PRICING

2.2.1 Introduction:

Movement of price is a common feature. But rapid and violent movement or fluctuations in the prices of agricultural commodities have serious consequences on the economy of the country. As the sudden steep fall in the price of a particular crop, result in huge loss to the farmers producing that crop as their income declines. This will force the farmers not to cultivate the crop next year leading to a serious shortage in the supply of that food item and that may force the government to import that food crop from foreign countries. Price policy plays a pioneer role in the economic development of a country. It is an important instrument for providing incentives to farmer for motivating them to go in for production-oriented investment and technology. In a developing country like India where majority of the population is engaged in agricultural sectors, prices affect both income and consumption of the cultivators.

2.2.2 Objectives:

1. “To protect or insure the producer through guaranteed minimum support price , which as a stabilization measure, reduces the variability in product prices and therefore price risk of the farmers. The impact of the risk reduction is expected to induce farmers to undertake larger investments.
2. To induce farmers to part with a larger proportion of foodgrains production as a marketed surplus.
3. To induce the desired outputs of different crops according to growth targets.
4. To revenue maximization seeks to maximize revenue from the sale of products without regard to profit.
5. To quality of leadership used to signal product quality to the consumer by placing prices on products that convey their quality.

2.2.3 Features:

1. Setting up Institutions:

The Government of India has set up some institutions for the implementation of agricultural price policy in the country. Accordingly the agricultural price commission was set up in 1965 which announced the minimum support prices and procurement prices for the agricultural products.

2. Minimum Support price:

The government fixes the minimum support prices of agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc. regularly for safeguarding the interest of farmers. The FCI also make their purchase of food grains at the procurement prices so as to maintain a rational price of food grains in the interest of farmers.

3. Protecting the Consumers:

In order to safeguard the interest of the consumers, the agricultural price policy has made provision for buffer stock of food grains for its distribution among the consumers through public distribution systems.

4. Fixation of Maximum Price:

In order to have a control over the price of the essential commodities the government usually determines the maximum price of agricultural products so as to protect the general people from exorbitant rise in prices.

2.2.4 Suggestions for Rationalisation of Agricultural Pricing:

1. Establishment of Some More Agencies:

Apart from Food Corporation of India, some more agencies should be set up for ensuring rational prices of other agricultural products. In the

meantime the government has already set up Cotton Corporation and Jute Corporation, which needs to be further, strengthened.

2. Extension of the Price Policy:

The agricultural price policy should be extended to cover more commodities over and above the 15 commodities covered at present. The commodities like pulses, potato, onion and other important vegetables and fruits may also be covered.

3. Rationalisation of Price Fixation:

The price of agricultural commodities should be fixed in the most rational manner so that it could cover the entire cost of production. While fixing the price, the increasing cost of agricultural inputs should be taken into consideration.

4. Protection of Consumers:

The agricultural price should be so determine that it can also protect the interest of the general consumer.

5. Modernisation:

The agricultural price policy should be framed in such a manner so that it can induced the farmers to go for modernization of their agricultural practice.

2.2.5 Conclusion:

The agricultural price policy has relied too heavily on and price incentives in the form of assured crop prices for achieving increase in production. The non-price factors such as efficient technology, financial inputs, land reforms and improved human resources are all very significant in expanding the volume of aggregate output and productivity. The scarce state's economic resources should be used in improving social and economic infrastructure in the rural area rather than providing subsidized agriculture output to the public at large. The price policy cannot produce desirable effects of improving agricultural productivity if the agricultural infrastructure is weak. It is desirable that the agricultural prices are announced for few commodities as it is commercially unsustainable for government to procure foodgrains at higher price and allow off take at subsidized price.

2.3 AGRICULTURAL FINANCE

2.3.1 Meaning:

Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business, which is the core sector of India. The financial aspects include money matters relating to production of agricultural products and their disposal.

2.3.2 Sources of agricultural finance:

Sources of agricultural finance in India can be broadly divided in two categories:

- A. Institutional sources
- B. Non-institutional sources.

A. Institutional sources:

It refers to credit provided by organised financial institutions like, commercial banks, Land development bank, cooperative credit societies, RRBs, Institutional credit help the farmers to raise his productivity and maximise his income. Relatively rate of interest is low and different for different groups of farmers for different purposes.

1. Co-operative Banks:

Co-operative Banks play an important role in agricultural credit. These Banks provide short term & medium-term loans.

- Primary Agricultural Co-operative Banks at village levels provide short term & medium term loans to farmers.
- Central co-operative Banks at district level – to provide funds to PACs & supervise there working.
- State cooperative Banks at village level – finance CBs & to monitor their work.

2. Commercial banks:

In Indian agriculture sector commercial banks provide fund to productive agriculture and allied activities. After banks nationalisation the commercial banks have play a major role in providing rural finance. This has enable farmer to purchase agricultural equipments and inputs with adopt modern agricultural technology.

3. Regional Rural Banks (RRBs):

RRBs set up under the regional rural bank Act, 1976 to extending credit to weaker section of the rural people i.e. small and marginal farmers, landless labourers, artisans and other rural self employees. Regional Rural Banks provide cheaper and adequate credit to farmers. RRBs in Indian rural area cover 11 percent of total institutional credit to agriculture. Each RRB is sponsored by a commercial bank.

4. National Bank for Agriculture and Rural Development (NABARD):

NABARD is now apex bank for rural and agribusiness credit. It took over from Reserve Bank of India all the functions that the latter performed in the field of rural finance.

- NABARD was established on July 12, 1982, by the RBI with an objective to improve the credit flow concentrated in the urban areas to the rural and semi-urban areas of India.
- Its major functions are monitoring, policy making, planning the activities and credit system of the rural banks.
- NABARD also helps rural banks in their development and supervises their activities on a timely basis.

B. Non institutional Sources:

Non- institutional sources refers to unorganised sources of credit. i.e. money lenders, traders and agents, relatives and friends.

1. Money lenders:

The main financial source in non-institutional sources is the money lenders. The small and marginal farmers as well as the farm labour depend upon money lenders for financial needs. Due to establishment

2. Traders or agents:

They provide advance to farmers against agricultural products. Normally the loans are adjusted against the supply of crops. This is true in case of agriculture.

3. Relatives and friends:

They provide finance to farmers for their short term needs. The funds may be provided with or without the interest.

4. Landlords:

They provide funds to labours or to small & marginal farmers for their short term needs. Like money lenders they do charge high interest rate. Over the years the share of agricultural credit had also increased.

But over the years, the share of institutional finance in agricultural credit is increasing and non-institutional sources are declining. i.e. in 1951-52, the share of non-institutional source was 93 per cent, it came down to 37 per cent in 2011-12.

2.3.3 Advantages of institutional sources:

1. Supply of inputs:

The co-operative banks & other banks provide inputs like seeds, fertilizers etc. this helps the farmers to obtain quality inputs at right prices.

2. Provision of credit & Low Rate:

The institutional sources provide short term & long term finance to the farmers for agricultural activities. These sources provide finance for

agricultural activities and provide finance at the low rate of interest about 9 per annum.

2.3.4 Disadvantages of Institutional sources:

1. Many formalities:

The institutional sources are many formalities to obtain loans.

2. Political interference:

In institutional sources there is a lot of political interference for sanctioning of loans, and therefore, the banks suffer huge bad debts on account of non-repayment of politically influenced loans.

2.3.5 Advantages of Non institutional sources:

1. Flexibility in Offering loans:

The money lenders are flexible in their approach of providing loans without security as well.

2. Good Relation:

The money lenders do maintain good relation with local Farmers & it becomes very easy to obtain loans.

2.3.6 Disadvantages of Non Institutional sources:

1. Manipulation of record:

They manipulate the loan accounts taking the advantages of innocence & illiteracy of farmers.

2. High interest rates:

The money lenders charge very interest rates between 15% to 24%.

2.3.7 Importance of Agricultural finance:

Agricultural Finance is playing a catalytic role in strengthening the farm productivity. Farmers need a finance for various purpose those can be examine from two different basis.

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

Some of major importance of agriculture finance are as Follows:

1. Purchase of equipment and inputs:

The farmer needs finance for purchase of new inputs for seeds, fertilizers, pesticides, irrigation, water etc.

2. Improvement on land:

To making some important changes or improvements in agriculture i.e. long term and short term.

3. Management of risk:

Credit enables the farmers to better manage the risks of uncertainties of price, weather etc. They can borrow money during the sowing period & pay back the loans in the post-harvest period.

4. Meeting farmers consumption needs:

Indian farmers require credit not only for production purposes but also for consumption purposes. In the case of crop failure, small farmers need credit which they spend on consumption requirements.

5. Economic Lags in Agriculture:

In the agricultural production process, there is a long interval between the reward and effort specially during the period when costs are incurred. During this period, demand for agricultural produce may change upsetting the financial adjustments of the farmers. This becomes an excuse for credit supplying agencies to refuse credit for farm operations.

2.3.8 Problems Regarding Agricultural Credit in India:

1. Insufficiency:

The volume of rural credit in India is still insufficient as compared to its growing requirement arising out of the increase in prices of agricultural inputs.

2. Organisational problem:

The amount of loan sanctioned to the farmers by the bank is also very much inadequate for meeting their different aspects of agricultural operations. This has contributed to a lack of uniformity in cooperative banks functioning.

3. Lesser attention of poor farmers:

Rural credit agencies and its schemes have failed to meet the needs of the small and marginal farmers. Thus, lesser attention has been given on the credit needs of the needy farmers whereas the comparatively well-to-do farmers are getting more attention from the credit agencies for their better creditworthiness.

4. Inadequate institutional coverage:

In India, the institutional credit arrangement continues to be inadequate as compared to its growing needs. The development of co-operative credit institutions like Primary agricultural credit societies, land development

banks, commercial banks and regional rural banks, have failed to cover the entire rural farmers of the country.

5. Problem of recovery:

Institutional agricultural-credit is subjected to red-tapism. Credit institutions are still adopting cumbersome rules and formalities for advancing loan to farmers which ultimately force the farmers to depend more on costly non-institutional sources of credit.

2.3.9 Conclusion:

Finance plays a vital role in agriculture. In India, the majority of farmers suffer from financial constraints and as a result productivity is adversely affected. Besides, productivity, the economic condition of the farmers is also affected thereby giving rise to a never-ending cycle of poverty, debt and low productivity. In this backdrop, proper financing facilities combined with technological innovations will help to improve the agricultural sector. Institutional investment bodies and their procedures need to be simplified for better understanding by the farmers and non-institutional lenders must be strictly monitored so that they are not able to harm the poor farmers and bind them in a debt trap.

2.4 AGRICULTURAL MARKETING

2.4.1 Introduction:

Initially India remained a food deficit country for almost two decades since independence but with the Green Revolution India became not only self-sufficient in food grain but accumulated a huge food surplus. Marketing of produce is the most profitable activity of Indian farmer. There are various ways by which farmer dispose of surplus produce. About the marketing of surplus farmers face a number of problems after independence Indian government adopted a number of measures to improve the system of agriculture marketing. It is most important to discuss Indian agriculture marketing with following points –

1) Agriculture market Development:

Efforts to develop agricultural marketing have, particularly in developing countries, tended to concentrate on a number of areas, specifically infrastructure development; information provision; training of farmers and traders in marketing and post-harvest issues; and support to the development of an appropriate policy environment. In the past, efforts were made to develop government-run marketing bodies but these have tended to become less prominent over the years.

2) Agricultural Market infrastructure:

Efficient marketing infrastructure such as wholesale, retail and assembly markets and storage facilities is essential for cost-effective marketing, to minimize post-harvest losses and to reduce health risks. Markets play an important role in rural development, income generation, food security, and

developing rural-market linkages. Experience shows that planners need to be aware of how to design markets that meet a community's social and economic needs and how to choose a suitable site for a new market. In many cases sites are chosen that are inappropriate and result in under-use or even no use of the infrastructure constructed. It is also not sufficient just to build a market: attention needs to be paid to how that market will be managed, operated and maintained.

3) Market information:

Efficient market information can be shown to have positive benefits for farmers and traders. Up-to-date information on prices and other market factors enables farmers to negotiate with traders and also facilitates spatial distribution of products from rural areas to towns and between markets. Most governments in developing countries have tried to provide market information services to farmers, but these have tended to experience problems of sustainability. Modern communications technologies open up the possibility for market information services to improve information delivery through SMS on cell phones and the rapid growth of FM radio stations in many developing countries offers the possibility of more localised information services.

4) Marketing training:

Farmers frequently consider marketing as being their major problem. However, while they are able to identify such problems as poor prices, lack of transport and high post-harvest losses, they are often poorly equipped to identify potential solutions. Successful marketing requires learning new skills, new techniques and new ways of obtaining information. Extension officers working with ministries of agriculture or NGOs are often well-trained in agricultural production techniques but usually lack knowledge of marketing or post-harvest handling.

5) Enabling environments:

Agricultural marketing needs to be conducted within a supportive policy, legal, institutional, macro-economic, infrastructural and bureaucratic environment. Traders and others are generally reluctant to make investments in an uncertain policy climate, such as those that restrict imports and exports or internal produce movement. Poor roads increase the cost of doing business, reduce payments to farmers and increase prices to consumers. Finally, corruption can increase the transaction costs faced by those in the marketing chain.

6) Recent developments:

On 28th July, 2000, the NDA Government made public a National Agriculture Policy envisaging over 4 per cent annual growth through efficient use of resources and technology and increased private investment while emphasizing on price protection to farmers in the WTO regime. New marketing linkages between agribusiness, large retailers and farmers are gradually being developed, e.g. through contract farming, group

marketing and other forms of collective action. High priority has also been given on the development of animal husbandry, dairy, poultry and aquaculture so as to diversify agriculture, increasing animal protein availability in food basket and also for generating exportable surpluses. More attention is now being paid to the development of regional markets and to structured trading systems that should facilitate such developments. The growth of supermarkets, particularly in Latin America and East and South East Asia, is having a significant impact on marketing channels for horticultural, dairy and livestock products.

2.4.2 Conclusion:

Indian agriculture sector after planning not only subsistence farming it is accepted a marketing approach. With facing much defects government of Indian adopt a measures to improve the system of agriculture marketing i.e. establishment of regulated markets, provision of grading , construction of warehouses, smart weighting with measurement, provision of standardisation of produce, daily broadcasting of market prices of agricultural product by sms, internet.

2.5 NATIONAL AGRICULTURAL POLICY

2.5.1 Introduction:

National agricultural policy declared by the Government on July 28, 2000 for raising agricultural production and productivity with raising the level of income of farmers. It is useful to rising standard of living of farmers within a definite time frame. This policy is formulated for all round and comprehensive development of the agricultural sector.

2.5.2 Objectives:

The following are some of the important objectives of India's national agricultural policy:

1. Attaining a growth rate above 4.0 per cent per annum in the agricultural sector;
2. Attaining a growth which is based on efficient use of resources and also makes provision for conservation of our soil, water and biodiversity;
3. Attainment of growth with equity, i.e., attaining a growth whose impact would be widespread across regions and different classes of farmers;
4. Attaining a growth that is demand-driven and cater to the need of domestic markets and ensuring maximization of benefit from exports of agricultural products in the face of challenges from economic liberalization and globalization;
5. Attaining a growth that is sustainable technologically, environmentally and economically.

2.5.3 The main features of the National Agricultural Policy:

The main features of the National Agricultural Policy are:

1. Privatisation of agriculture and price protection of farmers in the post QR (Quantitative Restrictions) regime would be part of the government's strategy to synergise agricultural growth.
2. Private sector participation would be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow, assured markets for crop production especially of oilseeds, cotton and horticultural crops.
3. The policy envisages evolving a 'National Livestock Breeding Strategy' to meet the requirement of milk, meat, egg and livestock products and to enhance the role of draught animals as a source of energy for farming operations.
4. High priority would be accorded to evolve new location-specific and economically viable improved varieties of farm and horticulture crops, livestock species and aquaculture.
5. The restrictions on the movement of agricultural commodities throughout the country would be progressively dismantled. The structure of taxes on food grains and other commercial crops would be reviewed.
6. The excise duty on materials such as farm machinery and implements and fertilizers used as inputs in agricultural production, post-harvest stage and processing would be reviewed.
7. Rural electrification would be given high priority as a prime mover for agricultural development.
8. The use of new and renewable sources of energy for irrigation and other agricultural purposes would be encouraged.
9. Progressive institutionalisation of rural and farm credit would be continued for providing timely and adequate credit to farmers.
10. Endeavour would be made to provide a package insurance policy for the farmers, right from sowing of crops to post-harvest operations including market fluctuations in the prices of agricultural produce.

2.5.4 Implications of the New Agricultural Policy:

The New Agricultural Policy (2000) has been considered as a balanced one considering the present requirement. The new policy has adopted a coordinated approach for bringing Green Revolution, White Revolution (related to milk and dairy products) and Blue Revolution (related to aqua/fish culture).

Therefore, the policy has been termed as a policy of promising Rainbow Revolution.

1. Considering the growing requirement of food for attaining food self-sufficiency and to attain food security for the millions of people of the country the policy has faced a great challenge. To fulfil this requirement attainment of 4 per cent growth rate in agricultural output is a must. But the New Policy has not spelt out any such target in quantitative terms.
2. The New Policy has also failed to identify those backward states which are still lagging in utilizing their agricultural potential. Therefore, a balanced approach should be undertaken to remedy these loopholes.
3. The New Policy argued in favour of encouraging private investment in agriculture which would help the big farmers, but the large numbers of small farmers are not going to be supported by such private investment which needs to be promoted by public investment.
4. The New Policy argued in favour of private sector participation through contract farming by land leasing arrangements. But introduction of such a step in a labour- surplus economy is highly questionable.
5. Lastly, there is a lack of co-ordination between the Central and State Governments in implementing various promotional steps for the development of agricultural sector. Thus, the centre and the states should co-ordinate in implementing various provisions of new policy and should develop a monitoring mechanism to evaluate the implementation of the policy in a most ratio.

In order to fulfil this strategy, the following measures are suggested in the new policy:

1. To use unutilized barren wastelands for agriculture and afforestation.
2. To contain biotic pressures on land and to control indiscriminate division of agricultural lands for non-agricultural uses.
3. To enhance cropping intensity through multi-cropping and intercropping.
4. To emphasize rational use of ground and surface water so that overexploitation of ground water resources can be checked. To adopt better technologies such as drip and sprinkler irrigation system so as to arrange more economic and efficient use of water.
5. To adopt vigorously a long-term perspective plan for sustainable rain-fed agriculture by adopting watershed approach and water harvesting

method for development of two-thirds of cropped area of the country which is dependent on rainfall.

6. Involvement of farmers and landless labourers will be sought in the development of pastures/ forestry programmes on huge public wasteland by providing adequate financial incentives and entitlement of trees and pastures.

2.6 QUESTIONS

- Q1. Explain the objectives and features of agricultural pricing.
- Q2. What are the suggestions for rationalism of agricultural pricing.
- Q3. Discuss the advantages and disadvantages of institutional and non-institutional sources.
- Q4. What are the sources of agricultural finance?
- Q5. Write the importance of agricultural finance.
- Q6. Discuss the problems regarding agricultural credit in India.
- Q7. Write a note on agricultural pricing.
- Q8. Write a note on agricultural finance.
- Q9. Write a note agricultural marketing.
- Q10. Write a note on national agricultural policy.

MODULE - 2

3

INDUSTRIAL SECTOR - I

Unit Structure

3.0 Objectives

3.1 Introduction

3.2 Growth and pattern of industrialization

3.3 Industrial Policy of 1991

3.4 Public sector enterprises

3.5 Questions

3.0 OBJECTIVES

- To study the growth and pattern of industrialization.
- To know more about the industrial policy, 1991.
- To study the role and problems of public sector enterprises.

3.1 INTRODUCTION

Industrialization offers lesser scope for both internal and external economies as compared to other sectors, especially agriculture. Further, as industrialization grows, the economies of scale and inter-industrial linkages get more noticeable. As the sector continues high situations of investment, it leads to a speedy increase in the rate of income and industrial employment. This, ultimately, contributes to the achievement of a quality sustaining economy. Industrialization is integral to substantial and sustained profitable development as it's both a consequence of advanced inflows and a means of advanced productivity.

3.2 GROWTH AND PATTERN OF INDUSTRIALIZATION

3.2.1 Meaning of Industrialization:

Industrialisation means the process of social and economic change taking place in the society and transforming a human group of agricultural backgrounds into an industrial society. As we know, early humans primarily depended on agriculture sector for their growth. However, with rapid changes and advancements, they started to establish companies and manufacturing units that gave rise to Industrialisation.

Industrialisation is not a sudden change, but it is a gradual change that happens over a period. Industrialisation is defined as the process or period

of social and economic growth and transformation of an agricultural society to an industrial society.

In the simple words, Industrialisation is the process of changing an agriculture-based economy to an economy based on manufacturing goods. In the process, many changes take place that helps the economy of the society grow and prosper.

In the industrialisation, many changes are involved, including mechanised production instead of individual labour. In the process, machines replace labour for reducing costs and saving time. It also involves technological innovations to solve the issues arising in the production process.

3.2.2 Definition of Industrialisation:

“Industrialisation is the economic and social transformation of an agricultural society into a fully advanced Industrial society”. It includes the use of machinery, advanced technology, and assembly line for the mass production of goods and services. Industrialisation helps grow the economy and society at large by saving time and money.

3.2.3 History of Industrialisation:

Industrialisation or the Industrial Revolution started in the mid-18th century in many European countries. Following the industrial revolution in Europe in the 18th century, North America was the second continent where the Industrial Revolution took place in the 19th century.

Many countries in Europe became a part of the revolution, including Great Britain, Belgium, Switzerland, Germany, and France. The production in the countries of revolution multiplied, and as a result, the rural work was transformed into industrial labour. Many technical and innovative changes were brought about in the work environment to enhance the revolution.

Gradually different countries of the world adopted industrialisation and transformed their economy into industrial economies. The industrial revolution in East Asia countries took place between the mid-19th century to 20th century, when countries like Brazil, Russia, India, China, and South Africa were in the process of industrialisation.

3.2.4 Growth and Pattern of Industrialisation in India:

In India industrialisation or industrial revolution started in the mid-19th century. It is divided into four significant stages. These four stages of Industrialisation represent growth pattern. These four stages or phases we will see in detail as below.

1) First Phase or Premature Stage:

India's first industrialisation phase comprises the first three plans that help build a strong industrial base. The first phase started in 1951 and continued till 1965.

In the premature stage, investments were made in heavy industries, including iron, steel, and machine-building sectors. During the premature stage, the industrial growth rate fluctuated between 5.0 % to 9.0 %.

2) Second Phase or Deceleration Stage:

The second phase of the Industrial Revolution in India started in 1965 and lasted till 1980. During this period, the production growth rate declined from 9 % to 4.1 %.

The stage was a period of struggle for the Indian industries. There was a steep decline in the percentage of industrial output, and during 1979-80, the industrial growth rate was negative.

3) Third Phase or Recovery Stage:

The third stage comprised the sixth and seventh plans and was considered a period of recovery of the Industrial growth rate. The third phase started in early 1981 and continued till 1991.

During the first five years, i.e. from 1981-85, the industrial growth rate bounced up to 7 %. Furthermore, it grew to 8.6 % from 1985-90. The growth rate was rapid in industries like petrochemicals and chemicals, 11.19 %.

However, heavy industries such as iron and steel showed a growth rate of 5 %. It clearly shows the shift of industrial development from heavy to chemical industries.

4) Fourth Phase or Retrogression Stage:

The fourth and final phase of the Industrial Revolution started in 1991. In this stage, the industries saw a rapid deterioration followed by an upturn and downturn in the growth rate.

The industrial growth rate declined due to the decline in the export of goods and the government's monetary policy.

3.2.5 Rural Industrialisation:

Rural Industrialisation is the process of encouraging and establishing large and small scale production units in the rural areas. It is the planned shifting or relocation of manufacturing plants to rural areas. Rural industrialisation aims to transform and uplift people living in the rural areas completely.

3.3 INDUSTRIAL POLICY OF 1991

3.3.1 Major Objects of India's New Industrial Policy 1991:

The new government by Shri Narasimha Rao, which took office in June 1991, blazoned a package of liberalisation measures under its Industrial Policy on July 24, 1991.

3.3.2 Objectives:

1. Liberalising the assiduity from the regulatory bias similar as licenses and controls.
2. Enhancing support to the small-scale sector.
3. Adding competitiveness of diligence for the benefit of the common man.
4. Ensuring handling of public enterprises on business lines and therefore cutting their losses.
5. Furnishing further impulses for industrialisation of the backward areas, and
6. Ensuring rapid-fire artificial development in a competitive terrain.

The New Industrial Policy 1991 has made veritably significant changes in four main areas viz., industrial licensing part of public sector, foreign investment and technology and the MRTP act.

3.3.3 The Major Provisions of New Industrial Policy, 1991:

The major provisions of this policy are discussed below.

1) Invalidation of Industrial Licensing:

The new industrial policy abolishes the system of industrial licensing for utmost of the diligence under this policy no licenses are needed for setting up new artificial units or for substantial expansion in the capacity of the being units, except for a short list of industries relating to country's security and strategic enterprises, dangerous diligence and industries causing environmental degradation. To begin with, 18 industries were placed in this list of diligence that bear licenses. Through later correction to the policy, this list was reduced. It now covers only five diligence relating to health security and strategic enterprises that bear mandatory licensing. Therefore, the assiduity has been nearly fully made free of the licensing provisions and the constraints attached with it.

2) De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid-fire industrial development, largely failed to do the job assigned to it. Utmost public sector enterprises came symbols of inefficiency and imposed heavy burden on the government through their perpetual losses. Since a large field of assiduity was reserved simply for public sector where it remained a virtual non-performer (except for a many unit like the ONGC). The artificial development was therefore the biggest casualty. The new artificial policy seeks to limit the part of public sector and encourage private sector's participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector diligence.

3) Reduced reservation for public sector:

Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and therefore limited the compass of public sector to only 8 industries. Latterly, a many further industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are (i) defence product, (ii) bits energy, (iii) railroads and (iv) minerals used in generation of bits energy. Still, if need be indeed some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the public interest so demands.

4) Revive loss making enterprise:

Those public enterprises which are chronically sick and making patient losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high position institutions created for this purpose. The BIFR or other similar institutions will formulate schemes for recuperation and reanimation of similar industrial units.

5) Disinvestment of public sector industrial units:

As a measure to raise large resources and introduce wider private participation in public sector units, the government would vend a part of its shareholding of these industries to Collective Finances, fiscal institutions, general public and workers. For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment. On the base of recommendations of the 'Disinvestment Commission' the government sells the shares of public enterprise.

6) Greater autonomy to public enterprises:

The New Industrial Policy seeks to give lesser autonomy to the public enterprises in their day-to-day working. The trust would be on performance enhancement of public enterprises through a blend of lesser autonomy and further responsibility.

7) Liberalised Policy Towards Foreign Capital and Technology:

The inflow of foreign capital and import of technology was tightly regulated under the before Industrial policy. Each offer of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept veritably low so that maturity of power control remains with Indians. But such a policy kept the flux of foreign capital veritably small and industrial development suffered for want of capital coffers and technology. The July, 1991 Industrial policy made several concessions to encourage inflow of foreign capital and technology into India, which are follows.

8) Relaxation in Upper Limit of Foreign Investment:

In some industries the rate of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalised and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related outfit, systems for electricity generation, transmission and distribution, ports, harboured.

9) Changes in the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had means of Rs. 100 crores or further, according to the 1985 correction to the Act) were needed to gain concurrence from the MRTP Commission for setting up any new artificial unit, because similar companies (called MRTP companies) were allowed to invest only in some named diligence. The Industrial Policy, 1991 has put these diligence on par with others by abolishing those provisions of the MRTP Act. Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are illegal and restrict competition to the detriment of consumer s interests. No previous blessing of or concurrence from the MRTP Commission is now needed for setting up industrial units by the large business houses.

10) Greater Support to Small-Scale Industries:

The New Industrial Policy seeks to give lesser government support to the small-scale industries so that they may grow rapidly under environment of profitable effectiveness and technological up gradation. A package of measures announced in this environment provides for setting up of an agency to insure that credit requirements of these industries are completely met. It also allows for equity participation by the large industries in the small-scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to give small scale sector an access to the capital request and to encourage their upgradation and modernisation the government would also encourage the product of corridor and factors needed by the public sector industries in the small-scale sector.

3.4 PUBLIC SECTOR ENTERPRISES

3.4.1 Role of public sector in India:

Public sector occupied a good place for achieving methodical and planned development in a developing country like India. In a country like India suffering from multi-dimensional problems, private sector isn't in a position to make necessary trouble for the development of its various sectors simultaneously. Therefore, in order to give the necessary support to the development strategy of the country, the public sector offers the necessary minimum drive for bringing the economy to a path of self-sustained growth. Therefore, it's now well recognised that public sector plays a positive part in the industrial development of the country by laying

down a sound foundation of industrial structure in the unique stage of its development.

Following are some of the important relative places of the public sector in the profitable development of a country like India:

- 1) Promoting profitable development at a rapid-fire pace by filling gaps in the industrial structure;
- 2) Promoting acceptable infrastructural installations for the growth of the economy;
- 3) Undertaking profitable exertion in those strategically significant development areas, where private sector may distort the spirit of public ideal;
- 4) Checking monopolies and attention of power in the hands of many;
- 5) Promoting balanced regional development and diversifying natural resources and other infrastructural facilities in those less advanced areas of the country;
- 6) Reducing the difference in the distribution of income and wealth by bridging the gap between the rich and the poor;
- 7) Creating and enhancing sufficient employment openings in different sectors by making heavy investments;
- 8) Attaining self- reliance in different technologies as per demand.
- 9) Barring dependence on foreign aid and foreign technology.
- 10) Exercising social control and regulation through various public finance institutions.
- 11) Reducing the pressure of balance of payments by promoting import and reducing meanings.

3.4.2 Problems of the Public Sector Enterprises in India:

1) Endowment Constraints:

Some of the public sector enterprises, particularly some of the loss incurring enterprises are suffering from talent constraints as the selection of sites of these enterprises were done on political considerations rather than on rational considerations.

2) Under-Utilisation of Capacity:

Under utilisation of the product capacities are one of the common constraints from which nearly all public sector enterprises are suffering. In 1986-87, out of the 175 public sector units 90 units had been suitable to use over 75 per cent of its capacities, 56 units achieved utilisation of capacities between 50 and 75 per cent and the rest 29 units could ever managed to use under 50 per cent of its capacities. This had been

substantially due to the reasons similar as long family way ages, ambitious scales of planning grounded on shy profitable (particularly request) data, shy provocation, lack of enterprise and age of the product mix.

3) Absence of Rational Pricing:

Public sector enterprises in India are suffering from absent of rational pricing as the prices of their products are determined by such a price policy which has three considerations like

- (a) Profit as the basis of price obsession,
- (b) No- profit basis of public utility approach, and
- (c) Import- equality price.

Therefore, formal and informal regulations of prices by the Government in the interest of the economy and consumers, in general, and of price stabilization are also responsible for huge losses incurred by some of these enterprises of our country. Also, subsidization of the prices of some of the produce by these public enterprises had added a new dimension to the problems.

4) Technological Gap:

Some of the public sector enterprises in India are suffering from technological gap as these enterprises couldn't borrow over-to- date technologies in their product system leading to high unit cost and lower yield. Enterprises like I.I.S.C.O., E.C.L. etc. are suffering from this constraint.

5) Government chain:

Important government interference in the day to day conditioning of the public sector enterprises has reduced the degree of autonomy of the super intendancies in respect of employment, pricing, purchase etc.

6) Heavy Social Cost:

Public sector enterprises are suffering from heavy social costs similar as the expenses on townships and allied provision of amenities to its workers.

7) Functional and Directorial Crunches:

The public sector enterprises in India are also suffering from functional and directorial inadequacies and inefficiencies leading to huge extinctions and leakages of finances in their day-to- day conditioning.

8) Evil Competition and Sabotage:

Between the public sector and private sector units within the same industry occasionally there exists evil competition which leads to sabotaging of public sector units at a large scale.

9) Marketing Constraint:

Some public sector units are indeed faced with marketing constraints where due to repetitious type of product blend they couldn't collect a good request for some of their products where the request is formerly captured by some big private artificial houses leading to a constant increase in supplies.

10) Supernumerary Manpower:

In some of the public sector units there's the problem of fat force which is creating drainage of coffers unnecessarily leading to increase in the unit cost of product. Political considerations have also contributed towards overstaffing of unskilled workers in these units.

11) External Factors:

Workers engaged in the public sector enterprises are lacking sincerity and devotion to their job leading to destruction of working hours which eventually affects productive capacities of these enterprises. Also, external factors like too important trade unionism, union battles and labour troubles are also breaking the smooth functioning of the product system of these public sector enterprises in the country.

Other problems similar as allocation of resources, detainments in filling up top- position posts, tight regulations and procedures for investment and restrictions on functional autonomy of the enterprises, e.g., in respect of labour and pay check policy etc. have been creating serious constraints on the functional effectiveness of public sector enterprises of the country.

3.5 QUESTIONS

- Q1. Explain the growth and pattern of industrialization in India.
- Q2. Discuss the major provisions of New Industrial Policy, 1991.
- Q3. Explain the role of public sector enterprises in India.
- Q4. Explain the problems of public sector enterprises in India.

INDUSTRIAL SECTOR - II

Unit Structure

4.0 Objectives

4.1 Disinvestment policy

4.2 Small scale sector: problems and prospects

4.3 Questions

4.0 OBJECTIVES

- To know about the concept of disinvestment and disinvestment policy.
- To know the disadvantages of disinvestment.
- To study the problems of small scale sectors.

4.1 DISINVESTMENT POLICY

4.1.1 Meaning:

Disinvestment means trade or liquidation of means by the government, generally Central and state public sector enterprises, systems, or other fixed means. The government undertakes disinvestment to reduce the financial burden on the fund, or to raise money for meeting specific requirements, similar as to ground the profit space from other regular sources.

4.1.2 Disinvestments - A hard Perspective:

For the first four decades after Independence, India pursued a path of development in which the public sector was anticipated to be the machine of growth. Still, the public sector overgrew itself and its failings started manifesting in low capacity utilisation and low effectiveness due to over manning, low work ethics, over capitalisation due to substantial time and cost overruns, incapability to introduce, take quick and timely opinions, large chain in decision timber process etc. Hence, a decision was taken in 1991 to follow the path of Disinvestment. The change process in India began in the time 1991-92, when 31 named PSUs were disinvested for Rs. crore.

In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advise, supervise, cover and publicize gradational disinvestment of Indian PSUs. The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment in September, 2001. From 27th May, 2004, the Department of Disinvestment was brought under the Ministry of Finance.

The Department of Disinvestment has been renamed as Department of Investment and Public Asset Management (DIPAM) from 14th April, 2016 which has been made the nodal department for the strategic stake trade in the Public Sector Undertakings (PSUs).

National Investment Fund (NIF) was constituted in November, 2005, into which the proceeds from disinvestment of Central Public Sector Enterprises were to be channelized. Strategic disinvestment is the transfer of the power and control of a public sector reality to some other reality (substantially to a private sector reality). The disinvestment commission defines strategic trade as the trade of a substantial portion of the Government shareholding of a central public sector enterprises (CPSE) of upto 50, or similar advanced chance as the competent authority may determine, along with transfer of operation control.

4.1.3 Main objects of Disinvestment in India:

- To meet the popular needs
- To reduce financial deficit
- To improve public finances and overall profitable effectiveness
- To diversify the power of PSU for enhancing effectiveness of individual enterprise
- To raise finances for technological up gradation, modernization and expansion of PSUs.
- To raise finances for golden handshake (VRS)
- To introduce, competition and request discipline.
- To fund growth and development programmes
- To encourage wider share of power
- To depoliticise unnecessary services
- Transfer of Marketable Pitfalls

4.1.4 Importance of Disinvestment:

Disinvestment allows for the redirection of huge quantities of public finances from non-strategic public sector services to fields with a far advanced societal priority, similar as health, family, and philanthropy. Disinvestments also contribute to the reduction of the large public sector debt burden in the transnational area.

- 1) In the short run, it's helpful in financing the adding financial deficit.

- 2) Disinvestment finances can be utilised for long- terms pretensions similar as
 - Financing large-scale structure development.
 - Investing in the economy to encourage spending.
 - Expansion and Diversification of the establishment.
 - Prepayment of Government Debts Nearly 40-45 of the Centre's profit bills go towards repaying public debt/ interest.
 - Investing in social programs like health and education.
- 3) It can help in generating a better environment for investment.
- 4) Disinvestment also assumes significance due to the frequency of an decreasingly competitive terrain, which makes it delicate for numerous PSUs to operate profitably. This leads to a rapid-fire corrosion of the value of the public means making it critical to disinvest beforehand to realize a high value.
- 5) It's anticipated that the strategic buyer/ acquirer may bring in new operation / technology / investment for the growth of these companies and may use innovative styles for their development.
- 6) While government presence may be a necessary wrong in strategic sectors similar as defence or canvas disquisition, there's really no call for it to be running energy merchandising outlets, building ships or running holder freight operations. Government presence in similar non-strategic sectors not only distorts competitive dynamics for private players, it also results in consumers and taxpayers bearing the mass of inefficient PSU operations.
- 7) Privatization would help to reduce the outflow of scarce public resources, thereby supporting" non-strategic public sector realities."
 - The process of privatization facilitates the transfer of marketable risks, in which taxpayer money locked up in the public sector is left vulnerable to the private sector anytime a pot way in.
 - The release of tangible and intangible means, similar as large force locked in PSU administration, would be assured during the privatization process, and similar means would be reallocated to areas of lesser precedence.
 - When private enterprises are subordinated to a variety of request procedures as part of the Disinvestment process, they come more tone sufficient.

4.1.5 Disinvestment policy:

The government in keeping with its Reform program took several step in the direction of privatisation through disinvestment. This policy measures can be discussed as follows –

1) New industrial policy 1991:

The advertisement of new industrial policy 1991 can be considered as the starting point of policy action taken by the government in the direction of disinvestment. In order to give lesser autonomy to public Enterprises and make them more responsible the government introduced the conception of memorandum of understanding. MOU define the relationship between the government and public Enterprises and make similar relationship more contractual and responsible.

2) Navratna and Miniratna in (1997-1998):

A lesser autonomy was granted to 9 public sector enterprise referred as Navratnas. GAIL and MTNL have also been given the same status lesser functional and active autonomy has been granted to 97 other Public Sector Unit referred as Miniratnas.

3) The Department of Investment and public Asset Management:

The department of the disinvestment was set up in 1999. From 2004 the department has been under the Ministry of Finance. The department of disinvestment has been remained the department of investment and public Asset Management from 14 April 2016 it deals with all matters relating to operation of Central Government investment in equity relating to trade of Central Government equity through offer for trade or private placement or any other mode of mode in the late Central Public Sector undertakings.

4) Disinvestment:

Presently the following types of disinvestment are being pursued by the government.

- a. **Original public offering (IPO):** Offer of shares for the first time to the public by an unrecorded CPSE or the government out of its shareholding or a combination of both.
- b. **To further public offering (FPO):** Offer of shares by a listed CPSE or the government out of its shareholding of combination of both to the public for subscription.
- c. **Offer for trade:** This is done by promoters through the stock exchange medium this system allows option of shares on the platform handed by the stock exchange. It has been considerably used by the government since 2012.
- d. **Strategic trade:** This involves the trade of a large portion of the Government shareholding of a CPSE of over to 50 or similar

advanced chance as the competent authority may determine along with transfer of Operation control.

5) Interest of Workers:

One of the major concern with respect to privatization is that changes in operation from the government to private sector will lead to retrenchment of workers. The government has included certain provisions in the shareholder agreements of strategic trade to insure interest of workers. This provisions are that workers cannot get it reached at least for a period of one time after privatisation indeed there after retrenchment will be possible only under the VRS scheme for the voluntary separation scheme that was prevailing in the company prior to privatization.

6) Current Disinvestment Policy:

The following are the features of current disinvestment policy being followed by the government.

- a. PSU are the wealth of the nation and to insure this wealth rest in the hands of people the government will promote public power of CPSE.
- b. While pursuing the disinvestment through minority stake trade is listed CPSE the government will retain maturity shareholding of at least 51 and retain operation control of the CPSE.

4.1.6 Disadvantages of Disinvestment:

- From 1990 to 2004, the amount collected by disinvestment was 2056 crore per time, which is low given the Indian government's debt rate. Likewise, the disinvestment process lacks clarity because the use of the money generated from disinvestment is no way bared.
- Only the Government can ensure that the market system is sufficiently regulated and that private enterprises aren't solely motivated by profit and are concerned about the interests of their guests.
- Monopolies will no way produce anything salutary; only a fair and healthy competition can profit guests. From this perspective, disinvestment may not be the most effective pick.

4.1.7 Recent Developments of Disinvestment:

In 2015, the Government reinitiated the policy of strategic disinvestment in order to open up sectors for private enterprise to bring effectiveness in operation that would contribute to general profitable development.

The Government had set a disinvestment target of 1.05 lakh crore rupees for the financial time 2019-20.

Recently press has cleared the plan to sell 53.3 of its stake in BPCL, 63.8 of SCI and 30.8 of CONCOR to strategic buyers. 74.2 of its stake with THDCIL and 100 of NEEPCO is to be sold to NTPC.

4.1.8 Conclusion:

As we discussed, it can be perceived that there are racing goods to disinvestment. The updated disinvestment policy of the Indian government is better left to time for ascertaining its effectiveness. Still, it's apparent that with the upcoming policy, there's soon going to be a plethora of openings for the investors.

4.2 SMALL SCALE SECTOR: PROBLEMS AND PROSPECTS

4.2.1 Introduction:

In India, Micro, Small, and Medium Enterprises (MSMEs) are an important sector for the Indian economy and have contributed immensely to the country's socio-profitable development. It not only generates employment openings but also works hand-in-hand towards the development of the nation's backward and rural areas. Micro, Small, and Medium Enterprises contribute nearly 8 of the country's GDP, around 45 of the manufacturing affair, and roughly 40 of the country's exports. It won't be wrong to relate them as the 'Backbone of the country'. The Government of India has introduced MSME or Micro, Small, and Medium Enterprises in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the product, manufacturing, processing, or preservation of goods and goods. According to the periodic report by the Government (2018-19), there are around MSMEs in India.

An offer was made to review MSMEs by the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018, to classify them as manufacturing or service- furnishing enterprises, grounded on their periodic development.

4.2.2 Features of MSMEs:

Following are some of the essential elements of MSMEs –

- 1) MSMEs work for the welfare of the workers and tradesmen. They help them by giving employment and by furnishing loans and other services.
- 2) MSMEs give credit limit or backing support to banks.
- 3) They promote the development of entrepreneurship as well as over gradation of chops by launching technical training centers for the same.
- 4) They support the over- grading of experimental technology, structure development, and the modernization of the sector as a whole.
- 5) MSMEs are known to give reasonable backing for bettered access to the domestic as well as import requests.

- 6) They also offer modern testing installations and quality instrument services.
- 7) Following the recent trends, MSMEs now support product development, design invention, intervention, and packaging.

4.2.3 Role and performance of MSME 'S in India:

The part or significance and performance of Micro, Small, and Medium Enterprises (MSMEs) in India can easily be explained with the help of following points –

1) Employment generation:

- A) The labour is abundant in Indian economy and capital is scarce hence small scale enterprise in India can play a veritably important part in employment generation and in working the problem of massive unemployment in the country. The small scale enterprise requires lower capital and has the capacity to generate maximum employment openings.
- B) According to profitable check 2002-2004 the small scale enterprises employed 129.8 Lac person in 1991-92 which has increased to 261.3 Lac persons in 2002-2003.

2) Regional dispersion of industries:

The large scale industries have shown a tendency of massive attention in many large metropolises of Maharashtra, Gujarat and Tamil Nadu. This has created enormous profitable social and environmental problems. The small scale industries in India can play veritably important part in reducing the attention of diligence as they're spread throughout the state and are established in rural areas satisfy the original demand. The most striking illustration is the economy of Punjab which has maximum number of small scale industrial units spread throughout the state and has advanced per capita income in the country than other countries.

3) Equitable distribution of public income:

The small scale enterprise can play a veritably important part in the indifferent distribution of public income in India as they give maximum employment and bear minimal capital. Help to help the growth of monopolies and attention of profitable power in hands of many big business houses.

4) Effective mobilization of capital and entrepreneur skill:

The small scale industries in India can play an effective part in mobilizing capital from pastoral areas and developing an Entrepreneurial skill. The small scale enterprise are largely established in rural areas which helps to mobilizing the rural savings and original bents. 5) Expansion of export. The small scale industries in India play a very important part in adding the import earnings. The chance share of exports of small scale industries in

total exports of the country during 1971-72 was 10 which increase to 34 in 2002-2003.

The most striking factor in exports of small scale diligence in India is that their import consist of unconventional particulars like leather products, sports goods, readymade garments, woolen garments, spare parts of engineering goods etc.

6) Less dispute:

The small scale industries in India can play a veritably important part in maintaining industrial peace in the country. The relationship between workers and employers are more cordial in small scale industries and thus they're less artificial disputing in the small scale industries.

It's clear from the below analysis that the small scale diligence has played a significant part in Indian economy by adding volume of affair, employment and import earnings of the country. Though the Government of India has paid some attention to development of small scale industries during 1980s and 1990s a lot of effort on the part of government is demanded to encourage small scale enterprises to reduce regional imbalances rally savings and produce entrepreneurs from rural areas to achieve indifferent distribution of income in the country.

4.2.4 Major problems faced by small scale industries in India:

The major problems faced by small scale industries in India are as follows—

1) Lack of finance and credit:

The capital base of small scale industries is very weak since they generally have cooperation or single power. The fiscal conditions of small scale units aren't met by the organized sector. The only clearly of profit and lower prepayment of capacity of small scale diligence in India prevents the banks and other fiscal institution to give finances to this sector on priority base. The small scale industries are left with no alternative and they've to make their fiscal demand from unorganized sector at a very high rate of interest therefore lack of finance and credit is one of the main problem faced by small scale industries in India.

2) Lack of at all material availability:

The major problem faced by small scale industries in India is the failure of raw material. The small scale industries face enormous problems in getting domestic raw materials as the suppliers of raw material preferred the last kill industries due to the bulk purchase. The small scale industries also faces the problem in getting the imported raw material which isn't available due to foreign exchange crisis. It has been typically observed that imported raw material are also allocated more positively to last care unit as compared to small scale unit.

- 3) Small scale units frequently face the problem of securing professed and effective labour. The labour prefers to work with large scale units due to better hires, stability, good working condition and long term benefits.
- 4) Backward or outdated technology that's why still industries are faced with the problem of backward technology well stop this has resulted in high cost of product and inferior quality of goods in comparison to the large scale units.
- 5) Marketing problems one of the main problems faced by small scale industries in the field of marketing. The small scale units frequently don't poses any marketing organization and thus face difficulty in dealing this product Bristol the small scale unit also don't have acceptable financial coffers and staying capacity. Does they're frequently posed to vend the product at a veritably low prices. The small scale units also cannot go to incur large scale announcement charges. These results in lack of brand image of their products in the mind of guests.
- 6) Underutilization of capacity the major problem faced by small scale industrial unit is that they suffer from serious underutilization of capacity each has reached 50 in the large number of units. The underutilization of capacity increases cost of product which results in competitive disadvantage in comparison to the large scale units.
- 7) A large number of small scale units are bogus and pick shears units. They live only in a man in the register of government agencies and not in reality. The unconscionable businessmen find it veritably readily to float small scale units and take advantage of indigenious and liberalize allocation of import license of scarce raw material and finance the genuine small scale artificial unit does suffer because of this major problem faced by them.

8) Problem of sickness:

The major problem faced by small scale industries are the sickness among small scale units. There are one Lac sick small scale units up to the end of March 2002.

9) Lack of information:

Another major problem faced by small scale enterprise is the lack of information on the small scale sector was done the information on small scale industries collected by small industries development Association and central statistical association is less and the information isn't collected by these associations on regular base. Therefore pointed out that there's a critical need for evolving a regular system for over gradation and collection of data or small scale diligence. The record of latest information is necessary for important policy opinions of the government.

10) Adverse effect of profitable reforms and Globalization:

There has been considerable liberalization in India through the licensing and the reservation of industries an opening up of economy. This has redounded in severe competition to small scale industries both domestic large scale industries and transnational or foreign countries. The lowering of custom duties and junking of quantitative restriction on import has made further worst for small scale sector. The small scale sector has formerly started feeling adverse effect of globalization through a large scale entry to cheaper Chinese reports into Indian request.

4.2.5 Government policies and measures:

In India, there are about 6.3 crore MSMEs which involve in public and international trades, contributing about 29 towards GDP. MSMEs contribute to the profitable and social growth of the nation and are a great way to drop unemployment issues and promote original products. Our government understands the difficulties that every micro, small and medium business owners face in various stages of their business development process and the significance of MSMEs for the development of the country. Hence has structured various schemes to give maximum support for each and every budding entrepreneur and MSMEs in every possible way to ease out every phase of their business.

1) Prime Minister Employment Generation Programme and Other Credit Support Schemes:

With the education rate adding time by time, severance problems are also soaring high. This scheme is structured with the truth of eradicating the unemployment issue and motivating arising new businesses by furnishing necessary fiscal support.

Prime Minister Employment Generation Programme (PMEGP):

Implemented by Khadi and Village Industries Commission (KVIC) at the public position and through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks at the state position, the truth of this scheme is to make every eligible thriving entrepreneur get a subsidy in their bank account for developing a new business. Under this scheme, any new design in the manufacturing sector worth over to Rs. 25 lakhs and a new business/ service sector worth over to Rs. 10 lakhs gets covered.

2) Development of Khadi, Village and Coir Industries:

To make way for the rural crafts and products to advance their part in the profitable development of the nation and to up the rural population, several schemes have been introduced by the Ministry of MSME.

Market Promotion & Development Scheme (MPDA):

Like any other business, Khadi and village crafts too need some marketing strategy to reach the potential guests. With the motive of promoting Khadi

crafts and adding the income of crafters, this MPDA scheme is developed. With the truth to regenerate traditional industries, emphasizing traditional skills and to insure long- term sustainable income for rural artisans, the Ministry of MSME has designed this scheme. Under this scheme, crafters will be clustered and significance is given to enhancing product development, productivity, competitiveness, product intervention and indeed packaging and marketing. Original artisans and entrepreneurs are handed with sufficient training and bettered tools to face the forthcoming challenges to optimize their income.

Domestic Market Promotion (DMP):

This scheme is a milestone of Coir Board in popularizing coir products within the country to help workmen and entrepreneurs in the coir assiduity. As part of this scheme, high- end showrooms are established, maintained and repaired. To showcase the products to the original guests, colorful expositions and exhibitions are conducted, simply for coir products, and are publicized by journals, TV, radio and other media. Apart from that, the board takes way in perfecting the quality of the products by fixing quality norms and regularizing examination and instrument processes.

Welfare Measures-Pradhan Mantri Suraksha Bima Yojana (PMSBY):

Accidents and unexpected incidents are part of every business. To make sure the workers and their family are defended against accidental death, endless total disability and endless partial disability, the Coir Board has been enforcing Coir Board Coir Workers Group Personal Accident Insurance Scheme from 1998 which provides insurance content under similar circumstances.

3) Technology Upgradation and Quality Certification:

Quality and nonstop enhancement have a major impact on the development of any business/ assiduity. While there should be a proper channel for quality instrument to insure dependable issues each time and every time, over-gradation in terms of technology, marketing and coffers make the assiduity bloom to its loftiest eventuality. Hence, certain schemes are established to pave the right path in technology and upgradation.

A Scheme for promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE):

To grease invention in the MSME sector, especially promoting new business forum-met social requirements and give employment to fresh minds is the aphorism of ASPIRE.

National Manufacturing Competitiveness Programme (NMCP):

This scheme aims at enhancing the competitiveness of the manufacturing units in the MSME sector.

Credit Linked Capital Subsidy for Technology Upgradation (CLCSS):

To let every entrepreneur in the MSME sector upgrade their technology sect, this scheme is a great boon.

Technology and Quality Upgradation Support to MSMEs:

Making advancements is a necessary part of a successful business. Hence to motivate MSME entrepreneurs to take necessary way towards specialized announcement quality enhancement, this scheme is formulated. The scheme aims substantially towards using energy-effective technologies (EETs) in manufacturing which will drastically drop the cost of product.

Entrepreneurial and Directorial Development of SMEs through Incubators:

This scheme is a welcome note for new ideas in the MSME sector in terms of technology, process, product, etc. that can be enforced within a time span.

Enabling Manufacturing Sector to be Competitive through QMS & QTT:

Be it a product or a service quality matters. That's why these schemes are established to motivate manufacturing sector to borrow rearmost Quality Management Norms (QMS) and Quality Technology Tools (QTT).

Building Awareness on Intellectual Property Rights (IPR):

Innovative business ideas and strategies need to be defended as they're what going to add oneness to your business. This scheme concentrates on creating mindfulness among MSMEs about Intellectual Property Rights and the need of guarding it.

4) Marketing Promotion Schemes:

To enhance the marketing strategies for the betterment of MSMEs, many schemes are established by the ministry of MSME.

International Cooperation Scheme:

Though hitting the transnational request is a bit tricky, it's worth the investment of plutocrat, time and energy. The same is applicable in the development of MSMEs too. The government has cooked this scheme to enhance transnational marketing by furnishing support for MSMEs to share in transnational exhibitions/ trade expositions, conferences/ summits/ shops etc. To explore further about the assiduity and to vend the products abroad.

Marketing Backing Scheme:

Organizing exhibitions, buyer- dealer meets, intensive campaigns and marketing creation conditioning are the major emphasize of this scheme apart from co-sponsoring exhibitions and sharing in exhibitions abroad as part of selling the products of MSMEs.

Procurement and Marketing Support Scheme (P&MS):

This scheme is an action to encourage Micro and Small Enterprises (MSEs) to develop domestic requests and to educate MSMEs about the possibilities of business development, trade fairs, latest request ways.

Entrepreneurship Skill Development Programme (ESDP):

Skill development is an important aspect which helps you stay in track with the rearmost trend and competition. This scheme nurtures the natural gift and educate youthful entrepreneurs about rearmost strategies to help them produce a successful business.

- 20 of the ESDPs are conducted simply for weaker sections of the society i.e. (SC/ ST/ women and PH).
- A pay check of Rs. 500/-per month per seeker is handed.
- Campaigners aren't charged for fees.

Micro & Small Enterprises Cluster Development (MSE-CDP):

While working as a cluster productivity and competitiveness is sure to boost up a notch. Hence this scheme provides financial support for the establishment of Common Facility Centres (CFCs) for testing, training centres, R&D, Effluent Treatment, raw material depot, completing product processes etc. and perfecting being industrial areas/ clusters.

4.3 QUESTIONS

- Q1. Write a note on disinvestment policy.
- Q2. Explain the role and performance of MSME's in India.
- Q3. Explain the major problems faced by small scale industries in India.

SERVICE SECTOR AND EXTERNAL SECTOR

Unit Structure

- 5.0 Objectives
- 5.1 Introduction: Service Sector
- 5.2 Nature and scope of service industry
- 5.3 Recent trends in Banking Industry
- 5.4 Recent trends in Insurance Industry
- 5.5 Recent trends in Healthcare Industry
- 5.6 Recent trends in Tourism Industry
- 5.7 Questions

5.0 OBJECTIVES

- To understand the nature and scope of service sector.
- To see the recent trends in banking industry.
- To study the recent trends in insurance industry.
- To know the recent trends in healthcare industry.
- To study the recent trends in tourism industry.

5.1 INTRODUCTION: SERVICE SECTOR

5.1.1 Definition and Meaning:

A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production.

Services are economic activities that create value and provide benefits for customers at specific times and places as a result of bringing about a desired change in – or on behalf of – the recipient of the service.

More amusingly, services have been described as “something that may be bought and sold, but which cannot be dropped on your foot.”

The term services is not limited to personal services like auto servicing, beauty parlours, Medical Services, legal service, Consultancy services etc. On the contrary, it has other connotations according to management gurus.

Services have been defined in several ways but there does not exist any universal definition. Some definitions have been mentioned below:

‘Establishments’ primarily engaged to provide various services to individuals, businesses and government establishments, other organizations, hotels and other lodging places, establishments providing personal services as per individual requirement, entertainment services, educational institutions, membership organizations and other miscellaneous services are included’ - Saser, Olson and Wyekoffs

‘Services refer to social efforts which include government to fight five giant evils, want, disease, ignorance, squalor and illness in the society.’ - Sir William Beveridge

‘Services can also be defined as an action(s) of organization(s) which maintain and improve the well – being and functioning of people’. Hasenfield

‘Services are activities, benefits or satisfactions which are offered for sale or are provided in connection with the sale of goods.’ - American Marketing Association

Philip Kotler and Bloom defined service as “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.” This definition more or less follows the earlier ones. The focus was given to the absence of ownership as a special feature of services, which has significant business implications.

According to Christian Gronroos (1990): “a Service is an activity or series of activities of more or less intangible nature that normally, not necessarily take place in interactions between the customer and service employees and / or physical resources or goods and / or systems of the services provider, which are provided as solutions to customer problems.”

These definitions make it clear that services are activities, benefits or satisfactions given to the individual and the society in a larger perspective. The applications of all these definitions apply to the sale of products to consumers, which may be tangible or intangible in nature.

5.1.2 Features and Characteristics of Services:

For services marketing, the distinguishing features or characteristics of services are important in the design of an appropriate marketing mix. The core characteristics are defined below:

1. Intangibility:

Even though many services include tangible aspects such as an airline seat, a classroom, a restaurant table and food, the service performance leading to a customer’s experience is intangible. The benefits of buying a service are from the nature of the performance. In comparison to physical goods, services cannot be stored or readily displayed. They are difficult to

communicate, cannot be protected through patents and prices are difficult to set. The intangible nature of services often means that customers have difficulty in evaluating and comparing services. As a result they may use price as a basis for assessing quality and they may place greater emphasis on personal information sources. All this leads to consumers having higher levels of perceived risk.

2. Inseparability:

Because services are processes, deeds or acts, customers are involved in the production of a service. Also other consumers may be involved in the production environment and centralized mass production is difficult, particularly if the service is more complex or customized. For most services both the buyer and the seller need to be at the same place at the same time for the service to occur. Because centralized mass production is difficult, consumers often have to travel to the point of service production. For example, it is hard to imagine a haircut without both customer and hairdresser. For a bank clerk or hairdresser the manner in which the service is produced is an essential element of the total promotion of the service.

Thus the behaviour and attitude of other consumers may have an impact upon the nature and experience of a service. For example, a loud or over – demanding customer can deflect the service staff's attention and impact the quality of service delivery to other consumers. In this circumstance it may be difficult for the service providers to control the quality and consistency of the service, unless the staff has been trained to deal with such situations in a precise and effective manner.

3. Perishability:

Given the intangible nature of services, they cannot be inventoried, stored warehoused or re – used. A lawyer cannot store parts of his or her knowledge for others to use while the lawyer is in court or on holiday. The hairdresser cannot store haircuts so that when a rush occurs on a Sunday morning all customers can have their hair cut at once. Thus the availability of enough opportunities for service delivery at relevant times is important for service managers.

4. Customer participation:

Service production is not a one – sided activity. Customers are co – producers of service. The production quality of the service greatly depends upon the ability, skill and performance of the employees as well as the ability and performance of the customer. In the service interaction, although the employees and the customers do not play an equal part in production, the role of the customer cannot be overemphasized. Service firms should make the customers cannot be overemphasized. Service firms should make the customers aware of the service package and the production process through proper communication media. They should take necessary steps to train customers, if necessary, to provide quality experience of the service. Perfection from the organization's side in

service production cannot ensure positive results unless the consumers are involved with the process. Therefore, specific and special orientation to different groups of customers is necessary.

5. No Ownership:

Service consumers will have experiences but not ownership. Since the services are intangible and perishable, the question of ownership doesn't arise. But this characteristic will add to the problems of the service marketer. Convincing the customer with tangible goods on which he will have ownership through transfer of title is much easier than selling an experience where nothing remains after consumption, except the memory of it. Customer dissonance would be higher in the case of services than of goods.

6. Variability or Non – Standardization or Heterogeneity:

The service industry suffers from a curious characteristic – Variability – that greatly affects its offer. The service offer is never consistent in its quality and delivery. The same service product is never delivered in the same way to the same customer across two different time periods; a customer perceives the service transaction as having a different quality when delivered from two different places – or even on two different occasions at the same service outlet. By its very nature, it can never be an identical, repeatable experience every time – only an approximation thereof. This is so unlike goods, where the customer is convinced that the product that he buys is the same- irrespective of where he has purchased it and whom he has purchased from. The Dove bath soap that Mrs. Roy buys from her retailer in Mumbai would be the same if she bought it in Chennai during her business trip or in Kodaikanal, Tamil Nadu while holidaying. Thus, while there is homogeneity or some kind of standardization in the product features of goods, a service offer lacks them.

5.2 NATURE AND SCOPE OF SERVICE INDUSTRY

When discussing strategies to market manufactured goods, marketers usually address four basic strategic elements; product, price, place (or distribution), and promotion (or communication). Collectively, these categories are often referred to as the 4 Ps of the marketing mix. However, the distinctive nature of service performances, especially such aspects as customer involvement in production and the importance of the time factor, requires that other strategic elements be included. To capture the nature of this challenge, we will be using the 8 Ps model of integrated service management, which highlights the strategic decision variables facing the manager of a service organization.

Product Elements:

Managers must select the features of both the core product (either a good or service) and the bundle of supplementary service elements surrounding it, with reference to the benefits desired by customers and how well

competing products perform. In short, they must be attentive to all aspects of the service performance that have the potential to create value for customers.

Place, Cyberspace, and Time:

Delivering product elements to customers involves decisions on the place and time of delivery as well as on the methods and channels employed. Delivery may involve physical or electronic distribution channels (or both), depending on the nature of the service being provided. Use of messaging services and the Internet allows information – based services to be delivered in cyberspace for retrieval by telephone or computer wherever and whenever it suits the customer. Firms may deliver service directly to customers or through intermediary organizations, such as retail outlets that receive a fee or percentage of the selling price to perform certain tasks associated with sales, service and customer contact. Speed and convenience of place and time for the customer are becoming important determinants in the service delivery strategy.

Process:

Creating and delivering product elements to customers requires the design and implementation of effective processes that describe the methods and sequence of actions in which service operating systems work. Badly designed processes are likely to annoy customers when the latter experience slow, bureaucratic, and ineffective service delivery. Similarly, poor processes make it difficult for frontline staff to do their jobs well, result in low productivity, and increase the likelihood of service failures.

Productivity and Quality:

These elements, often treated separately, should be treated strategically as interrelated. No service firm can afford to address either element in isolation. Productivity relates to how inputs are transformed into outputs that are valued by the customer, whereas quality refers to the degree to which a service satisfies customers by meeting their needs, wants and expectations. Improving productivity is essential to keep costs under control, but managers must beware of making inappropriate cuts in service levels that are resented by customers (and perhaps by employees, too). Service 10 quality as defined by customers is essential for product differentiation and building customer loyalty. However, investing in quality improvement without understating the trade-off between incremental costs and incremental revenues may hurt profitability.

People:

Many services depend on direct, personal interaction between customers and a firm's employees (such as getting a haircut or eating at a restaurant). The nature of these interactions strongly influences the customer's perceptions of service quality. Customers will often judge the quality of the service they receive based on their assessment of the people providing that service. They may also make judgments about other customers they

encounter. Successful service firms devote significant effort to recruiting, training and motivating their personnel. Firms often seek to manage customer behaviour too.

Promotion and education:

No marketing programme can succeed without effective communications; this component plays three vital roles: providing needed information and advice, persuading target customers of the merits of a specific product, and encouraging them to take action at specific times. In services marketing, much communication is educational in nature, especially for new customers. Companies may need to teach these customers about the benefits of the service, as well as where and when to obtain it, and provide instructions on how to participate in service processes. Communications can be delivered by individuals, such as salespeople and trainers, or through such media as TV, radio, newspapers, magazines, poster, brochures, and Web sites. Promotional activities may serve to marshal arguments in favor of selecting a particular brand or use incentives to catch customers' attention and motivate them to act.

Physical Evidence:

The appearance of buildings, landscaping, vehicles, interior furnishing, equipment, staff members, printed materials, and other visible clues all provide tangible evidence of a firm's service quality. Service firms need to manage physical evidence carefully, because it can have a profound impact on customers' impressions. In services with few tangible elements, such as insurance, advertising is often employed to create meaningful symbols.

Price and other User Costs:

This component addresses management of the expenditures and other outlays incurred by customers in obtaining benefits from the service product. Responsibilities are not limited to the traditional pricing tasks of establishing the selling price to customers, they also include seeking to minimize other burdens that customers may bear in purchasing and using a service, including time, mental and physical effort, and unpleasant sensory experiences, such as noises and smells.

5.3 RECENT TRENDS IN BANKING INDUSTRY

The banking system in India, which evolved over several decades, is well established and has been serving the credit and banking needs of the economy. The banking ecosystem is providing impetus to economic growth and development of the country and catering to the specific and varied financial requirements of different customers and borrowers.

The major role of banks is to intermediate resources from the depositor to the lender for their mutual benefit while allocating them

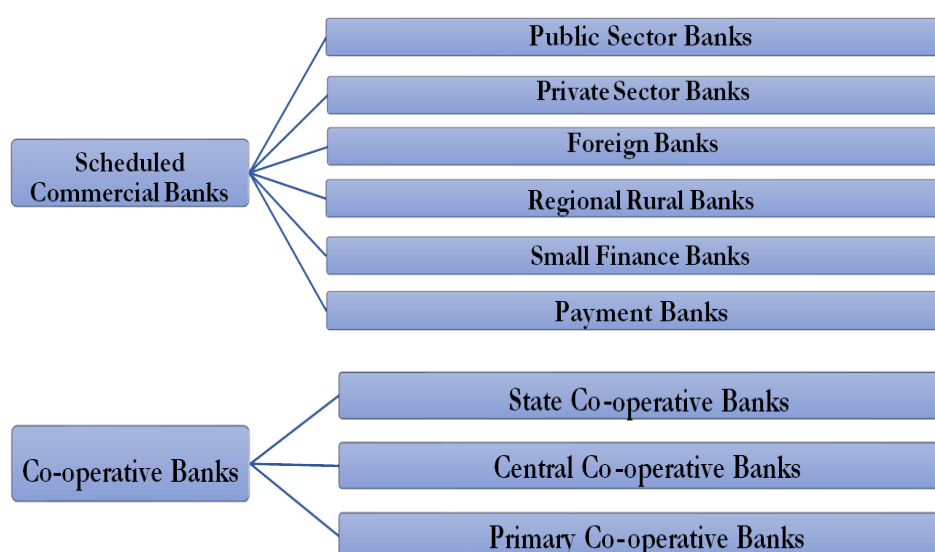
in an efficient manner, thereby contributing to economic growth through enhanced efficiency in usage of resources.

Presently, 137 scheduled commercial banks are providing banking services in India. In addition, co-operative banks and local area banks are also providing banking services in various segments in different locations of the country. For the purpose of lending to specific sectors/segments, around 9,516 Non-Banking Financial Companies and 5 All India Financial Institutions are also catering to the needs of the borrowers.

Over the years, the ease of access to banking services strengthened by ensuring every village has at least one banking outlet, branch or business correspondent within a 5-kilometre distance, which has enabled coverage of 99.97% of inhabited mapped villages across the country.

Banks that are included in the Second Schedule of the Reserve Bank of India Act, 1934 are considered to be scheduled commercial banks. Other than public sector banks and regional rural banks, all other scheduled commercial banks are granted banking licenses by RBI under Banking Regulation Act, 1949. In addition, RBI also gives licenses to Co-operative Banks for providing banking services under Banking Regulation Act, 1949.

Within the banking sector, Foreign Direct Investment (FDI) in private sector banks is permitted up to 49% through automatic route, and beyond that up to 74% through government approval route. FDI in public sector banks is permitted up to 20% through government approval route.



Scheduled Commercial Banks:

Scheduled Commercial banks includes public sector, private sector, foreign banks, Regional Rural Banks (RRB), Small Finance Banks and Payment Banks.

- **Public Sector Banks** are constituted under the State Bank of India Act, 1955 and Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. Presently, there are 12 public sector banks.
- **Foreign Banks** is a bank that has its headquarters outside India but runs its offices as a private entity at any other locations in India. Such banks are under an obligation to operate under the regulations provided by the Reserve Bank of India as well as the rule prescribed by the parent organization located outside India.
- **Private Sector Banks** are banking companies licensed to operate under Banking Regulation Act, 1949.
- **Regional Rural Banks (RRB)** are the banks established under the Regional Rural Banks Act, 1976 with the aim of ensuring sufficient institutional credit for agriculture and other rural sectors. The area of operation of RRBs is limited to the area notified by the Central Government. RRBs are owned jointly by the Government of India, the State Government and Sponsor Banks.
- **Small Finance Banks (SFB)** licensed under Banking Regulation Act, 1949 and created with an objective of furthering financial inclusion by primarily undertaking basic banking activities to unserved and underserved sections including small business units, small and marginal farmers, micro and small enterprises and other underserved sections.
- **Payment Banks** are public limited companies licensed under Banking Regulation Act, 1949, with specific licensing conditions restricting its activities mainly to acceptance of demand deposits and provision of payments and remittance services.

Co-operative Banks:

Co-operative Banks means State Co-operative Banks, Central Co-operative Banks and Primary Co-operative Banks. Primary Co-operative Banks are also known as Urban Cooperative Banks and over the years, it has registered a significant growth in number, size and volume of business handled. State Cooperative Banks are the highest-level cooperative banks in each of the states. They raise funds and assist in their proper allocation among various sectors. Individual borrowers receive funds from state cooperative banks via central cooperative banks and primary credit societies.

Co-operative Banks are registered under State Co-operative Societies Act of the State concerned or the Multi State Cooperative Societies Act, 2002 and its banking business is licensed and regulated by Reserve Bank of India. These banks are the financial entities that belong to its members, who are also the owners as well as the

customers of their bank. Cooperative banks primarily support the agricultural activities, some small-scale industries and self-employed workers.

In addition to Scheduled Commercial Banks and co-operative banks, All India Financial Institutions and Non-Banking Financial Companies also play an important role in promoting inclusive growth in the country.

All India Financial Institutions:

Financial Institutions play an important role in the Indian financial system as they provide medium to long term finance to different sectors of the economy. These institutions have been set up to meet the growing demands of particular sectors, such as export, import, rural, housing and small industries. These institutions have been playing a crucial role in channelizing credit to these sectors and addressing the challenges / issues faced by them.

Export-Import Banks of India, Small Industries Development Bank of India, National Bank for Agriculture and Rural Development, National Housing Bank and National Bank for Financing Infrastructure and Development, are operating as All India Financial Institutions in India.

Non-Banking Financial Companies (NBFCs):

NBFCs are playing an important role in sustaining consumption demand as well as capital formation in small and medium industrial segment of the country. The reach and last mile advantages of NBFCs have empowered them with agility and innovation with cutting edge technology in providing formal financial services to under banked and unserved sections of the society.

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/stocks/bonds/debentures/securities issued by Government or local authority, etc. and regulated by Reserve Bank of India.

NBFCs lend and make investments and hence their activities are akin to that of banks. However, there are a few differences as given below:

- NBFC cannot accept demand deposits;
- NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on themselves
- Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks. NBFCs are classified on the basis of asset/liability structures, systemic importance and the activities

they undertake. However, with effect from 1.10.2022, regulatory structure for NBFCs comprises four layers based on their size, activity, and perceived riskiness.

**Key Performance Parameters of Scheduled Commercial Banks
(as on 31st March 2022) (amount in ₹trillion)**

Parameter	Amount
Gross Loan & Advances	127.5
Deposits	171.7
Capital to Risk Weighted Assets Ratio (%)	16.7%
Total Brick and Mortar Branches (number)	1,51,460

Source: Department of Financial Services

5.4 RECENT TRENDS IN INSURANCE INDUSTRY

5.4.1 Introduction:

The financial reforms paving way to liberalization of the Indian economy in the early 1990s resulted in the recognition of the insurance sector as an important part of the overall financial system. Thus, it was found necessary to bring out appropriate reforms in the insurance sector as well. In the, Malhotra Committee, led by the former finance secretary and RBI governor, R.N. Malhotra was formed to assess the state of the insurance industry India and submit its recommendations.

5.4.2 Purposes behind the formation of Malhotra Committee:

The Malhotra Committee was formed with the following purposes:

1. To propose the structure of the insurance industry, to evaluate its strengths and weaknesses with the intention of creating an efficient and feasible insurance industry that would offer wide-ranging insurance services, covering a variety of insurance products with a high quality of services to the public and operating as an efficient means for mobilization of financial resources for the development of the economy.
2. To formulate recommendations for modifying structure of insurance industry, for amending the general policy-framework, etc.
3. To make precise proposals regarding life insurance corporation of India and general insurance corporation of India with a view to improve their functioning.
4. To make suggestions on regulation and supervision of the insurance sector in India.

5. To give advice on role and working of surveyors, intermediaries like agents, etc. in the insurance sector.
6. To make proposals or any other matter relevant to the development of the insurance in India.

The committee submitted its report in 1994, recommending the following, in respect of:

5.4.3 Structure:

- a) Government stake in the insurance companies should be brought down to 50 percent.
- b) Government should take over the holdings of general Insurance Corporation of India and its subsidiaries in order that these subsidiaries can act as independent corporations.
- c) All insurance companies to be given greater autonomy to operate.

5.4.4 Competition:

- a) Private companies with a minimum paid-up capital of Rs. 100 crore should be allowed to enter the industry.
- b) No company should deal in both life and general insurance through a single entity.
- c) Foreign companies may be allowed to enter the industry in collaboration with domestic companies.
- d) Postal life insurance should be allowed to operate in the rural market.
- e) Only one state level life insurance company should be allowed to operate in each state.
- f) The insurance Act should be suitably changed.
- g) An insurance regulatory body should set up.
- h) Controller of insurance (currently a part of the Finance Ministry) should be made independent.

5.4.5 Investments:

- a) Mandatory investments of LIC life fund in government securities to be reduced from 75 per cent to 50 per cent.
- b) GIC and its subsidiaries are not to hold more than 5 per cent in any company (there current holdings to be brought down to this level over a period of time).

5.4.6 Customer services:

- a) LIC should pay interest on delays in payments beyond 30 days.
- b) Insurance companies must be encouraged to set up unit-linked pension schemes.
- c) Computerization of operations and updating of technology to be carried out in the insurance industry.

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta.

5.4.7 Some of the important milestones in the life insurance business in India are:

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC formed by an Act of Parliament, viz., LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

The General Insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd., the first general insurance company established in the year 1850 in Calcutta by the British.

Some of the important milestones in the general insurance business in India are:

1907: The Indian Mercantile Insurance Ltd. Set up, the first company to transact all classes of general insurance business.

1957: General Insurance Council, a wing of the Insurance Association of India, Frames a code of conduct for ensuring fair conduct and sound business practices.

1968: The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee set up.

1972: The General Insurance Business (Nationalization) Act, 1972 nationalized the general Insurance business in India with effect from 1st January 1973.

107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd. And the United India Insurance Company Ltd. GIC incorporated as a company.

5.4.8 Growing Importance of Insurance Business in India:

In a dynamic world that we are all living in today, economics are changing at a very fast pace. Future is extremely uncertain, unpredictable and immeasurable. There are obvious risks for an individual accepted as the most important method of handling various kinds of risks and are indispensable in the following respects:

1. Insurance provides protection against the possible occurrence of uncertain events like losses due to fire, floods, lightning, etc. the insurer compensates the insured for the loss arising from the risk insured against.
2. Insurance is a device for eliminating risks and sharing the losses. All the policy holders who regularly pay for the loss, which may or may not happen, share the burden of the loss. Thus, the loss suffered by a person is spread over the whole on insured community.
3. Insurance is a cooperative method of spreading risks, Insurance cannot prevent occurrence of contingencies that are insured, but surely reduce the impact of the loss by spreading it over to a large number of policy holders.
4. Insurance makes for uninterrupted business operations and facilitates international trade. A businessman is free of worries associated with the risks that the insured.
5. Insurance serves as an agency of capital formation. As instructional investors, insurance companies provide funds to the government and public, and contribute in the economic development of the country.

5.4.9 Recent trends in insurance industry:

- The global insurance market is experiencing a transformation to 'digital-first' business models that can unlock new value worth billions of dollars
- With an increasing focus on personalized premiums and usage-based coverage, insurers are leveraging Internet of Things, advanced analytics and machine learning to develop more granular individual risk profiles
- Collaboration between traditional insurance and InsurTech firms will give rise to newer models and revenue streams, higher profitability and reduced operational costs
- The USD 5 Trillion global insurance market¹ is in the midst of a game-changing course correction that will re-define 'business as usual.' A 'digital first' urgency is sweeping across the landscape,

driven by a new generation of consumers, data, automation and Artificial Intelligence (AI).

- Let's take a look at the top trends that are shaping the insurance industry and how digital technologies are driving irreversible change.

1. New Models, Personalized Products:

The digital economy will make usage-based, on-demand and 'all-in-one' insurance lifestyle products more relevant. Customers will prefer personalized insurance covers instead of the one-size-fits-all products currently available.

Today, more than 80 percent of the premiums collected by insurers is lost to distribution costs. Digital models will make intermediaries in the insurance value chain - marked by their excessive dependence on human effort - obsolete.

Flexible coverage options, micro insurance and peer-to-peer insurance will become viable options in the long run. Reinsurers will provide risk capital directly to digital brands, and regulatory frameworks will accommodate shorter value chains.

Lifestyle apps will re-imagine the insurer-insured relationships. Application Programming Interfaces (APIs) will enable the creation of insights-driven offerings as they integrate data from multiple sources. Deeper understanding of customer behaviours will lead to more accurate risk assessments, personalized premiums and value on a sustainable basis for better customer experience and brand loyalty, plus reduced false claims.

2. AI & Automation for Faster Claims:

Robotic Process Automation (RPA) and AI will occupy center stage in insurance, driven by newer data channels, better data processing capabilities and advancements in AI algorithms. For example, InsurTech company Lemonade's business model deploys AI and behavioral economics as its core elements. While AI eliminates brokers and paperwork, its behavioral economics capabilities minimize fraud - leading to reduced time, effort and costs.

Another InsurTech firm Tyche has deployed an AI-infused claim likelihood model in underwriting to accurately determine the risks and achieve higher profitability.

Bots will become mainstream in both the front and back-office to automate policy servicing and claims management for faster and more personalized customer service. For example, a leading U.S. auto insurer's virtual assistant answers customer queries on policies and payments. Lemonade's claims bot Jim assesses and pays out property claims in just three seconds. Automated insurance agent SPIXII interacts with customers through a mobile app and other messenger platforms to help in the purchase of the right policies.

AI and automation will profoundly impact and improve business outcomes in customer experience, cost optimization, operational efficiencies, market competitiveness and newer business models.

3. Advanced Analytics & Proactiveness:

Premiums will become highly personalized, enabled by new sources of tech-enabled data such as Internet of Things, mobile-enabled InsurTech apps and wearables. With the connected devices market poised to grow strongly in the next five years, Property and Casualty (P&C) insurers will be able to extract real-time and accurate data on the loss exposure of individual consumers. This will help them proactively respond with timely and highly personalized interventions.

A Europe-based insurance company's partnership with Panasonic is a good example. Panasonic's sensors provide mobile alerts to both the insurer and its customers for quick and informed mitigation of issues.

Drone and imaging technology will increasingly enable insurers to obtain high-definition images for remote and accurate property estimations and analysis. A few leading U.S. auto insurers deployed drones to assess Hurricane Harvey's damages. An Australian insurance company was able to settle 90 percent of big loss claims within 90 days by deploying drones.²

Additionally, insights will be built through data set relationships to create deeper granularity in individual risk profiles and protect insurers from emerging risk exposures. For example, a U.K.-based insurance company leverages predictive analytics to model complex customer behavior, achieve enhanced pricing accuracy and significantly reduce decision time. A U.S. insurer deploys a telematics device to provide drivers real-time feedback to encourage safe-driving. This has helped customers save up to 40 percent on insurance premiums.³

Advanced analytics will be deployed to dynamically segment users and needs, model behaviors and identify exceptions, adjust policy prices, optimize business strategies, and identify new growth opportunities. Scale can be further incorporated through automation, AI and machine learning to transform insurers into active risk managers.

4. InsurTech Partnerships:

InsurTech firms have been showing significant growth in the areas of auto, home ownership and cyber insurance. Such strong growth will stimulate traditional insurers to either acquire technology capabilities or partner with InsurTech companies. With an increasing demand for innovative products and services from millennials, such collaboration will become a critical imperative.

Overall, it will be a win-win situation — traditional insurers will benefit from faster results in establishing a tech culture and InsurTech companies will get access to larger customer bases, funding and domain expertise. It

will give rise to newer models and revenue streams for higher profitability and reduced operational costs. Customer experiences will be enhanced with value-added offerings.

5. Mainstreaming Blockchain:

The need for huge volumes of customer data to be processed in real time by different insurance functions calls for easy and secure transfer of data across organizations and their diverse stakeholders.

Blockchain technology provides the advantage of secure data management across multiple interfaces and stakeholders without loss of integrity. From identity management and underwriting to claims processing, fraud management and reliable data availability, the technology offers reduced operational costs. Decentralized Autonomous Organizations (DAOs) and smart contracts are additional benefits that blockchain can offer in policy management.

Interestingly, more than 38 insurance and reinsurance companies have embarked on an initiative called the B3i to explore blockchain applications in insurance. The beta version of a blockchain-based insurance solution is expected to be deployed in 2018.

The above trends indicate that new value worth billions of dollars can be created for the insurance industry. The key is to understand how and when to tap into this potential leveraging existing and new technologies.

5.5 RECENT TRENDS IN HEALTHCARE INDUSTRY

5.5.1 Introduction:

Healthcare has come one of India's largest sector, both in terms of profit and employment. Healthcare comprises hospitals, medical bias, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical outfit. The Indian healthcare sector is growing at a brisk pace due to its strengthening content, services and adding expenditure by public as well private players. Indian healthcare delivery system is categorised into two major factors public and private. The Government, i.e. public healthcare system, comprises limited secondary and tertiary care institutions in key cities and focuses on furnishing introductory healthcare installations in the form of primary healthcare centres (PHCs) in pastoral areas. The private sector provides maturity of secondary, tertiary, and quaternary care institutions with major attention in metros and group I and group II cities.

India's competitive advantage lies in its large pool of well- trained medical professionals. India is also bring competitive compared to its peers in Asia and Western countries. The cost of surgery in India is about one-tenth of that in the US or Western Europe.

5.5.2 Major Problems of Health Services:

The following are the major problems of health services:

1) Neglect of Rural Population:

A serious debit of India's health service is the neglect of rural millions. It's largely a service grounded on civic hospitals. Although, there are large no. of PHC's and rural hospitals yet the civic bias is visible. According to health information 31.5 of hospitals and 16 hospital beds are positioned in rural areas where 75 of total population resides. Also the doctors are unintentional to serve in pastoral areas. Rather of evolving a health system dependent on paramedical (like bare-footed doctors in China) to strengthen the fringe. India has evolved one dependent on doctors giving it a top-heavy character.

2) Emphasis on Culture Method:

The health system of India depends nearly on imported western models. It has no roots in the culture and tradition of the people. It's substantially service grounded on civic hospitals. This has been at the cost of furnishing comprehensive primary health care to all. Else speaking, it has fully neglected preventative, pro-motive, rehabilitative and public health measures.

3) Low cost for Health:

According to the National Health Policy 2002, the Govt. donation to health sector constitutes only 0.9 percent of the GDP. This is relatively low. In India, public expenditure on health is 17.3 of the total health expenditure while in China, the same is 24.9 and in Sri Lanka and USA, the same is 45.4 and 44.1 independently. This is the main cause of low health norms in the country.

4) Social Inequality:

The growth of health facilities has been largely imbalanced in India. Rural, hilly and remote areas of the country are under served while in urban areas and cities, health facility is well developed. The SC/ ST and the poor people are far down from modern health service.

5) Shortage of Medical Personnel:

In India deficit of medical help like doctors, a nanny etc. is an introductory problem in the health sector. In 1999-2000, while there were only 5.5 croakers per population in India, the same is 25 in the USA and 20 in China. Also the number of hospitals and drugstores is inadequate in comparison to our vast population.

6) Medical Research:

Medical exploration in the country needs to be concentrated on medicines and vaccines for tropical conditions which are typically neglected by transnational pharmaceutical companies on account of their limited

profitability eventuality. The National Health Policy 2002 suggests to allocate further finances to boost medical exploration in this direction.

7) Expensive Health Service:

In India, health services especially allopathic are relatively precious. It hits hard the common man. Prices of colorful essential medicines have gone up. Thus further emphasis should be given to the choice systems of drug. Ayurveda, Unani and Homeopathy systems are less expensive and will serve the common man in better way. Concluding the health system has numerous problems. These problems can be overcome by effective planning and allocating further finances.

5.5.3 Openings in the Health Industry:

- India is a land full of openings for players in the medical bias industry. The country has also come one of the leading destinations for high- end individual services with tremendous capital investment for advanced individual installations, therefore feeding to a lesser proportion of population. Either, Indian medical service consumers have come more conscious towards their healthcare keep.
- Indian healthcare sector is important diversified and is full of openings in every member, which includes providers, payers, and medical technology. With the increase in the competition, businesses are looking to explore for the latest dynamics and trends which will have positive impact on their business. The hospital industry in India is read to increase to Rs.8.6 trillion (US\$132.84 billion) by FY22 from Rs. 4 trillion (US\$61.79 billion) in FY17 at a CAGR of 16 – 17.
- The Government of India is planning to increase public health spending to 2.5 of the country's GDP by 2025.
- India's competitive advantage also lies in the increased success rate of Indian companies in getting Shortened New Drug Application (ANDA) blessings. India also offers vast openings in R&D as well as medical tourism. To add up, there are vast openings for investment in healthcare structure in both urban and pastoral India.

5.5.4 Recent Trends in Healthcare Industry:

The healthcare industry is undergoing rapid transformation, driven by groundbreaking new technology and the need for more cost-effective care and improved health outcomes.

According to the latest market research reports, future trends in healthcare will center on advances in telemedicine, artificial intelligence, and remote monitoring devices, as well as the need for greater cyber security. Analysts have also noted an increase in value-based care.

These changes and developments will open up significant market opportunities for companies in the healthcare sector and other adjacent industries.

1. Rise of Telemedicine and Virtual Healthcare Services:

The increasing use of telemedicine and virtual healthcare services is a major trend to watch. Due to the COVID-19 pandemic, telehealth became an essential tool for providing remote patient care, and it is expected to continue to grow in popularity, particularly in North America where advanced healthcare technologies are adopted at a high rate.

The global telemedicine market was an estimated \$104.44 billion in 2021, and it is projected to rise to \$272.76 billion in 2027, growing at a robust compound annual growth rate (CAGR) of 20.5% over the forecast period, according to the recently published report *Telemedicine Market – Growth, Trends, COVID-19 Impact, and Forecasts (2023-2028)* by Mordor Intelligence.

“Telehealth solutions have demonstrated the ability to enhance health outcomes and reduce costs,” the report explains. “Telemedicine has been decreasing the cost of healthcare while increasing efficiency through improved management of chronic diseases, reduced travel times, shared health professional staffing, and fewer and shorter hospital stays.”

2. Growth of AI and Machine Learning in Healthcare:

Another trend is the increasing use of artificial intelligence (AI) and machine learning (ML) in healthcare. AI and ML can be used to analyse patient data, detect patterns, and improve clinical decision-making. They can also be used to personalize treatment plans and improve patient outcomes.

For example, the company Caption Health—which is in the process of being acquired by GE Healthcare—developed a clinical application that uses AI to assist in conducting ultrasound scans to identify signs of heart failure. This technology can be used by non-specialists, making it more accessible and affordable for patients.

As technologies like these continue to advance, the global artificial intelligence in healthcare market is expected to accelerate rapidly. The AI in healthcare market was an estimated \$14 billion in 2020, but is projected to reach \$119.8 billion by 2027, rising at a CAGR of 35.9%, according to a recent report by Global Industry Analysts. The U.S., China, Japan, Canada, and Germany are expected to lead the market.

3. Value-Based Care Gains Momentum:

A shift towards value-based care was also highlighted by market analysts. In value-based care, healthcare providers are paid based on patient outcomes rather than the volume of services they provide. This unique model could help address unsustainable levels of healthcare spending in countries like the U.S.

“This value-based care (VBC) model aims to offer better outcomes and care quality to patients cost-effectively,” according to the report *US Value-Based Care for Medical Technology Growth Opportunities* by Frost

& Sullivan. “Multiple stakeholders, including payers, healthcare providers, and medical technology (medtech) players, can share the revenue risk and incentive for providing better value. The United States is a pioneer in VBC adoption, followed by countries in Western Europe.”

Value-based care has experienced a surge in momentum recently; investment quadrupled during the pandemic, per McKinsey & Company, and the model has the potential to benefit both patients and investors.

4. New Wearables and Remote Monitoring Devices:

Another trend is the increasing use of wearables and other remote monitoring devices. Wearables can track a patient's health status, including their heart rate, blood pressure, and physical activity. Remote monitoring devices can also be used to help manage chronic conditions, such as diabetes or hypertension, and provide real-time data to healthcare providers.

Wearable devices are useful across a wide range of settings for patients at home, in hospital wards, and nursing homes. “Many consumer-grade wearable device companies, such as Apple and Fitbit, are entering the medical-grade wearables market to meet increasing demand,” according to Global Clinical-Grade Wearables Growth Opportunities by Frost & Sullivan.

The report explains that cardiac wearables are the fastest growing market segment because of the need for continuous ECG monitoring, and blood pressure monitoring is another feature that will become more widespread. North America is the largest market for wearable devices, but Asia-Pacific is expected to grow at the fastest rate.

5. Importance of Healthcare Cyber security:

The final trend is the pressing need for healthcare cyber security. With the increasing amount of patient data being stored and transmitted electronically, healthcare providers are facing growing security risks. Cyber attacks can compromise patient data, disrupt healthcare services, and damage a provider's reputation.

In 2020 alone, the number of hacking incidents reported in healthcare jumped 42% in North America, as cybercriminals sought to exploit a vulnerable period for already strained health systems, according to Healthcare Cybersecurity Market – Global Outlook & Forecast 2021-2026.

To prevent these types of nightmare security breaches, healthcare providers are investing in cybersecurity measures, which will boost healthcare cybersecurity market growth. The healthcare cybersecurity market had an estimated value of \$9.52 billion in 2020 and is expected to reach \$24.1 billion by 2026, rising at a CAGR of 16.7%.

5.6 TOURISM INDUSTRY

5.6.1 Introduction:

The Indian tourism and hospitality industry have surfaced as one of the key motorists of growth among the services sector in India. Tourism in India has significant implicit considering the rich artistic and literal heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is an important source of foreign exchange in India analogous to numerous other countries. In FY20, tourism sector in India accounted for 39 million jobs, which was 8.0 of the total employment in the country. By 2029, it's expected to regard for about 53 million jobs. According to WTTC, India ranked 10th among 185 countries in terms of trip & tourism's total donation to GDP in 2019.

Tourism is considered as one of the important element of services sector. It's considered as both growth machine and import- growth machine. It's also considered as an effective medium of employment creator as it has the capacity to produce large scale employment both directly and laterally for different sections of the society and also for different orders of pool both specialized as well as professed and unskilled. In 2011, transnational tourism bills grew by 11 per cent (3.9 per cent in real terms) to an estimated US\$ 1030 billion, which set a new records in utmost destinations despite profitable challenges in numerous source requests.

5.6.2 Tourism Development in the 1990s:

In 1997 the department of tourism published a (new) National Tourism Action Plan. Piecemeal from relating a many areas for 'intertwined tourism development', along the lines of the forenamed (thematic) tourism circuits, the end of the plan was to achieve an overall growth and advance of the tourism sector in India, by stepping up marketing, structure structure and mortal resource development. According to some, the plan did not present anything new. It just was stated in a more fashionable development sector slang (Singh, 2001). Others maintained that the plan was over-ambitious and unrealistic. Backing by no means matched the taxing quantitative targets (Raguraman, 1998). In fact, from independence onwards the budget expenses for tourism have always been very small (lower than 0.2).

The significance of domestic tourism was honoured by public policy makers in the 1990s. They included it as an important issue in the Tourism Action Plan of 1997 and decided that it was a state government (policy) issue. The central government was to take care of transnational tourists. Traditionally, domestic tourism substantially concerned passage and work related trip. From the 1990s onwards there has been a steep rise in modern forms of domestic tourism. This new miracle is related to the booming Indian frugality and the new vulnerability of the Indian middle and advanced classes to rather alien, Western ideas of Holiday making. At present, an ever growing group of Indian excursionists travels around the country for rather prosaic, rest and sightseeing- related reasons. This new

trend is underlined by the emergence of Indian trip magazines and the growing explicit attention for domestic tourist destinations in leading journals.

5.6.3 The New Tourism Policy (2002):

In 2002 when the action plan was eventually restated into a tourism policy. Tourism policy officially came a common central- state government concern. The new policy itself, still, was designed by the central government. To a large extent, it concerns old wine in new bottles. It holds the kind of pretensions and prospects exemplary for the first policy. To start with, the policy document attempts to establish tourism's great donation to public development and its part as a machine of growth. It suggests that tourism not only generates government profit, foreign currency, but also provides an optimal use of India's scarce coffers, sustainable development, high quality employment (especially to youths, women and impaired people), and eventually, peace, understanding, public continuity and stability (GOI, 2002). The policy starts from the idea that tourism can be used as a development tool, e.g. that it can induce high quality, mass employment and substance among vulnerable groups in backward areas. In more practical terms, the policy aims at adding the number of domestic and transnational excursionists. In order to do this, the government proposes to diversify the Indian tourism product and mainly improve the quality of tourism structure, marketing, visa arrangements and air trip. The forenamed tourism as a development tool largely concerns domestic tourism, which in this capacity is conceptually linked to 'sustainable' pastoral development. As far as transnational tourism is concerned the Indian Government substantially wants to target the ' high yielding variety of excursionists.

These major policy points are deduced from three main sources. The idea of tourism as a development tool leading to sustainable pastoral development is embedded in traditional socialist style Indian Government thinking. An inversely important source still, is the testament of the transnational development community, represented by associations similar as the UNDP. The idea to specifically target the long haul, high yielding variety of transnational excursionists, on the other hand, is part and parcel of the worldview of lobby associations representing transnational airline and hostel companies. The WTTC in particular has played an important part in shaping the Indian tourism policy. Its prognostications and suggestions form an integral part of the policy. While it's accessible that associations similar as the WTTC and the UNDP have told the Indian Tourism Policy, it's surprising to see how supposedly fluently and without important adaption their recommendations have come sanctioned policy. This implies that the policy is innovated upon rather differing ideas (Baken and Bhagavatula).

5.6.4 New Forms of Tourism:

Combined sweats are being made to promote new forms of tourism similar as pastoral, medical, voyage, film and eco-tourism.

1) Pastoral Tourism:

The scheme of Pastoral Tourism was started by the Ministry in 2002-03 with the ideal of showcasing pastoral life, art, culture and heritage at pastoral locales and in town lets, which have core capability in art and craft, handloom, and fabrics as also an asset base in the natural terrain. It aimed to profit the original community economically and socially, as well as to.

2) Medical Tourism:

It's also called medical trip, health tourism or global healthcare and is a term used to describe the fleetly growing practice of travelling across transnational borders to gain health care. India offering Medical care installations and promoting Medical Tourism that excels among them.

3) Film Tourism:

In July, 2012 the Ministry of Tourism developed guidelines for extending fiscal support to State Governments/ Union Territory Administrations for creation of film tourism, as a primary step, Central Finance Backing of INR. 2 lakh per film will be handed to State Governments and Union Territory Administrations, during each fiscal time for an outside of five flicks. The flicks will be chosen/ named taking inputs from their Film Development Pots, grounded on the exposure handed by them to the tourism destinations and locales in the separate States/ UTs. The CFA would cover Feature Flicks, Pictures, Telefilms and Television Diurnals, including Reality TV.

5.7 QUESTIONS

- Q1. Discuss the features of services.
- Q2. Explain nature of service industry.
- Q3. Describe the recent trends in banking industry.
- Q4. Explain the recent trends in insurance industry.
- Q5. What are the major problems of healthcare services?
- Q6. Write a note on New Tourism Policy (2002).

EXTERNAL SECTOR

Unit Structure

- 6.0 Objectives
- 6.1 Introduction: External Sector
- 6.2 Structure and directions of foreign trade
- 6.3 Balance of Payments (BOP)
- 6.4 Foreign Direct Investment (FDI)
- 6.5 Foreign capital and transnational companies in India.
- 6.6 Role and impact of SAARC
- 6.7 Role and impact of ASEAN
- 6.8 Role and impact of WTO
- 6.9 Questions

6.0 OBJECTIVES

- To know the meaning of external sector.
- To understand the structure and directions of foreign trade.
- To study the India's Balance of Payments since 1991.
- To know about the foreign direct investment.
- To study the role and impact of SAARC, ASEAN and WTO.

6.1 INTRODUCTION: EXTERNAL SECTOR

The External Sector of India plays a crucial role in shaping the country's economy. It encompasses a wide range of activities related to international trade, investments, and financial transactions.

6.1.1 Significance of External Sector of India:

The significance of the External Sector of India can be summarized as:

1) Economic Growth:

The external sector stimulates economic growth by promoting international trade. For example, India's exports of textiles and garments contribute to employment generation and revenue generation, thereby supporting overall economic development.

2) Global Integration:

Integration with the global economy allows Indian companies to access new markets and technologies. For instance, collaborations between

Indian and foreign companies in the technology sector enable knowledge transfer, innovation, and the development of advanced products for global markets.

3) Forex Reserves and Stability:

Adequate foreign exchange reserves provide stability during economic downturns. India's robust forex reserves help mitigate the impact of external shocks and ensure the country's ability to meet its import obligations, such as importing essential commodities during times of scarcity.

4) Export Promotion:

The external sector supports export growth, such as India's export of pharmaceutical products. Increased exports contribute to foreign exchange earnings, boost the pharmaceutical industry, and enable access to affordable medicines in other countries.

5) Attracting Foreign Investments:

The external sector attracts foreign direct investment (FDI) inflows, such as foreign companies investing in India's manufacturing sector. These investments bring capital, technology, and employment opportunities, driving industrial growth and development.

6) Current Account Balance:

The external sector's impact on the current account balance can be seen in sectors like tourism. When Indian tourists spend money abroad, it affects the current account deficit. Similarly, foreign tourists visiting India contribute positively to the current account by spending on accommodation, transportation, and local goods and services.

6.1.2 Challenges Faced by External Sector in India:

Here are some of the challenges faced by the external sector in India.

1) Trade Imbalances:

India has experienced trade imbalances in sectors like electronics, where import of electronic goods exceed exports, leading to a trade deficit.

2) Exchange Rate Fluctuations:

Rapid depreciation of the Indian rupee against major currencies, such as the US dollar, can increase the cost of imported goods and impact the profitability of export-oriented industries like textiles.

3) Global Trade Barriers:

The imposition of higher tariffs on Indian steel exports by certain countries can hinder the growth of the Indian steel industry and limit its access to international markets.

4) Volatile Commodity Prices:

Fluctuations in crude oil prices can significantly impact India's import bill and trade deficit, as India relies heavily on oil imports to meet its energy demands.

5) Global Economic Uncertainty:

Economic slowdowns in key markets like the United States and Europe can reduce the demand for Indian exports, affecting industries such as information technology (IT) services and textiles.

6) Geopolitical Factors:

Trade disruptions due to geopolitical tensions, such as trade restrictions imposed on India by neighbouring countries during border disputes, can hinder the smooth flow of goods and services.

7) Inadequate Infrastructure:

Insufficient port facilities and logistical bottlenecks can lead to delays and higher costs in the export-import process, affecting industries like pharmaceuticals and perishable goods.

8) Technological Advancements:

Advancements in automation and artificial intelligence can create challenges for labour-intensive industries like textiles and leather, requiring them to adapt and invest in advanced technologies to remain competitive.

6.1.3 Recent Reforms in External Sector:

In recent times, India has undertaken several reforms to strengthen and improve the external sector. Here are some key reforms:

1) Liberalization of Foreign Direct Investment (FDI):

The government has implemented progressive measures to ease restrictions on FDI across various sectors, allowing greater foreign investment inflows and promoting economic growth. For example, sectors like defense, aviation, retail, and insurance have witnessed increased FDI limits.

2) Simplification of Export-Import Procedures:

The introduction of online platforms such as the Electronic Data Interchange (EDI) and the Single Window Interface for Facilitating Trade (SWIFT) has streamlined export-import processes, reducing paperwork and enhancing efficiency.

3) Introduction of Goods and Services Tax (GST):

The implementation of GST has simplified the tax structure and facilitated the seamless movement of goods across states, reducing logistical barriers and improving the ease of doing business.

4) Trade Facilitation Measures:

Initiatives like the Trade Infrastructure for Export Scheme (TIES) and the Trade Receivables Discounting System (TReDS) have been introduced to enhance trade infrastructure, provide financial support, and expedite the settlement of export receivables.

5) Regional Trade Agreements (RTAs):

India has actively engaged in negotiating and signing RTAs with various countries and regional blocs to boost trade and enhance market access. Examples include the Comprehensive Economic Cooperation Agreement (CECA) with Singapore and the India-ASEAN Free Trade Agreement.

6) Export Promotion Schemes:

The government has implemented schemes like the Merchandise Exports from India Scheme (MEIS) and the Service Exports from India Scheme (SEIS) to incentivize exports and promote sectors with high export potential.

7) Focus on Skill Development:

Skill development initiatives have been launched to enhance the quality and competitiveness of the workforce, particularly in sectors like information technology, manufacturing, and services, which contribute significantly to India's external trade.

6.2 STRUCTURE AND DIRECTIONS OF FOREIGN TRADE

6.2.1 Meaning:

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries".

According to Anatol Marad, "International trade is a trade between nations".

According to Eugeworth, "International trade means trade between nations".

International trade is in principle not different from domestic trade as the motivation and the behaviour of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade.

6.2.2 Scope of International Trade:

1. Export and Import of Goods:

International trade involves the import and export of goods. It is also called invisible trade.

2. Export and Import of Services:

This is also known as invisible trade. Invisible trade includes tourism, transportation, telecommunications, banking, warehousing, distribution, and advertising.

3. Licenses and Franchises:

A license is a contractual arrangement whereby one company (the licensee) grants access to its patent, copyright, trademark or technology to another foreign company (the licensee) at a rate called a royalty. Pepsi and Coca-Cola are produced and sold worldwide under a license system. A franchise is similar to a license, but a term used in the context of the provision of services. For example, McDonald's operates fast-food restaurants worldwide through its franchise system.

4. Foreign Investment:

It involves investing funds abroad in return for financial gains. There are two types of foreign investment.

(a) Foreign Direct Investment (FDI):

Investing in foreign assets such as plant and machinery for the purpose of manufacturing and marketing goods and services abroad.

(b) Portfolio Investments:

Liability to invest in shares of a foreign company or to earn income by way of dividends or interest.

6.2.3 Importance of International Trade:

International trade has become very important in modern economy. Even a country like England has achieved its development through international trade. It is clear that international trade is the foundation of modern economic development. An important reason for the industrial progress made by the advanced countries like America, France, Germany, Japan etc. can be found in the trade policy adopted by them. Therefore, classical economists consider international trade as an engine of economic development and not merely a means of increasing production.

The importance of the study of International Trade can be explained as Internal and International Trade follows.

1) The optimal use of the natural resources of a country:

The international trade between two or more nations helps all of them to make the best possible use of their natural resources. Every country can focus on the production of goods and services using these resources and sell them to other nations to earn foreign exchange and shore up their economy. It also helps to avoid the wastage of crucial resources and use them to improve the overall economic standing of the country.

2) The availability of different types of goods and services:

One of the major benefits of international trade is that it enables a country to obtain goods and services that it is unable to make on their own due to lack of resources or higher costs of production. They can get these goods from outside the country at relatively lower costs.

3) The specialisation in the production of certain goods and services:

Some nations are endowed with certain advantages like natural resources, workforce, technology and capital. These resources allow them to engage in the production of certain kinds of goods and services at relatively cheaper costs and sell it to other nations who need them. They can engage in large scale production to cater to the needs of home domestic as consumption as well as serve the international markets. They can also dispose of goods and services which they possess in large quantities to other countries and improve their foreign exchange reserves in return.

4) The stability in prices of products and services:

It is one of the major benefits of international trade. It helps to iron out the benefits and put a stop to the wild fluctuations that can arise due to the non-availability of these products.

5) The exchange of technical expertise:

International Trade allows countries with a lack of knowledge in terms of production, manufacturing and technology to access it from other nations. Underdeveloped countries can take the help of the developed ones to establish and develop industries apart from increasing their economic prosperity.

6) Improve efficiencies in terms of production and distribution of goods and services:

Countries can take advantage of international trade to increase their scale of production and make it more efficient to cater to the demands of other nations. They can also focus on producing better quality products and services while minimising the overall costs.

7) The development of transport and communication:

International trade between nations can flourish only if the means of transport and communications are robust and highly efficient. Or else, it will lead to bottlenecks that can hamper the viability of the transactions. International trade often acts as an incentive for nations to improve their transportation and communication with other countries to facilitate the continuous exchange of goods and services.

8) Improved relations:

International trade between nations also leads to a greater scope of communication between the two nations. It enables the exchange of knowledge and ideas as well. This can foster greater cooperation and understanding and act as a cornerstone for developing more cordial relations between the two countries.

The benefits of International Trade far outweigh the risks, and it also leads to greater economic prosperity for the economies involved. The size of the world economy has jumped manifold in the past decade, and it is a result of the increased volume and value of the exchange of goods and services between nations.

6.2.4 Structure of Indian Foreign Trade:

A study of a country's imports and exports of products and services is known as the composition of trade. In another sense, it provides information on a country's imports and exports of commodities. As a result, it reveals a nation's structure and level of economic development. Raw resources, agricultural products, and intermediate commodities are exported by developing countries, whereas developed nations export finished goods, equipment, and machines. The Indian Foreign Trade Policy boosts the economy by allowing India's exports and imports to rise significantly.

Composition of Indian foreign trade: Imports

The composition of India's import basket included oils, pulses, machinery, chemicals, hardware, pharmaceuticals, dyes, yarns, paper, grains, non-ferrous metals, cars, and other items at the time of independence. With the advent of planning and the emphasis on establishing capital goods and engineering sectors, the government was required to purchase a large number of capital equipment and maintenance imports.

The top eight import items during April-February of FY22 were:

- Petroleum crude & products (25.7 percent of total imports)
- Plastic materials, artificial resins, etc. (3.3 percent)
- Pearls, semi-precious & precious stones (5 percent)
- Gold (8.2 percent)

- Electronic goods (11.8 percent)
- Electrical & non-electrical equipment (6.6 per cent)
- Inorganic & organic chemicals (5 percent)
- Coal, coke, etc. (4.9 percent).

In FY22, these main import items accounted for 70.6 percent of overall imports.

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

1) Raw materials:

Petroleum oil, lubricants, edible oil, iron and steel, fertilisers, non-ferrous metals, precious stones, pearls, and other commodities fall into this category. The percentage of total imports made up of all of these commodities skyrocketed significantly from 47% in 1960-61 to nearly 80% in 1980-81.

Presently, concerns about supply disruptions have risen due to Russia's invasion of Ukraine, bringing oil prices to multi-year highs. Given that India imports roughly 80% of its oil, the current circumstance puts its trade deficit in jeopardy.

Petroleum imports increased from USD 13.1 billion in January to USD 15.3 billion on February 22. Due to rising international oil prices, higher mobility, and a corresponding increase in domestic and foreign oil consumption, petroleum imports climbed significantly from USD 72.4 billion in FY21 to USD 141.7 billion in FY22.

2) Capital goods:

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

3) Consumer products:

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

Composition of Indian foreign trade: Exports

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

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

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

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

Traditional products:

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

Non-traditional products:

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

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

Conclusion:

To summarise, major changes in the scale, composition and course of the Indian foreign trade have been noted over the last five decades. India's transformation from a largely primary commodities exporting country to a non-primary commodities exporting country is remarkable. The nation's reliance on importing capital goods and food grains has also decreased. The majority of these modifications have been in line with the economy's

development needs. The trend implies that the Indian economy is undergoing structural changes.

6.2.5 Direction of India's Foreign Trade:

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

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

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

Direction of India's foreign trade:

The direction in the context of Kerala means the destination of the trade and commerce that India engages in, for several years. It means the final point of the journey to the imports and the exports that India engages.

Trade here refers to both imports and the exports that India does with different foreign countries across the world.

India's imports:

The direction of India's import of goods and services refers to the final destination of the imported goods and services from the foreign countries. This means the destination point is India in terms of those imports of foreign goods and services.

India's exports:

The direction of Indian exports means those goods and services that India provides on account of the cross-national sale to various other countries. In this regard, the direction is the final destination that those traded goods and services reach. During the British period, India did trade with the Britishers, however, this scenario is a changed picture now. India deals with trade and commerce with various other nations like the USA, the UK, Japan and other countries.

Export Partners:

India exports approximately 7500 commodities to about 192 countries.

The following table shows India's 10 largest destinations for exports in 2022–23

Rank	Country	Value (US\$ billion)	Share of overall exports
1	United States	71.39	17.45%
2	United Arab Emirates	28.76	7.03%
3	Netherlands	18.53	4.53%
4	China	13.60	3.33%
5	Singapore	11.00	2.69%
6	United Kingdom	10.27	2.51%
7	Saudi Arabia	9.69	2.37%
8	Hong Kong	9.36	2.29%
9	Germany	9.21	2.25%
10	Brazil	9.19	2.25%

Import Partners:

India imports around 6000 commodities from 140 countries.

The following table shows India's 10 largest sources of imports in 2022–23.

Rank	Country	Value (US\$ billion)	Share of overall imports
1	China	90.72	13.83%
2	United Arab Emirates	48.88	7.45%
3	United States	46.82	7.14%
4	Russia	41.56	6.33%
5	Saudi Arabia	38.62	5.89%
6	Iraq	31.52	4.84%
7	Indonesia	26.89	4.10%
8	Singapore	21.70	3.31%
9	South Korea	19.26	2.94%
10	Australia	17.50	2.67%

6.3 BALANCE OF PAYMENTS (BoP)

6.3.1 Meaning:

A very important concept in economics is the balance of payments (BoP). According to Kindleberger, “balance of payments is a systematic record of all economic transactions between the residents of the reporting country and the rest of the world during given period of time.” In other words, a balance of payments shows how much a country earned and how much a country owes to the rest of the world. Any transaction that earns a foreign exchange is known as credit transaction. Any transaction that results in an outflow of foreign exchange is called a debit transaction. J. E. Meade classified transactions of the balance of payments on the basis of the nature of transactions. According to him, ‘an autonomous transaction’ is a transaction that takes place for its own sake.’ That is these transactions are entered into with the motive of satisfying some human want.

For example, an export or import because it entails utility to the producer or consumer. Similarly, use of services gives satisfaction or helps in production process. ‘An accommodating transaction’ refers to a transaction undertaken with the objective of adjusting for a mismatch on the total of autonomous transactions. For example, a country is forced to borrow from abroad if it owes money to other countries as when its imports are more than the value of its exports. An investment decision is considered to be autonomous when it is taken with an intention to earn profit in a country abroad. A decision to borrow abroad because the country owes money to other country, it is considered as an accommodating transaction since it tries to bridge the gap between receipts and payment requirements. It is to be noted that a loan from abroad is an accommodating transaction. However, the interest paid on this loan is an autonomous transaction. Based on the nature of transactions, the balance of payments is divided into sub-accounts.

6.3.2 Structure of Balance of Payment:

The balance of payments given above is classified into subaccounts as mentioned earlier.

1. Balance of Trade:

This is the net of merchandise exports and imports. If a country exports more than the value of goods it is importing, it is said to be having a balance of trade surplus. Conversely, when the country is importing more than the value of goods exported by it, the trade balance is said to be in deficit. Most of the countries of the world do run deficits in their trade balance. From the above table we can see that in 2009-10, India had a trade deficit equal to Rs.5,60,746 crore or U.S. \$ 118,374 million.

2. Balance on Invisible Trade:

This refers to the export and import of services by the country. The country earns foreign exchange through remittances by residents working

abroad, providing consultancy, tourism, providing banking, shipping and insurance services, and interest on past loans. Conversely, a country pays foreign exchange for imports of services, consultancy, travel abroad by residents, hiring shipping, banking and insurance services, and by paying interest on loans from abroad among others. In 2009-10, India had a surplus on this account equal to Rs. 3,80,120 crore, or U.S. \$ 79,991 million.

3. Balance on Current Account/Current Account Balance:

This is the net of the transactions on merchandise and invisible trade. This account is a measure of a country's external economic health. Persistent deficits in the current account undermine the viability of the economy. During 2009-10, India had a current account deficit of Rs. 1,80,626 crore or U.S. \$ 38,383.

4. Balance on Capital Account:

This account shows the flow of finance between the reporting country and the rest of the world. There are six major types of transactions in this account.

- Foreign capital refers to direct and portfolio investment by individuals and corporates. An investment by the resident abroad is recorded as a debit transaction as it results in an outflow of foreign exchange. Investments made in the reporting country are recorded as credit transactions.
- Loans from Abroad refers to external commercial borrowings and external assistance, including the trade credit accessed by exporters.
- Banking capital refers to inflows and outflows in the commercial banking sector.
- Rupee Debt Servicing refers to the interest paid on loans taken from the erstwhile Soviet Bloc countries.
- Other capital flows are miscellaneous flows India witnessed an outflow on this account in 2009-10.
- Errors and Omissions are the sum of recording errors. For India, in 2009-10, the sum of these six transactions amounted to Rs. 2,24,861 crore or U.S. \$ 51,824 million.

5. Overall Balance:

This is the net of current and capital account balance. In 2009-10, for India this amount was Rs. 64,235 crore, or U.S. \$ 13,441 million. The net inflow of capital results in reserve accretion or addition to the stock of the foreign currency assets (FCAs) of the country. If the country cannot mobilize adequate funds on its own, it will have to borrow from the International Monetary Fund (IMF). Monetary movements refer to transfer of foreign exchange reserves/gold held by the central bank of the country to settle the

disequilibrium in the balance of payments. If the country has a surplus in the trade balance and/or the invisibles, it may run a surplus in the current account. This surplus is compensated by an off-setting deficit in the capital account. Conversely, when the country has a deficit in the trade balance and/or a deficit in the invisibles, it may run a deficit in the current account. This is compensated by borrowings from other countries, running down the reserves, and/or a loan from the IMF. In all such cases, the country would run a surplus in the capital account. Thus, a country may have a deficit or a surplus in any one account but the overall balance of payments always balances.

6.3.3 Types / Causes of Disequilibrium in the Balance of Payment:

A balance of payments may not always be in balance. That is, at any point of time, during a given period of time, a country may experience a mismatch between its receipts and payments. However, a balance of payments disequilibrium then has a specific connotation and should not be confused with a temporary deviation. According to Machlup, a balance of payments disequilibrium refers to continuous, persistent occurrence of deficits or surpluses. Since the deficits are more common and difficult to handle, the traditional international trade theory focused on them, with little attention to cases where there are surplus. According to Kindleberger, there are three types of disequilibrium depending on the nature and the underlying causes. They are classified as under:

1. Cyclical Disequilibrium:

This refers to payments disequilibrium due to trade cycles. Thus, during a boom, a country would be experiencing import surplus; exports would decline due to higher domestic prices, and run a trade deficit. Alternately, when there is a recession, the country would experience a surplus since the demand for imports will decline and due to lower prices, the exports would increase. This type of disequilibrium does not require any special measures to contain the payments disequilibrium since the domestic stabilisation policies would automatically take care of the disequilibrium. When there are two countries, the country with a stronger trade cycle would alternatively be fluctuating compared to its trading partner.

2. Secular Disequilibrium:

This case is applicable to most of the developing countries. In developing countries, the available investment opportunities far exceed the available savings/resources. In such cases, the country may have to borrow for a long period until it can generate adequate exportable surpluses. As a country develops, its production capacity increases, increases the exports and the country earns the capacity to repay the loans. In this case, also, there is no need for a separate balance of payments adjustment policy.

3. Structural Disequilibrium:

A structural disequilibrium affects only one or few sectors of the economy. Thus, it is different from the cyclical and secular disequilibrium, which affect the entire economy.

Kindleberger identified two types of structural disequilibria.

- A) Structural disequilibrium in the goods market this refers to the changes in the demand and supply conditions in a particular sector. A sudden, permanent change in demand, like in the case of jute industry due to the introduction of plastic; the effect on demand for cotton textiles due to the introduction of synthetic fibers; the impact on metal industry due to the introduction of poly fibers, are some of the examples of structural disequilibrium. A sudden crop failure, shortage of raw materials, a strike in the major industry would force the country to opt for imports as in the case of the US steel imports and cause a large deficit in the balance of payments. Sometimes a country may suffer a loss of service income like Egypt when the Suez Canal was closed, Belgium due to the closure of copper mines in Congo; India in case of Gulf Crisis.
- B) Structural disequilibrium in the factor markets arises when the factor prices fails to reflect the relative factor availability. When government tries to protect the labour and introduce wage regulations, the cost of labour increases relative to that of the capital. In such cases, the producers would prefer to employ more capital and less labour. As a result, the production structure will be distorted and the country would be producing goods that need more of imported raw materials and a continuous worsening of the balance of payments. In countries like India and many other developing countries, this has happened.
- C) A persistent and high rate of Inflation tends to push the relative prices higher than the world prices. As exports become costlier, demand will shrink. At the same time, imports would be cheaper and increasing. Thus, the trade balance will continue to worsen. The high rates of domestic inflation in case of many developing countries were found to be the main reason for decline in exports.
- D) Flight of capital is also an important cause of a structural disequilibrium. In Europe, during the 1930s, the withdrawal of foreign capital lead to severe decline in the levels of output and employment and resulted in the World War II. Similarly, in case of India, Egypt, Latin America the political uncertainties due to independence movements led to withdrawal of foreign capital that permanently affected the economy. In recent years, the fear that China may introduce communist rule in Hong Kong led to flight of capital. A continuous depreciation in a currency also triggers flight of capital and therefore, the central banks try to maintain a stable exchange rate.

4. Fundamental Disequilibrium:

According to the International Monetary Fund (IMF), the case of a 'fundamental disequilibrium' is the most important form of disequilibrium and needs special attention. A country is said to be suffering from a fundamental disequilibrium if the following conditions are observed:

- 1) A persistent and high rates of domestic inflation.
- 2) A persistent and high levels of fiscal deficits (more than 3% of GDP).
- 3) An overvalued exchange rate.
- 4) Factor market distortions, where the price of labour is higher than the marginal product of labour and/or subsidisation of capital with the price of capital being lower than its marginal product.
- 5) An irrecoverable loss of export markets due to changes in demand or introduction of substitutes and/or introduction of new technologies India losing markets for its jute exports; Egypt losing markets for its cotton exports and Ghana losing its tin export markets.
- 6) Consistently adverse capital flows
- 7) Persistent and high external borrowings, and,
- 8) Domestic distortions in the form of adverse trade and industrial policies

6.3.4 Measures to Correct Balance of Payment Disequilibrium:

As noted earlier, though the balance of payments disequilibrium refers to both a deficit and a surplus, economic theory concerned it with correcting a deficit since it is more difficult to tackle. We shall now examine some of the methods of adjusting or overcoming a balance of payments deficit. They are broadly classified as monetary and non-monetary methods.

1. Monetary Measures:

These methods try to change the demand and supply of money, interest rates, availability of credit and the exchange rates to bring about a change in the demand for exports/imports and the supply of exports. We shall examine them in detail now.

A) Deflation:

Under this method, the central bank of the country with a payments deficit will reduce the supply of credit through increase in open market operations, reduction in money supply. The central bank will reduce the loans to the government since budget deficits are an important source of excess demand for goods and services. It will increase the bank rate so that the lending rates in the economy increases and this will bring down the demand for bank credit. As the levels of expenditure and investment fall, the demand for imports would decrease. At the same time, as the domestic price level falls, the exports would become cheaper and the balance of trade would improve. However, this method lost its sheen after the Great Depression.

B) Depreciation:

In this case, the central bank of the country allows the market value of exchange rate to decrease. When imports increase and exports fall, the demand for the country's currency decreases in the market and the demand for foreign currency increases. In this case, the exchange rate starts falling. As the exchange rate depreciates, it results in a fall in demand for imports and exports starts picking up. However, this method is rarely resorted to since a continuous depreciation in a currency results in speculative attacks and this can result in flight of capital, which we discussed in the causes of disequilibrium. It is important to remember that since the depreciation is market determined, a currency may depreciate vis-à-vis one currency and appreciate vis-à-vis another at the same time depending on the relative demand for each currency. The 1998 Asian Contagion is one example of speculative attacks on a currency.

C) Devaluation:

This is a method where, the central bank of the country will lower the official value of the currency. The currency of each country is officially declared in terms of gold or SDRs. When faced with persistent deficits, central banks devalue their currency. Since 1946, all the member countries of the IMF require its prior permission to devalue their currency. In June 1991, India devalued its currency in order to overcome its balance of payments crisis. In case of devaluation, the value of the currency falls vis-à-vis all its trading partners. Thus, exports to all countries and imports from all countries are affected equally. The use of devaluation is governed by certain principles. This is known as the "Marshall-Lerner Condition." Let us examine this condition first. According to this condition, a country should devalue only when it faces elastic demand for both its exports and imports. This is given as:

$$\partial B = (E_x + E_m) > 1$$

In the above equation, ∂B = the rate of change in the trade balance due a devaluation. E_x = elasticity of demand for exports of the devaluing country. E_m = elasticity of demand for imports in the devaluing country. If the sum of the elasticity is more than one, then only a country will gain from devaluation. This is explained with the help of an example:

Suppose, India's export elasticity is 2.1, and its import elasticity is 2.4. In such a case, a 7.5 percent devaluation of rupee results in a 15.75 percent increase in its exports and an 18.00 percent fall in its imports. Thus, India's trade balance would improve by 33.75 percent. However, using devaluation needs caution due to the following factors:

a) Competitive Devaluation:

In this case, as a country tries to improve its trade balance through devaluation, its trading partners may also try the same. In such a case, the total trade will fall, as exports of one country are nothing but imports by

another. This has actually happened in the 1930s. It is for this reason that the IMF ensures maintenance of stable exchange rates by all its members.

b) Nature of Trade:

Devaluation can be successful only when the country concerned imports/exports goods that have elastic demand. In case of most of the developing countries, their imports are of essential in nature like, oil, fertilizers and machinery. The demand for these goods is inelastic. They export primary goods for which the demand is either stagnant or declining. In such cases, a devaluation of the currency may actually deteriorate the balance of payments.

c) J-curve:

It is observed that when a country devalues its currency, the immediate effect is a worsening of the trade balance. This is because; the demand and supply conditions will have to adjust to the new prices. Till such time, a fall in the exchange rate would reduce the export earnings and the increase in import prices will increase the import bill. It will take three months for the trade balance to improve. During such time, the government should not try to interfere with the working of the market. It is observed by studies that in June 1966, when the Indian rupee was devalued, the immediate effect was a worsening of the trade balance. Political pressures forced the government to reverse all the policies that were introduced to promote trade.

d) Speculation:

It is observed that devaluation can result in further expectations about the fall in exchange rate. Thus, the central bank has to be on guard against such possibilities. This was the case with many Latin American countries in 1970s and 1980s.

C) Exchange Controls:

Under this method, the central bank tries to control the use of scarce foreign exchange for specified purposes. It also enters into agreements with important trading partners about the rate at which the exports and imports of each country need to be traded. It also determines different exchange rates for different purposes/types of imports. Though these methods were extensively used until recently, the IMF ensured that most of them are eliminated.

2. Non-Monetary Measures:

These methods try to reduce imports and/or increase exports to improve the trade balance. The important among these are as under:

A) Tariffs:

A tariff refers to a tax on imports and/or exports. If taxes are imposed on exports, it is known as 'export tariffs' or 'export duties'. However, export tariffs are rare, since no country would like to see a fall in exports due to

higher prices. An 'import tariff' or 'import duty' refers to a tax on imports. Since a tax increases the price of imports, these are popular method of controlling imports. Further, import tariffs are an important source of public revenue in many countries. 'Transit duties' are taxes imposed on goods passing through the borders of a country, but not meant for sale in the country. Since early 1990s, many countries have opted for liberalization of trade and industry and as such, the role of tariffs in adjustment has reduced greatly. Further, any discriminating tariff is subject to the jurisdiction of WTO and is not allowed. Thus, the role of tariffs to improve the trade balance virtually ended in 1995.

B) Quotas:

These are restrictions on the volume of trade. They may be specified in physical terms, as imports of a given quantity need government clearance. They can be specified in terms of foreign exchange allowed on a particular import. These are also redundant now since the WTO disallows are quota restrictions on trade.

Summary:

Balance of payments refers to the systematic records of all economic transactions between the residents of a country and the residents of the rest of the world. Balance of payments consists of trade account, current account and capital account. In accounting sense balance of payments always balances. However, in economic and in real sense balances of payments are either in surplus or in deficits. India's balance of payments are in deficits since Independence. The major reasons for such as large deficits in India's balance of payments are tremendous rise in import bill, devaluation and depreciation of Rupee, slow rise in export earnings, stiff competition from other emerging economies such as China, Brazil, South Africa & even countries like Shrilanka, Bangladesh etc. The positive aspects of recent balances of payments in India is quite interesting. Though the import bill is still high, the export earnings have been rising in the country. The best method to correct the deficits in the balance of payments is to promote and expand exports.

6.4 FOREIGN DIRECT INVESTMENT (FDI)

6.4.1 Meaning of FDI:

A Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. With FDI, foreign companies are directly involved with day-to-day operations in the other country. FDIs, apart from being involved in capital investment, also include the provisions of management or technology. The key feature of FDI is that it establishes either effective control of or at least a substantial influence over the decision-making of the foreign business. The FDI can be made in various ways, including the opening of a subsidiary or associate company in a foreign country or ensuring a merger or joint venture with a foreign company.

6.4.2 Types of FDI:

- FDI can be categorised into horizontal, vertical or conglomerate.
- A horizontal direct investment happens when an investor sets up the same type of business operation in a foreign country as it operates in its home country.
- A vertical investment is one in which different, but related business activities from the investor's main business is established or acquired in a foreign country. For instance, when a manufacturing company acquires an interest in a foreign company that supplies parts or raw materials required for the manufacturing its finished goods, it is called vertical investment.
- A conglomerate type of FDI is the one where a company or an individual makes foreign investment in a business that is unrelated to its existing business in its home country.
- Since this type of investment involves entering a new industry where the investor has no experience, it often takes the form of a joint venture with a foreign company already operating in the country.

6.4.3 Disadvantages of FDI:

1) Increase in production:

Allowing FDI inflow ensures an increase in investment in key areas such as infrastructure development, which may lead to increase in capital goods production. For instance, investment in power generation can generate more electric power, which would enable the growth of more industries.

2) Increase in capital inflow:

FDI promotes more capital inflow into the countries, especially in key sectors like infrastructure .It can address the shortage of capital and materials, which can rapidly enhance the growth of the country.

3) Increase in employment opportunities:

FDIs in developing countries have enhanced the service sectors. This increased the employment opportunities within these countries, leading to an increase in economic growth. Educated unemployment has also been reduced by the FDIs as they can absorb some of the workforces.

4) Strengthening of financial services:

FDIs can enhance financial services of a country by not only entering its banking industry but also by extending other activities like merchant banking, portfolio investment etc. It has also helped the capital market within the country.

5) Exchange rate stability:

RBI has been maintaining the exchange rate in the country through its exchange control measures. However, the constant and continuous supply of foreign exchange is vital for the continuation of exchange rate stability. FDI inflow plays a crucial role in this aspect by helping RBI to have comfortable foreign exchange reserve position of more than 1 billion dollars.

6) Economic development:

FDIs, in the past, have played a crucial role in developing backward areas by starting industries. This resulted in many of these areas becoming industrial centres, with improvement in the standard of living of the people in these areas.

7) Efficient use of natural resources:

The natural resources in the country can be used efficiently by the FDI, which may otherwise have been unutilised.

8) Improved knowledge and technology:

One of the crucial benefits received by the host countries through the FDIs is access to new technologies and expertise from foreign companies. This can result in enhancement of the country's growth potential.

9) Maintenance of Balance of Payments:

FDI growth can help maintain the Balance of Payments. It can also maintain the value of countries' currencies.

6.4.4 Disadvantages of FDI:

- 1) Foreign ownership of strategically important sectors cannot favour the countries.
- 2) Foreign investors might strip the business of its value.
- 3) They could sell unprofitable portions of the company to the local, less sophisticated investors.
- 4) They can use the company's collaterals to get low-cost, local loans.
- 5) Instead of reinvesting it, they lend the funds back to the parent company.
- 6) The MNCs, through FDIs, can get controlling rights within the foreign countries.
- 7) FDI can also be a convenient way to bypass local environmental laws.
- 8) Developing countries are tempted to reduce environmental regulations to attract FDI inflows.

- 9) FDI does not always benefit host countries as it enables foreign multinationals to gain from ownership of raw materials and even exploit labour force by not distributing its wealth to the backward society.
- 10) MNCs are often criticised for their poor working conditions in foreign countries.
- 11) The entry of large firms can often displace local businesses and may drive them out, as these small companies cannot compete.

6.4.5 FDI policy in India:

New Industrial Policy, 1991:

The Government introduced automatic approval upto 51% of foreign in 34 priority sectors. Government had the authority to raise FDI limit to 100% without prior approval of Parliament. There were 2 ways to get FDI approval in India.

Automatic Route:

Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from Government of India for the investment

Government Route:

Under the Government Route, prior to investment, approval from the Government of India is required. Proposals for foreign direct investment under Government route, are considered by respective Administrative Ministry/ Department

FDI policy 2017:

On August 28, 2017, DIPP announced the revised FDI policy. The following initiatives were taken.

- Abolition of FIPB and establishment of Foreign Investment Facilitation portal.
- Different departments were appointed to look into sector specific investments.
- DIPP issued Standard operating Procedures with detailed procedures, the timelines and list of competent authorities for government approval.
- Start-ups could issue equity or equity linked debt instruments to foreign venture capital investors.

6.4.6 Trends of FDI in India:

- The Measures taken by the Government on the fronts of FDI policy reforms, investment facilitation and ease of doing business have resulted in increased FDI inflows into the country as India has attracted total FDI inflow of US\$ 72.12 billion during April to January, 2021.
- It is the highest ever for the first ten months of a financial year and 15% higher as compared to the first ten months of 2019-20 (US\$ 62.72 billion).
- The trends show that the FDI equity inflow grew by 28% in the first ten months of F.Y. 2020-21 (US\$ 54.18 billion) compared to the year ago period (US\$ 42.34 billion).
- In terms of top investor countries, 'Singapore' is at the apex with 30.28% of the total FDI Equity inflow followed by U.S.A (24.28%) and UAE (7.31%) for the first ten months of the current financial year 2020-21.
- Japan has been leading the list of investor countries to invest in India with 29.09% of the total FDI Equity inflows during January, 2021, followed by Singapore (25.46%) and the U.S.A. (12.06%).
- The Computer Software & Hardware has emerged as the top sector during the first ten months of F.Y. 2020-21 with 45.81% of the total FDI Equity inflow followed by Construction (Infrastructure) Activities (13.37%) and Services Sector (7.80%) respectively.
- As per the trends shown during the month of January, 2021, the consultancy services emerged as the top sector with 21.80% of the total FDI Equity inflow followed by Computer Software & Hardware (15.96%) and Service Sector (13.64%).
- These trends in India's Foreign Direct Investment are an endorsement of its status as a preferred investment destination amongst global investors.

6.5 FOREIGN CAPITAL AND TRANSNATIONAL COMPANIES IN INDIA

Most of the underdeveloped countries suffer from low level of income and low level of capital accumulation. Foreign capital flows into an economy especially in the form of investible funds, can have profound impact on the growth rate of an economy. Net capital inflows into Indian economy have increased substantially in the last 20 years.

6.5.1 Role of Foreign Capital:

Developing economies need foreign capital for the following reasons:

(i) Investment Demand:

Very often, less developed countries face scarcity of domestic capital due to low levels of savings. In order to meet their investment demands for rapid economic development, they have to resort to foreign capital, foreign capital on supplement domestic resources to achieve the critical minimum investment to break the vicious circle of poverty.

(ii) Initial Stage of Development:

A developing country may have potential savings that may come forward as investment funds only after the country has reached a certain level of development. Therefore, in the initial stages of development such countries have to rely on foreign capital.

(iii) Foreign Expertise:

Domestic capital and enterprises may lack the experience and expertise to involve themselves in certain sectors of the economy especially capital and technology intensive ones. In such cases there is no option but to invite foreign capital.

(iv) Advanced Know-how:

Foreign capital brings in advanced technical know-how, managerial skills and expertise from which a developing country can benefit.

(v) Underdeveloped Capital Market:

Savings generated within an economy need to be mobilized and converted into investment. For this purpose, a well developed capital market is essential, which is absent in most underdeveloped and developing countries. Therefore to meet their investment demands in the initial stages of development, LDCs need to invite foreign capital in some form or the other.

(vi) Balance of Payments Problems:

With deteriorating balance of payments that most developing countries face, it becomes essential to encourage foreign capital either in the form of borrowings or in the form of direct investments. Foreign investments help to increase a country's exports and reduce imports if such investments take place in export oriented and import substituting industries.

6.5.2 Forms of Foreign Capital:

(i) Foreign Aid:

A part of foreign capital is received on concessional terms and is known as external assistance or foreign aid. It may be received by way of loans and

grants. Grants are in the form of outright gifts. Loans qualify as aid only to the extent that they bear a concessional rate of interest and have longer maturity periods than commercial borrowings. Foreign aid has mostly been given by foreign government of developed countries to developing countries or by international institutions like IMF, World Bank, Asian Development Bank.

(ii) Commercial Borrowings:

Foreign capital is also acquired through commercial or market borrowings. These are loans at market rate of interest from international capital markets. Given the increasing shortage of low cost external assistance, India since 1980-81, has had to rely on commercial borrowings from abroad for meeting its capital requirements. These borrowings include credit from official export agencies, and buyers and suppliers credits. Since these borrowings involve short-term, high-cost funds, government approvals are necessary for acquiring them. The objective is to judiciously control the inflow of such funds, so that, the external indebtedness of the country is not adversely affected. The major part of these borrowings have been by public sector undertakings and development financial institutions such as the IDBI, ICICI, IFCI which assist private sector companies with external finance.

(iii) Foreign Private Investment:

Foreign Private Investment comes into a country in two forms namely, foreign direct investment and foreign portfolio investment. Direct investment takes different forms like starting a subsidiary office or branch of effecting a foreign collaboration. Foreign collaboration involves joint participation of foreign and domestic capital. Portfolio investment involves foreign companies and financial institution subscribing to shares and debentures of domestic companies. They involve no interest payment but only share in profit.

(iv) Non – resident Investments and Deposits:

The Non-Resident deposits have been an important component of a country's capital inflows, especially that of a LDC. In the recent year, in India, 277 NRI investments have been an important avenue of foreign capital for the economy.

6.6 ROLE AND IMPACT OF SAARC

6.6.1 Introduction:

The South Asian Association for Regional Cooperation (SAARC) was established on 8 December, 1985, and its Secretariat was established in Kathmandu, Nepal, on 17 January 1987. SAARC comprises eight member countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. SAARC Heads of State will congregate at yearly summits. The most recent was held in 2014 in Kathmandu. Since then, Nepal has hosted annual casual gatherings of SAARC foreign ministers.

6.6.2 Members of SAARC:

The SAARC Charter was ratified in Dhaka on December 8, 1985, establishing the South Asian Association for Regional Cooperation (SAARC). On January 17, 1987, the Association's Secretariat was established in Kathmandu.

Sr. No.	SAARC Member States	Sr. No.	SAARC Observer States
1.	Afghanistan	1.	Australia
2.	Bangladesh	2.	China
3.	Bhutan	3.	European Union
4.	India	4.	Iran
5.	Maldives	5.	Japan
6.	Nepal	6.	Mauritius
7.	Pakistan	7.	United States
8.	Sri Lanka	8.	Myanmar
9.	Republic of Korea		

6.6.3 Objectives of SAARC:

SAARC seeks to improve relationships with other developing nations and international and regional groups that share its goals.

- To advance the welfare of South Asians and raise their standard of living.
- To hasten regional economic growth and social and cultural development.
- To encourage and develop South Asian Nations' shared independence.
- To foster active collaboration and support in economics, socialism, culture, technology, and science.
- To contribute to mutual trust, understanding, and respect of one another's concerns.
- To improve collaboration with other emerging nations.
- To improve collaboration across the world over issues of shared interest.
- To collaborate with regional and international groups.

6.6.4 Functions of SAARC:

- SAARC seeks to advance social advancement, cultural advancement, and economic prosperity throughout South Asia.

- All member countries should pursue SAARC's goal of maintaining regional peace and stability.
- SAARC allows countries to grow naturally while increasing people-to-people interaction and cultural cohesion.
- SAARC ensures enhanced cooperation among its member nations to meet the difficulties posed by rising food and energy costs, recurring calamities, and climate change for geographic, economic, cultural, and other strategic reasons.

6.6.5 Impact of SAARC on Indian Economy:

- The SAARC region's size has expanded to around 7% of the world's GDP in PPP, more than doubling since 1980. However, this increase in the worldwide share pales in comparison to China, which increased its global share to 16.5 percent in 2014, compared to India's 6 percent.
- Indian engagement with SAARC nations is based on a consultative, non-reciprocal, and result-oriented approach, concentrating on delivering benefits like improved infrastructure, increased connectivity, stronger development cooperation in various sectors, security, and expanded people-to-people contacts.
- Compared to the other regional organizations, SAARC has made very few accomplishments.
- In its continuous attempts to revive the SAARC as the premier platform of regional cooperation and economic integration, India, the region's largest economy and most populous nation, is both an idealist and a realist.
- Although opening a university, a food bank, and a disaster management centre may seem like commendable initiatives at first, they ultimately don't contribute much to advancing the local economy.

6.7 ROLE AND IMPACT OF ASEAN

The Association of Southeast Asian Nations or ASEAN is an organisation formed by the governments of Malaysia, Indonesia, the Philippines, Thailand, and Singapore in 1967 to promote economic growth, peace, security, social progress and cultural development in the Southeast Asian region.

6.7.1 History of ASEAN History:

ASEAN was established on 8th August 1967 in Bangkok, Thailand with the signing of the Bangkok Declaration (a.k.a ASEAN Declaration) by the founding fathers of the countries of Indonesia, Malaysia, Thailand, Singapore, and the Philippines. The preceding organisation was the

Association of Southeast Asia (ASA) comprising of Thailand, the Philippines, and Malaysia.

Five other nations joined the ASEAN in subsequent years making the current membership to ten countries.

6.7.2 Members of ASEAN:

1. Thailand (founding member)
2. The Philippines (founding member)
3. Malaysia (founding member)
4. Singapore (founding member)
5. Indonesia (founding member)
6. Brunei (joined in 1984)
7. Vietnam (joined in 1995)
8. Lao PDR (joined in 1997)
9. Myanmar (joined in 1997)
10. Cambodia (joined in 1999)

There are two observer States namely, Papua New Guinea and Timor Leste (East Timor).

6.7.3 Role of ASEAN:

ASEAN plays a critical role in international cooperation. The significant contribution of the regional economy to the global economy, which has reached USD 1.73 trillion (2021), is evidence of this. This contribution comes from the value of intra-ASEAN export trade, which has controlled about 20% of the value of global trade.

According to a report from the "ASEAN Statistical Yearbook 2022", the value of trade within the ASEAN region itself was the largest among trading partners with other regions in 2019-2021. The average value of intra-ASEAN trade per year reached US\$638 billion, or about 21% of the total trade between regions worldwide.

According to the "ASEAN Statistical Yearbook 2022" report, trade value within the ASEAN region is the largest among trading partners with other regions in 2019-2021. The average value of intra-ASEAN trade per year reaches USD 638 billion, or about 21% of the world's total intra-regional trade.

ASEAN's role in the global economy can also be seen in the amount of incoming investment. According to *databoks.katadata.co.id*, ASEAN countries received a total of USD 174 billion in foreign direct investment (FDI) in 2021. This is a 42% increase over the previous year and is

evidence of the ASEAN region's strong resilience despite the pandemic's impact.

Moreover, ASEAN's trade surplus reached around USD 85 billion in 2021. Some countries contributing to generating a trade surplus for the ASEAN economy include the USA, EU, India, Canada, UK, Australia, and New Zealand.

The total value of achievement per year proves that ASEAN plays a vital role in maintaining global peace and stability. ASEAN has strong economic relations with Western countries, China and Russia.

It is not surprising that the ASEAN region will become the epicentre of the global economy, following the theme of Indonesia's Chairmanship of ASEAN 2023, namely the Epicentre of Growth.

6.8 ROLE AND IMPACT OF WTO

6.8.1 Introduction:

Setting up of World Trade Organisation (WTO) in 1995, has been the greatest event to occur, in recent times in international trade relations. The purpose of WTO is to remove restrictions in international trade. It is designed to play the role of a watch dog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights etc.

In the new era of globalization where the world economy is undergoing significant changes, there is a need to study the impact of the WTO on the Indian economy. We also need to review and examine the challenges that the Indian economy will now be facing in the area of trade as a result of the WTO agreements. Thus the setting up of WTO has thrown up number of opportunities and challenges.

6.8.2 Formation of WTO: GATT to WTO

After the World War II, many countries got down together to work on ways and means to promote international trade. The result was the signing of the General Agreement on Tariffs and Trade (GATT) by 23 countries in 1947. India was one of the founder members of GATT. Over the years the membership of GATT has increased to 143 countries. GATT was primarily concerned with the promotion of international trade through tariff reductions, doing away with non-discriminatory practices among trading partners, and evolving rules to counter protectionism.

GATT provided for reduction in tariffs and trade restrictions in a phased manner over a period of time. In all, Eight Rounds of Multilateral Trade Negotiations were held under the auspices of GATT. The Eight Round was held in Uruguay, in 1986 and is known as Uruguay Round. This Round took more than Eight years of complex negotiations. The final act was signed in April 1994 by the member nations of GATT and this paved the way for the setting up of WTO. The WTO agreement was signed by 104 member nations GATT and it came into force from January 1, 1995.

Thus, WTO was set up on January 1, 1995. The former GATT was not really an organization. It was merely a legal arrangement on the other hand, the WTO is a new international organization set up as a permanent body and is designed to play the role of a watch dog in the spheres of trade in goods, trade in services, foreign investment, intellectual property rights etc. India is one of the founder-member of WTO. China and Taiwan entered the world trade body towards the end of 2001. The present membership of WTO is 149 countries.

6.8.3 Functions and Organisation of WTO:

Functions:

- i) WTO is expected to promote international trade, for this it must provide necessary administrative frame work.
- ii) WTO should provide forum for negotiations among its members.
- iii) WTO should formulate rules of the trade and proper mechanism for the settlement of disputes.
- iv) WTO should take periodical review of its trade policy.
- v) WTO should work in co-operation with the IMF and the World Bank.
- vi) It administers the 29 Agreements contained in the final act of the Uruguay Round of World trade.
- vii) It oversees implementation of tariff cuts and reduction of non-tariff measures agreed to in the negotiations.
- viii) It assists developing countries in implementing Uruguay agreements through a Developments Division.

Organisation:

In WTO framework Ministerial Conference is the highest decision making body, which has to meet at least once in two years. Following Ministerial Conferences have been held; so far viz. Singapore (9 – 13 December 1996), Geneva (18 – 20 May, 1998), Seattle (30 Nov. – 3 Dec., 1999) ; Doha (9 – 14 Nov. 2001); Cancun (10 – 14 Sept. 2003); Hong Kong (13 – 18 Dec. 2005). The seventh WTO Ministerial meeting was held in Geneva from Nov 30 – Dec. 3, 2009.

In addition to the Ministerial Conference there is a General Council again Consisting of representatives of all the members. It itself meets as the Disputes Settlements Body (DSB) and the trade policy review committee. There are three separate councils under General Council : Council for Trade in Goods; Council for trade in services, council for Trade Related Aspects of Intellectual Property Rights.

6.8.4 WTO Agreements:

The main WTO agreements can be divided into the following categories.

1) Agreement on agriculture:

This provides a frame work for the long term reform of agricultural trade and domestic policies over the years to come, with the objective of introducing increased market orientation in agricultural trade. It provides for commitments in the area of market access, domestic support and export competition. The members have to transform their non-tariff barriers like quotas into equivalent tariff measures. The tariffs resulting from this transformation, as well as other tariffs on agricultural products, are to be reduced on an average by 36 percent in the case of developed countries and 24 percent in the case of developing countries. The least developed countries were not required to make any commitment for reduction.

2) Agreement on trade in textiles and clothing (Multi-fiber Arrangement):

This provides for phasing out the import quotas on textiles and clothing in force under the multi-fiber arrangement since 1974 over a span of 10 years, i.e. by the end of the transition period on January 1, 2005. As a result, quotas on textiles and clothing have now been abolished.

3) Agreement on Market Access:

The Member nations will cut tariffs on industrial and farm goods by an average of about 37 percent. The USA and the European Union will cut tariff between them by one half.

4) Agreement on TRIMs:

The Agreement on Trade Related Investment Measures (TRIMs) calls for introducing national Treatment of foreign investments and removal of quantitative restrictions. It identifies 5 investment innersoles which are in consistent with the GATT provisions of according national treatment and general elimination of quantitative restrictions.

5) Agreement of TRIPs:

Trade Related Intellectual Property Rights (TRIPs) pertain to patents and copyrights. Whereas earliest on process patents were granted to food, medicines drugs and chemical products. The TRIPS Agreement now provides for granting product patents also in all these areas. Protection will be available for 20 years for patents and 50 years for copyrights.

A transition period was allowed to all developing countries to give effect to the provision of the TRIPs Agreement. The period expired on January 1, 2005. Thus the regime of product patents has now been introduced.

6) Agreement on Service:

For the first time trade in services like banking, insurance, travel, maritime transportation, mobility of labour etc. was brought within the ambit of negotiations in the Uruguay Round. The GATS (General Agreement on Trade in Services) provides a multilateral frame work of principles and services which should govern trade in services under conditions of transparency and progressive liberalization. It spells out certain obligations like grant of MFN status to the other member nations with regard to trade in services, maintained of transparency and also a commitment for liberalizations in general terms.

7) Disputes Settlement Body:

Settlement of Disputes under GATT was a never ending process. There was ample scope for procedural delays, objections could be vanished at each stage of the dispute settlement process, and penal reports could be rejected by the offending party. The Disputes Settlement Body (DSB) set up under WTO seeks to plug these loopholes and thus provided security and predictability to multilateral trading system. It has now been made mandatory to settle a dispute within 18 months. The findings of the Disputes Settlement panels will be final and binding on all parties concerned.

In addition to the above, the Uruguay Round also reached agreements on the understanding and implications of certain articles of GATT 1947 viz. reshipment inspection, rules of origin, import licensing, antidumping measures and countervailing duties, safeguards, subsidies etc.

6.8.5 Role of WTO:

The WTO's mission is to open markets gradually while ensuring that rules are respected. The origin of the organization dates back to the end of World War II when the idea of peaceful cooperation among peoples was emerging. In 1947, a number of countries decided to open up their markets on the basis of common principles, and founded the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT). In the current round of trade negotiations, the WTO is seeking to make further advances in equitable trade.

The WTO acts as conductor, tribunal, monitor and trainer:

1) Orchestra conductor:

International trade is governed by very precise rules developed by the WTO's members. Countries must apply these rules when trading with one another. The WTO acts as the orchestra conductor, ensuring that rules are respected. The WTO was founded in 1995, but its origins date back to 1947 and the creation of the GATT. Since then, WTO members have adapted these rules to keep up with new developments. For example, services have developed considerably since the 1980s, and have now become one of the most important economic sectors. As a result, WTO

members established rules governing international trade in services. Adapting or changing the principles of international trade means reaching consensus among WTO members through a round of negotiations. The latest round - the ninth since 1947 - was launched in 2001 (see "How do trade negotiations work?" above).

2. Tribunal:

One of the main roles of the WTO is to settle disputes between its members. The WTO plays the role of trade tribunal, where members may file complaints against other members who fail to abide by the principles of international trade. There are three stages to dispute settlement. To begin with, the disputing countries try to settle their differences by themselves. If that fails, the case is decided by a panel made up of three experts, which issues a ruling. That ruling may be appealed. Once a definitive ruling has been issued, the losing party must comply. If it does not, it is liable to sanctions. Since 1995, over 400 complaints have been filed by WTO members.

3. Monitor:

The WTO regularly reviews the trade policies of its members. These reviews assess whether WTO members are abiding by WTO rules and measure the impact of their domestic policies on international trade. The purpose of these reviews is not so much to solve problems as to prevent them from occurring in the first place.

4. Trainer:

The WTO provides training programmes for government officials from developing countries - for example, ministry staff or customs officials. The WTO currently spends about 35 million Swiss francs annually on these programmes. Africa is the main beneficiary, followed by Asia and Latin America. In 2011, approximately 26 per cent of training activities took place in Africa.

6.8.6 Impacts of WTO:

The signing of the WTO agreements will have far reaching effects not only on India's foreign trade but also on its internal economy. Some of the effects may be favourable, while many of them will be adverse. The exact nature of the impact of the WTO agreements on the Indian economy may not be very clear as yet, but some analysis can be done on the broad and general import.

Favourable Impact:

a) Increase in Export earnings:

According to the estimates prepared by the World Bank OECD and GATT Secretariat, the overall trade impact, as a consequence of the Uruguay Round Package will be an addition to traded merchandise goods by \$ 745 billion in the year 2005. The largest increases would be in case of clothing

(60 percent), processed food and beverages (19 percent), agriculture, forestry and fishery products (20 percent). In all these sectors India has potential export competitiveness. Assuming that India's share in world exports improves for the present 0.5 percent to 1 percent and India is able to take advantage of the opportunities that are created, the additional export earnings will be about \$ 2.7 billion per year. A more generous estimate ranges between \$ 3.5 billion and \$ 7 billion worth of additional exports per year.

b) Agricultural Exports:

Reduction of trade barriers and domestic subsidies in agriculture is likely to raise international prices of agricultural products. India hopes to benefit earnings from agriculture. This seems to be possible because all major agriculture development programmes in India will be exempted from the provision of the WTO Agreement. As a developing nation, India need not withdraw agricultural subsidies as long as they remain within the specified limits prescribed by the Agreement. Thus India hopes to take advantage from the reduction of subsidies in the developed countries.

c) Export of Textiles and Clothing:

With the phasing out of MFA, exports of textiles and clothing will increase and this will be beneficial for India. However, there are certain important issues that are to be considered as far as phasing out of MFA is concerned while the developed countries demanded a 15 year period for phasing out of MFA, the developing countries, including India, insisted that it be done in 10 years. The Uruguay Round accepted the demand of the latter. But the phasing out schedule favours the developed countries because a major portion of the quota regime is going to be removed only in the tenth year, i.e. 2005. Therefore the developed countries do not have immediate market access in case of textiles exports. By the time the phasing out programme is complete, the developed countries will already have geared themselves up to face competition by improving quality and productive efficiency. Thus, even though it may seem that India will gain from the phasing out of MFA, there are several factors that will determine this. The removal of quotas will benefit not only India but also every other country, thus India will have to compete with china, Bangladesh, Pakistan, Vietnam, Indonesia in the international Textile market. India can only gain substantially if its own supply constraints are removed.

d) Multilateral rules and disciplines:

It is expected that the rules and disciplines related to practices like anti-dumping, subsidies and countervailing measures, safeguard and dispute settlements will create conditions of fair trade and provide level playing ground for all trading countries. Such conditions will benefit India in its efforts to globalize its economy.

UNFAVOURABLE IMPACT:**i) TRIPs:**

Protection of Intellectual property rights has been one of the major concerns of WTO. The Agreement on TRIPs at the Uruguay Round weighs heavily in favour of multinational corporations and developed countries as they hold a very large number of patents. Agreement on TRIPs will work against India in several ways and will lead to monopoly of the WTO, India has to comply with the standards of the TRIPs and the changes should be in order latest by the year 2004.

The Agreement on TRIPs goes against the Indian Patent Act, 1970 in the following ways :

a) Pharmaceutical Sector:

Under the Patent Act, 1970, only process patents are granted to chemicals, drugs and medicines. This implies that an Indian pharmaceutical company only needed to develop and patent a process to produce a drug and it need not have invented the drug. The company could legally manufacture once it had the product patent. This proved beneficial for Indian pharmaceutical companies as they were in a position to sell good quality medicines at low prices. The Industry has grown rapidly after the passing of the patent Act in 1970 and is now an exporter of drugs to other nations. But under the Agreement on TRIPs product patents will also be granted. This will benefit the MNCs and it is feared that they will raise prices of medicines considerably keeping it out of reach of the poor.

However, it should be noted that 97 percent of all drugs manufactured in India are off patents and so will remain unaffected. These cover most life savings drugs as well as drugs for common diseases.

b) Agriculture:

The Agreement on TRIPs also extends IPRs to agriculture through the patenting of plant varieties. This will have serious implications for Indian agriculture, where government bodies and agricultural universities carry out plant breeding and seed production patenting of plant breeding and seed production patenting of plant varieties would transfer all gains in the hands of MNCs who will be in a position to develop almost all new varieties with the help of their huge financial resources. It is also believed that once the MNCs develop plant varieties they will also take over seed production and will eventually control food production. In a country where a large majority of the poor depend on agriculture for their livelihood, these development will have serious consequence.

c) Micro Organisms:

Under TRIPs Agreement, patenting has been extended to the large area of micro-organisms as well. Research in such life forms are closely linked with the development of agriculture, pharmaceuticals and Industrial biotechnology. Patenting of microorganisms will again benefit large

MNCs that either already have patents in these areas or will acquire them at a much faster rate now. Thus the development of these three vital sectors will also be in the hands of the MNCS.

ii) TRIMs:

Agreement on TRIMs provide for treatment of foreign investment on par with domestic investment. This Agreement too weighs in favour of developed countries. There are no provision in the Agreement to formulate international rules for controlling restrictive business practices of foreign investors. In case of developing countries like India complying with Agreement on TRIMs would mean giving up any plan or strategy of self-reliant growth based on locally available technology and resources.

iii) GATs:

One of the major features of the Uruguay Round was the inclusion of trade in services in the negotiations. This too will go in favour of developed countries. It has been estimated that the size of the world market in services was \$ 1000 billion in 1993 of which the share of developed countries was 95 percent. As far as India is concerned the service industry here is developing rapidly and is not as underdeveloped as in other developing countries. According to the Agreement, India needs to open up its banking and insurance sectors. As a result these social obligations. Indian firms will have to compete with giant foreign firms in the service sector. Besides, the foreign firms will be face to remit profits, royalties and interests to the parent country, causing foreign exchange burden for India.

iv) Trade and non-tariff barriers (NTBs):

Several countries have put up trade barriers and NTBs following the formation of the WTO. This has adversely affected the exports of developing countries like India. A report by the Union Commerce Ministry identified ----13 different NTBs put up by 16 countries against India. In case of textiles, the major trade barrier is the form of MFA (Multi-fibre arrangement) put up by the USA and the European Union. NTBs affecting agricultural exports include EU regulations on fish products. Australian ban on use pesticides and sales tax discrimination, restrictions on tea by EU and Japan, Saudi Arabian ban on frozen fish products etc. Others NTB's against India are on human rights issues like use of child labour objected to by USA, Canada and EU. Products that have been hit by these barriers include textiles, pharmaceuticals, marine products floriculture, basmati rice, carpets, sports goods, leather goods and several item of food products.

v) LDC Exports:

The sixth WTO Ministerial Conference took place at Hong Kong in December 2005. In this conference some important time frames were decided upon. It was agreed that all developed country members and all developing countries declaring themselves in a position to do so, will

provide duty-free and quota-free market access on a lasting basis to all products originating from all least Developed Countries. India has agreed to this commitment. This will have adverse effect on India. India exports will now have to compete with cheap LDC exports internationally. At the same time cheap LDC exports will come to the Indian market and compete with domestically produced goods.

6.9 QUESTIONS

- Q1. Explain the significance of external sector of India.
- Q2. What are the challenges faced by the external sector.
- Q3. Describe the recent reforms in the external sector.
- Q4. Elaborate the composition of foreign trade.
- Q5. Explain the Direction of foreign trade.
- Q6. Explain the scope and importance of international trade.
- Q7. Explain the structure of Balance of Payment (BoP).
- Q8. Discuss the types of disequilibrium in the Balance of Payments (BoP).
- Q9. What are the measures to correct the Balance of Payment disequilibrium?
- Q10. Write a note on –
 - i) Foreign Direct investment (FDI)
 - ii) Foreign Capital
 - iii) SAARC
 - iv) ASEAN
 - v) WTO

MONEY AND BANKING

Unit Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Nature of Money market
- 7.3 Features of Money Market
- 7.4 Components of Indian Money Market
 - 7.4.1 Components of Organized Indian Money Market
 - 7.4.2 Components of Unorganized of Indian Money Market
- 7.5 Monetary Policy of Reserve Bank of India
 - 7.5.1 The Monetary Policy Framework
 - 7.5.2 The Monetary Policy Committee
 - 7.5.3 Instruments of Monetary Policy
 - 7.5.4 Monetary Policy
- 7.6 Progress of Commercial Banking in India
- 7.7 Summary
- 7.8 Questions

7.0 OBJECTIVES

- To understand the nature of money market.
- To study the features of money market.
- To know the components of organized and unorganized Indian Money Market.
- To study the central and commercial banking.

7.1 INTRODUCTION

Money market is a short term credit market for short term funds. Money market deals in financial securities whose period of maturity is in the range of one day to one year. Money market financial securities or assets are near substitutes of money. In the money market, the commercial banks are the major lenders of money. The central bank is the controlling authority of the money market. In this unit we will study the nature of money market, features of money market, monetary policy of Reserve Bank of India, the progress of commercial banking in India etc.

7.2 NATURE OF MONEY MARKET

The money market is a component of the financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames. Trading in the money markets involves Treasury bills, commercial papers, certificates of deposit, federal funds, and short-lived mortgage and asset-backed securities. It provides liquidity funding for the global financial system.

Money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend. Participants borrow and lend for short periods of time, typically up to thirteen months. Money market trades in short-term financial instruments commonly called “paper.” This contrasts with the capital market for longer-term funding, which is supplied by bonds and equity.

The core of the money market consists of banks borrowing and lending to each other, using commercial paper, repurchase agreements, and similar instruments.

The India money market is a monetary system that involves the lending and borrowing of short-term funds. India money market has seen exponential growth just after the globalization initiative in 1992. It has been observed that financial institutions do employ money market instruments for financing short-term monetary requirements of various sectors such as agriculture, finance and manufacturing. The performance of the India money market has been outstanding in the past 20 years.

Central bank of the country - the Reserve Bank of India (RBI) has always been playing the major role in regulating and controlling the India money market. The intervention of RBI is varied - curbing crisis situations by reducing the cash reserve ratio (CRR) or infusing more money in the economy.

The Money market is a market for lending and borrowing of short-term funds. It deals in funds and financial instruments having a maturity period of one or less than one year. It covers money and financial assets that are close substitutes for money.

It is not a place (like the stock market), but an activity undertaken by telephone. It is not a single market but a collection of markets for seven instruments such as call money market, commercial bill market, and so on. It is a wholesale market for short-term debt instruments.

The main players in the money market are Reserve Bank of India (RBI), Discount and Finance House of India (DFHI), mutual funds, bank corporate investors, non-banking finance companies (NBFCs), state governments, provident funds, primary dealers, Securities Trading Corporation of India (STCI) and Public Sector Undertakings (PSUs).

The Reserve Bank of India is the most important constituent of Indian money market. Money market comes within the direct purview of RBI

regulation. The objective of RBI operations in the money market is to ensure that liquidity and short-term interest rates are maintained at levels required for achieving the objectives of monetary policy. The primary objective of monetary policy are to ensure economic growth and price stability.

Functions of Money Market:

The important functions of money market are the following:

1. It provides a mechanism to achieve equilibrium between demand for and supply of short-term funds.
2. It also provides funds in non-inflationary way to the government to meet its deficits.
3. It provides ample avenues for investment of short-term funds with fair returns.
4. It helps the RBI in effective implementation of monetary policy.

7.3 FEATURES OF MONEY MARKET

1. Existence of Unorganised Money Market:

The dichotomy nature of the Indian money market into the organised and unorganised sector makes it difficult for the RBI to exercise control over the money market. In the unorganised market, there is no differentiation between short term and long term finance. The indigenous bankers have not accepted the conditions of the RBI. Since these bankers and NBFCs are outside the organised money market, the RBI's control over the money market is limited.

2. Lack of Integration:

There is lack of integration between the various sub- markets as well as between the various institutions and agencies constituting the money market. There is less co-ordination between Co-operative banks, Commercial banks, State Bank and Foreign banks. The Commercial banks and Co-operative banks compete with each other. The indigenous banks have their own way of doing business.

3. Multiplicity of Interest rates:

The existence of too many rates of interest is another defect of the Indian money market. In the unorganised money market interest rates differ widely from one area to other even for the same type of loans. The borrowing rates of the Government, the deposit and lending rates of the Commercial and Co-operative banks etc. differ. The diversity in interest rates is due to lack of integration among the various components of the money market. The immobility of funds from one section of the money market to another is an important cause of the multiplicity of rates of

interest. The RBI must effectively rationalise and administer the interest rate structure.

4. Absence of organised bill market:

Though both inland and foreign bills are being purchased as well as discounted by the commercial banks, yet an organised bill market does not exist in the country. Only a limited bill market has been created by RBI under its schemes of 1952 and 1970. These schemes failed to develop a bill market in the country. There is a severe shortage of commercial bills. The popularity of cash credit and lack of uniformity in commercial bills proved to be a serious obstacle to the development of bill market. The bill finance has fallen from 20.3% in 1971 to 9.1% in 1997-98.

5. Shortage of funds:

The Indian money market is characterised by shortage of funds. The demand for loanable funds exceeds its supply. Small savings due to low per capita income, lack of banking habits, inadequate banking facilities and emergence of a parallel economy are also responsible for the shortage of financial resources.

6. Seasonal stringency of money:

Seasonality factor in the availability of funds is another drawback of the money market. This has caused wide seasonal fluctuations in the interest rates.

During the busy season additional finance is required. A monetary stringency is created in the market and interest rates are high. But in slack season, the interest rates drop considerably. Despite the efforts by RBI to moderate the fluctuations in the call money rates, the call money market continued to be highly volatile.

7. Inadequate banking facilities:

Though the commercial banks, have been opened on a large scale, yet banking facilities are inadequate in our country. The rural areas are not covered. In the US, there is a branch of a commercial bank for every 1200 persons while in India, there is a branch for every 15,000 persons. Due to poverty, the savings are small and mobilisation of small savings is difficult.

Indian money market is undeveloped and it lacks a number of submarkets. It does not attract foreign funds. It cannot be compared with the advanced London and New York money market.

7.4 STRUCTURE OF INDIAN MONEY MARKET

The Indian money market consists of two segments, namely organised sector and unorganised sector. The RBI is the most important constituent of Indian money market. The organised sector is within the direct purview of RBI regulation. The unorganised sector comprises of indigenous

bankers, money lenders and unregulated non-banking financial institutions.

7.4.1 Organized Sector of Indian Money Market:

The organised money market is not a single market. It consists of a number of markets such as call money market, treasury bill market, commercial bill market, and markets for CDs, CPs and repos. Money market deals in many instruments like call money, treasury bills, commercial bills, CDs, CPs and repos. The organised money market is further diversified with the setting up of The Discount and Finance House of India (DFHI) and Money Market Mutual Funds.

1. The Call Money Market:

The Call Money Market is centred mainly at Mumbai, Calcutta and Madras. In the Call money market, borrowing and lending of funds are carried out just for one day. The funds can be called back within 24 hours. The Call Money Market is also called the Inter Bank Loan Market. The Scheduled Commercial Banks, Co-operative Banks, and the Discount and Finance House of India (DFHI) operate in this market. Institutions like LIC, GIC, UTI, IDBI, & NABARD are allowed to operate the call money market as lenders. The State Bank of India is invariably on the lenders side of the market. The call money market is highly sensitive and it is the most appropriate indicator of the liquidity position of the money market.

2. The Treasury Bill Market:

This market deals with Treasury Bills. In India, Treasury Bills are short term liabilities of the Central Government which are for 91, 182 and 364 days. The treasury bill market is undeveloped in India. The RBI is just a passive holder of these bills. The RBI holds about 90% of the outstanding Treasury Bills. The RBI is under an obligation to purchase all the Treasury bills which are being offered to it by the Govt. It is also required to rediscount the treasury bills presented to it by banks and others. This has resulted in monetization of public debt which has caused inflationary expansion of money supply.

3. Repo Market:

Repo is a money market which helps in collateralised short-term borrowing and lending through sale/purchase operations in debt instruments. The repo market has now been broadened. It now covers not only Central Govt. bills & securities but also securities of State govt., public sector undertakings and private corporate sector.

During times of foreign exchange volatility, repos have been used to prevent speculative activity as funds flow from money market to foreign exchange market.

4. The Commercial Bill Market:

The Commercial Bill Market is a sub-market in which commercial bills are traded. The commercial bills are the bills drawn by the seller to the buyer. The purpose of a commercial bill is to reimburse the seller while the buyer delays payment.

The RBI has taken efforts to develop bill market in India and popularise the use of bills through its Bill Market Schemes of 1952 and 1970. The Commercial Market is very much underdeveloped in India. The major obstacle of the development of bill finance in our country is the dominant cash credit system of bank lending. In order to encourage 'bills' culture, the RBI advised banks in Oct. 1997, that at least 25% of inland credit purchases of borrowers should be through bills.

5. The Certificate of Deposit (CD) Market:

In 1989, the RBI introduced Certificate of Deposit to widen the range of instruments in the money market and to provide greater flexibility to investors. The CDs can be issued only by the commercial banks in multiples of Rs.25 lakhs. The minimum size of an issue should be Rs. 1 crore. The maturity of CDs will vary between 3 months and 1 year. The CDs are freely transferable by endorsement. The banks pay high rate of interest on CDs.

In 1992, IDBI, ICICI, IFCI, IRBI were permitted to issue CDs with a maturity period of more than 1 year and up to 3 years. In 1993, two more institutions Small Industries Development Bank of India (SIDBI) and Export-Import Bank of India were permitted to issue CDs. CDs are issued at a discount to face value and the discount rate is freely determined. CDs are freely transferable by endorsement and delivery. Due to easy liquidity conditions in the money market, the interest rates on CDs softened during 1996-97.

6. The Commercial Paper (CP) Market:

This was introduced in 1990. The Commercial Paper (CP) can be issued by a listed company which has a working capital of not less than Rs. 5 Crores. They could be issued in multiples of Rs. 25 lakhs. The minimum size of issue being Rs. 1 crore. The company wanting to issue CP is required to obtain a specified rating from an agency approved by the RBI every six months. CPs are freely transferable by endorsement and delivery. The maturity of CP ranges from 3 months to 6 months. The effective rate of interest has been in the range of 9.35% to 20.9% p.a.

7. Money Market Mutual Funds (MMMFs):

MMMFs were introduced by the RBI in April 1992. The main objective was to provide an additional short-term avenue to individual investors. The RBI allowed certain relaxations in 1995 to make the scheme more attractive. The limits imposed on their size and investments have been relaxed. The banks, public financial institutions and private sector

institutions are allowed to set up MMMFS. Since 1996, the MMMFS are allowed to issue units to corporate enterprises and others on par with other mutual funds. MMMFS have been brought under the preview of SEBI regulations since March 7, 2000. The organised sector of the Indian money market is fairly organised and integrated but it cannot be compared to London and New York Money markets.

7.4.2 Unorganized Sector of Indian Money Market:

The three constituents of the unorganised sector of the Indian Money Market are:

1. Indigenous bankers
2. Money lenders
3. Non-banking Financial Companies (NBFC) such as Loan or Finance companies, Chit funds and Nidhis.

1. Indigenous Bankers:

Indigenous bankers are individuals or private firms which receive deposits and give loans and thereby operate as banks. Since their activities are not regulated, they belong to the unorganised segment of the money market. Indigenous bankers are different from money lenders in the sense that in addition to making loans they receive deposits and deal in hundis while the money lenders only make loans and do not receive deposits or deal in hundis.

Indigenous banks do not constitute a homogeneous group. Broadly, they can be classified under 4 main groups - Gujarat shroffs, Multani or Shikarpuri Shroffs, Marwari Kayas and Chettiars. The indigenous banks are unwilling to separate their banking and non-banking activities. This has prevented their integration into the organised money market. The bank rate policy of the RBI has no bearing on the lending rates of the indigenous banks who charge excessively high rate of interest. Over the past two decades with the growth of commercial and co-operative banking, the area of operations of indigenous bankers have declined.

But they have still survived due to the following favourable factors:

1. In urban areas, especially cities, indigenous banks are sought by small manufacturers and small traders because commercial banks do not meet their credit needs adequately.
2. Indigenous banks provide clear advances.
3. They offer personalised informal and prompt services.
4. Their operation costs are lower.
5. Since their borrowers are local parties, the risk of default is less.

2. Money lenders:

Money lenders are of 3 types:

- a. Professional money lenders
- b. Itinerant money lenders
- c. Non-Professional money lenders.

The methods of operation of money lenders are not uniform. Their activities are localised. Their main features are:

1. Money lenders do not receive deposits. Their funds are mostly their own.
2. Their borrowers are generally poor such as agricultural labourers, small and marginal farmers, factory workers etc. whose bargaining position is weak.
3. They charge exorbitant rates of interest and indulge in various malpractices.
4. Their credit is unregulated and the borrowers exploited.

Several legislative measures have been passed to prevent the exploitation of the borrowers by the money lenders but they have not been enforced due to administrative difficulties.

3. Non-banking financial Companies (NBFC):

The most prominent non-banking financial intermediaries are: a) Loan or Finance Companies b) Chit Funds c) Nidhis.

a. Loan or Finance Companies:

Loan companies are found in all parts of the country. They raise funds through deposits, borrowings and other receipts apart from their own funds. They give loans to retailers, wholesale traders, artisans and other self employed persons. They charge high rate of interest varying from 36% to 48%.

b. Chit Funds:

Chit funds are savings institutions. A chit fund has regular members who make periodical subscriptions to the fund. The beneficiary may be selected by drawing of lots. Each member is also assured of his turn. The chit fund business is popular in Kerala and Tamilnadu. The RBI has no control over the lending activities of the chit funds.

c. Nidhis:

Nidhis are some sort of mutual benefit funds because their dealings are restricted only to the members. The principal source of their funds is deposits from the members; the loans are given to members at reasonable

rates for purposes like house construction. Nidhis operate particularly in South India.

With the amendment of the RBI act of 1997, it has become obligatory for NBFCs to apply for a certificate of registration. By June 2004, 13,671 NBFCs got registered.

7.5 THE MONETARY POLICY OF RESERVE BANK OF INDIA

Under the Reserve Bank of India, Act, 1934 (RBI Act, 1934) (as amended in 2016), RBI is entrusted with the responsibility of conducting monetary policy in India with the primary objective of maintaining price stability while keeping in mind the objective of growth.

7.5.1 The Monetary Policy Framework:

- In May 2016, the RBI Act, 1934 was amended to provide a statutory basis for the implementation of the flexible inflation targeting framework.

Inflation Target:

Under Section 45ZA, the Central Government, in consultation with the RBI, determines the inflation target in terms of the Consumer Price Index (CPI), once in five years and notifies it in the Official Gazette. Accordingly, on August 5, 2016, the Central Government notified in the Official Gazette 4 per cent Consumer Price Index (CPI) inflation as the target for the period from August 5, 2016 to March 31, 2021 with the upper tolerance limit of 6 per cent and the lower tolerance limit of 2 per cent. On March 31, 2021, the Central Government retained the inflation target and the tolerance band for the next 5-year period – April 1, 2021 to March 31, 2026.

- Section 45ZB of the RBI Act provides for the constitution of a six-member Monetary Policy Committee (MPC) to determine the policy rate required to achieve the inflation target.

Failure to Maintain Inflation Target:

The Central Government has notified the following as the factors that constitute failure to achieve the inflation target: (a) the average inflation is more than the upper tolerance level of the inflation target for any three consecutive quarters; or (b) the average inflation is less than the lower tolerance level for any three consecutive quarters. Where the Bank fails to meet the inflation target, it shall set out in a report to the Central Government:

- a. the reasons for failure to achieve the inflation target;
- b. remedial actions proposed to be taken by the Bank; and

- c. an estimate of the time-period within which the inflation target shall be achieved pursuant to timely implementation of proposed remedial actions.
- The operating framework of monetary policy aims at aligning the operating target – the weighted average call rate (WACR) – with the policy repo rate through proactive liquidity management to facilitate transmission of repo rate changes through the entire financial system, which, in turn, influences aggregate demand – a key determinant of inflation and growth.

7.5.2 The Monetary Policy Committee:

• Section 45ZB of the amended RBI Act, 1934 provides for an empowered six-member monetary policy committee (MPC) to be constituted by the Central Government by notification in the Official Gazette. The first such MPC was constituted on September 29, 2016. The present MPC members, as notified by the Central Government in the Official Gazette of October 5, 2020, are as under:

1. Governor of the Reserve Bank of India—Chairperson, ex officio;
2. Deputy Governor of the Reserve Bank of India, in charge of Monetary Policy—Member, ex officio;
3. One officer of the Reserve Bank of India to be nominated by the Central Board—Member, ex officio;
4. Prof. Ashima Goyal, Professor, Indira Gandhi Institute of Development Research —Member;
5. Prof. Jayanth R. Varma, Professor, Indian Institute of Management, Ahmedabad—Member; and
6. Dr. Shashanka Bhide, Senior Advisor, National Council of Applied Economic Research, Delhi—Member.

(Members referred to at 4 to 6 above, will hold office for a period of four years or until further orders, whichever is earlier)

- The MPC determines the policy repo rate required to achieve the inflation target.
- The MPC is required to meet at least four times in a year. The quorum for the meeting of the MPC is four members.
- Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.
- Each Member of the Monetary Policy Committee writes a statement specifying the reasons for voting in favour of, or against the proposed resolution.

7.5.3 Instruments of Reserve Bank of India:

There are several direct and indirect instruments that are used for implementing monetary policy.

- **Repo Rate:** The interest rate at which the Reserve Bank provides liquidity under the liquidity adjustment facility (LAF) to all LAF participants against the collateral of government and other approved securities.
- **Standing Deposit Facility (SDF) Rate:** The rate at which the Reserve Bank accepts uncollateralised deposits, on an overnight basis, from all LAF participants. The SDF is also a financial stability tool in addition to its role in liquidity management. The SDF rate is placed at 25 basis points below the policy repo rate. With introduction of SDF in April 2022, the SDF rate replaced the fixed reverse repo rate as the floor of the LAF corridor.
- **Marginal Standing Facility (MSF) Rate:** The penal rate at which banks can borrow, on an overnight basis, from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit (2 per cent). This provides a safety valve against unanticipated liquidity shocks to the banking system. The MSF rate is placed at 25 basis points above the policy repo rate.
- **Liquidity Adjustment Facility (LAF):** The LAF refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system. It consists of overnight as well as term repo/reverse repos (fixed as well as variable rates), SDF and MSF. Apart from LAF, instruments of liquidity management include outright open market operations (OMOs), forex swaps and market stabilisation scheme (MSS).
- **LAF Corridor:** The LAF corridor has the marginal standing facility (MSF) rate as its upper bound (ceiling) and the standing deposit facility (SDF) rate as the lower bound (floor), with the policy repo rate in the middle of the corridor.
- **Main Liquidity Management Tool:** A 14-day term repo/reverse repo auction operation at a variable rate conducted to coincide with the cash reserve ratio (CRR) maintenance cycle is the main liquidity management tool for managing frictional liquidity requirements.
- **Fine Tuning Operations:** The main liquidity operation is supported by fine-tuning operations, overnight and/or longer tenor, to tide over any unanticipated liquidity changes during the reserve maintenance period. In addition, the Reserve Bank conducts, if needed, longer-term variable rate repo/reverse repo auctions of more than 14 days.
- **Reverse Repo Rate:** The interest rate at which the Reserve Bank absorbs liquidity from banks against the collateral of eligible government securities under the LAF. Following the introduction of

SDF, the fixed rate reverse repo operations will be at the discretion of the RBI for purposes specified from time to time.

- **Bank Rate:** The rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is published under Section 49 of the RBI Act, 1934. This rate has been aligned with the MSF rate and, changes automatically as and when the MSF rate changes alongside policy repo rate changes.
- **Cash Reserve Ratio (CRR):** The average daily balance that a bank is required to maintain with the Reserve Bank as a per cent of its net demand and time liabilities (NDTL) as on the last Friday of the second preceding fortnight that the Reserve Bank may notify from time to time in the Official Gazette.
- **Statutory Liquidity Ratio (SLR):** Every bank shall maintain in India assets, the value of which shall not be less than such percentage of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, as the Reserve Bank may, by notification in the Official Gazette, specify from time to time and such assets shall be maintained as may be specified in such notification (typically in unencumbered government securities, cash and gold).
- **Open Market Operations (OMOs):** These include outright purchase/sale of government securities by the Reserve Bank for injection/absorption of durable liquidity in the banking system.

7.5.4 The Monetary Policy Process:

The Reserve Bank has notified Reserve Bank of India Monetary Policy Committee and Monetary Policy Process Regulations, 2016 which came into effect from August 01, 2016. In terms of Regulation 5 of these regulations *ibid*, the Monetary Policy Process consists of the following:

a) Meeting schedule:

The schedule of monetary policy voting/decision meetings for the entire fiscal year is announced in advance.

b) Meeting notice:

Ordinarily, not less than fifteen days' notice is given to members for meetings of the Committee. Should it be found necessary to convene an emergency meeting, 24 hours' notice is given to every member to enable him/her to attend, with technology enabled arrangements for even shorter notice period for meetings.

c) Meeting duration:

The duration of monetary policy meetings is as decided by the Committee. The policy resolution is publicly released after the conclusion of the MPC meeting keeping in view the functioning and timing of financial markets. The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. The MPC in its meetings reviews the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviews in detail the staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopts a resolution.

d) The MPC Resolution:

The Bank publishes, after the conclusion of every meeting of the MPC, the resolution adopted by the said Committee. The resolution includes the MPC's decision on the policy repo rate.

e) Minutes of the MPC meeting:

On the 14th day after every meeting of the MPC, the minutes of the proceedings of the MPC are published which include: (a) the resolution adopted by the MPC; (b) the voting of each member on the resolution; and (c) short written statements of individual members justifying the vote, consistent with the provisions of Section 45ZL of the RBI Act. Minutes shall be released at 5 pm on the 14th day from the date of the policy day (or next earliest working day, if a holiday in Mumbai).

f) The Monetary Policy Report:

Once in every six months, the Reserve Bank publishes the Monetary Policy Report containing the following elements:

- a) Explanation of inflation dynamics in the last six months and the near term inflation outlook;
- b) Projections of inflation and growth and the balance of risks;
- c) An assessment of the state of the economy, covering the real economy, financial markets and stability, fiscal situation, and the external sector, which may entail a bearing on monetary policy decisions;
- d) An updated review of the operating procedure of monetary policy; and
- e) An assessment of projection performance.

7.6 PROGRESS OF COMMERCIAL BANKING IN INDIA

Indian commercial banking sector has seen spectacular expansion in number of branches, volume of deposits, credit created and other parameters. However, this progress was not without its problems. We shall now examine the impact of reforms on the commercial banks.

The number of branches increased from 60,220 in March 1991 to 1,05,752 by March, 2013. This shows an impressive performance. However, the percentage of rural branches declined from 58.5 to 37.2 percent of the total during this period. Thus, there is a clear indication that the banks are now more focused on profits and seem to have given up the objective of providing services in un-banked areas. The new private sector banks and foreign banks have a clear urban and metropolitan orientation. As these banks increase both in terms of number of branches and business, the semi-urban and rural population may be deprived of the banking services.

The following table shows the progress of commercial banking in India after 1991 in terms of the ownership by different groups.

Table 7.1: Number of Scheduled Commercial Banks in India by Ownership (1991-2012)

Year	1991	2012
Scheduled Commercial Banks	104	84
State Bank Group	8	7
Nationalised Banks	20	19
Old Private Sector Banks	25	15
New Private Sector Banks	9	7
Foreign Banks	42	36

Source: RBI: Report on Trend and Progress of Banking in India (various issues)

7.7 SUMMARY

- The money market is a component of the financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames. It involves Treasury bills, commercial papers, certificates of deposit, federal funds, and short-lived mortgage and asset-backed securities. It provides liquidity funding for the global financial system.
- Money market comes within the direct purview of RBI regulation. The objective of RBI operations in the money market is to ensure that liquidity and short-term interest rates are maintained at levels required for achieving the objectives of monetary policy.
- The Indian money market consists of two segments, namely organised sector and unorganised sector.

- Organised money market consists of a number of markets such as call money market, Treasury bill market, commercial bill market, and markets for CDs, CPs and repos. It is further diversified with the setting up of The Discount and Finance House of India (DFHI) and Money Market Mutual Funds.
- The three constituents of the unorganised sector of the Indian Money Market are:
 - Indigenous bankers
 - Money lenders
 - Non-banking Financial Companies (NBFC) such as Loan or Finance companies, Chit funds and Nidhis.
- Indian money market is undeveloped and it lacks a number of submarkets. It does not attract foreign funds.
- On the recommendations of the Sukhmoy Chakravorty Committee and Narsimhan Committee, the RBI has initiated a series of policy reforms to develop the Indian money market.

7.8 QUESTIONS

- Q1. Write the features of money market.
- Q2. Explain the structure of Indian Money Market.
- Q3. Write a note on the monetary policy of Reserve Bank of India.
- Q4. Discuss the several instruments of Reserve Bank of India.
- Q5. Describe the process of the monetary process.
- Q6. Explain the progress of commercial banking in India.

CAPITAL MARKET

Unit Structure

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Nature of Capital Market in India
- 8.3 Development of Capital Market
- 8.4 SEBI and its functions
- 8.5 Summary
- 8.6 Questions

8.0 OBJECTIVES

- To know the meaning, nature, types, functions, development of capital market.
- To study the role and functions of SEBI

8.1 INTRODUCTION

The capital market is a part of the financial market consisting of the money and capital markets. It deals with medium and long term credit requirements of medium and large scale industries for purposes of investment. The capital market deals with long term credit with more than one year maturity period. It functions as an institutional arrangement to channelize long term funds from those who save to those who need them for productive purposes. It is a medium created to bring together entrepreneurs who want investible resources and households who save. In India, the capital market includes financial institutions such as the insurance companies, commercial banks, specialized financial institutions like IFCI, IDBI, SIDCs, SFCs, UTI etc., merchant banking agencies, mutual funds and individual investors.

8.2 NATURE OF CAPITAL MARKET IN INDIA

8.2.1 Meaning of Capital Market:

Capital markets are marketplaces for buying and selling bonds, stocks, currencies and other financial assets. They assist entrepreneurs and help small businesses grow into big ones. Additionally, they provide opportunities for regular people to invest and save for their future. Capital markets are key engines of economic growth and wealth creation in any economy. Learn more about capital market meaning, its types, and functions in this blog.

A capital market is a platform for channeling savings and investments among suppliers and those in need. An entity with a surplus fund can transfer it to another that needs capital for its business purpose through this platform.

Typically, suppliers include banks and investors who offer capital for lending or investing. Businesses, governments, and individuals seek capital in this market. A capital market aims to improve transaction efficiency by bringing together suppliers and investors and facilitating their share exchange.

A capital market is a broad term for the physical and online spaces where financial instruments are traded. Stock markets, bond markets, and currency markets (forex) are all types of capital markets. They facilitate the sale and purchase of equity shares, debentures, preference shares, zero-coupon bonds, and debt instruments.

8.2.2 How Does a Capital Market Work?

After discussing the capital market definition, let's find out how the capital market works.

Capital markets assist economies by providing a platform for raising funds to operate businesses, develop projects, or enhance wealth. Capital markets function according to the circular flow of money theory.

Typically, capital markets are used for selling financial products such as stocks and bonds. Stocks, or ownership shares of a company, are equities. A bond is an interest-bearing IOU, as are other debt securities.

A firm, for example, borrows money from households or individuals for business operations. Individuals or households invest money in a company's shares or bonds in the capital markets. In exchange for their investment, investors gain profits and goods.

The capital market consists of finance suppliers and buyers, as well as trading instruments and mechanisms. Regulatory bodies are also present.

8.2.3 Types of Capital Market:

Now that we've covered "what is capital market," let's discuss its types. There are two main categories of capital markets: Primary markets and Secondary markets.

1) Primary Markets:

Primary capital markets are where companies first sell new stock or bonds publicly. Also known as the 'New Issues Market', it is a place where businesses and governments seek out new financing. The new money is converted into debt or shares of the company. Debt or stocks are locked in until they are sold on a secondary market, repurchased by the company, or mature.

Primary capital markets trade two major financial instruments: equities (stocks) and debt.

An Initial Public Offering (IPO) is the process of introducing new equities to the market. It's simply the process of selling part of a company to the public for capital.

Bonds, on the other hand, are a bit more complicated. Underwriters act as intermediaries in the issuance of bonds. If Company A wants to issue INR 10 crore in bonds, it goes to the underwriter. These bonds are then issued and sold by the underwriter to investors.

In this instance, the underwriter is responsible for ensuring that Company A gets the capital it needs. A bond underwriter buys bonds from Company A and then sells them on the market - typically at a higher price. The underwriter then takes on the risk, but Company A receives the entire loan.

2) Secondary Market:

Investors trade old debt or stocks on the secondary capital market. It differs from the primary market because the debt has already been issued here.

Investors trade stock in the secondary capital markets through exchanges such as the Bombay Stock Exchange, the Calcutta Stock Exchange, and the New York Stock Exchange. A stock exchange also allows people to sell the old stock if they no longer want it, which results in the 'liquidation' of these stocks. Thus, the seller now has cash rather than an asset.

Unlike stocks, bonds are typically held for a longer period - usually until they expire. However, those who hold bonds but need cash quickly can rely on the secondary market.

Investors use the secondary market to obtain cash, either to invest in another stock or for personal consumption. It involves liquidating assets so that other things can be purchased.

8.2.4 Difference between Primary and Secondary Capital Market:

The main difference between primary and secondary capital markets is that primary capital markets are where new securities are issued and sold for the first time to raise capital. Secondary capital market, on the other hand, is where existing securities are bought and sold among investors, hence offering liquidity to investors.

Aspect	Primary Capital Market	Secondary Capital Market
Participants	Issuers (companies or governments), investment banks, underwriters, and investors.	Investors, brokers, and stock exchanges.

Transactions	Involves processes like Initial Public Offerings (IPOs), private placements, and rights issues.	Involves the buying and selling of previously issued securities on stock exchanges or over – the – counter markets.
Risk	Prices are often determined by the issuer without any trading history and cause a higher degree of risk for investors.	Investors face market risk influenced by supply and demand, company performance and economic conditions.
Purpose of Funds	Funds raised go directly to the issuer, enabling them to meet their financing needs.	Funds exchanged go to the selling investor; the issuer does not receive any funds from these transactions.

8.2.5 Functions of Capital Market:

1. Links Borrowers and Investors:

Capital markets serve as an intermediary between people with excess funds and those in need of funds.

2. Capital Formation:

The capital market plays an important role in capital formation. By timely providing sufficient funds, it meets the financial needs of different sectors of the economy.

3. Regulate Security Prices:

It contributes to securities' stability and systematic pricing. The system monitors whole processes and ensures that no unproductive or speculative activities occur. A standard or minimum interest rate is charged to the borrower. As a result, the economy's security prices stabilize.

4. Provides Opportunities to Investors:

The capital markets have enough financial instruments to meet any investor's needs, regardless of the risk level. Capital markets also provide investors with the opportunity to increase their capital yields. The interest rate on most savings accounts is extremely low compared to the rate on equities. Therefore, investors can earn a higher rate of return on the capital market, though some risks are involved as well.

5. Minimises Transaction Cost And Time:

Long-term securities are traded on the capital market. The whole trading process is simplified and reduced in cost and time. A system and program

automate every aspect of the trading process, thus speeding up the entire process.

6. Capital Liquidity:

The financial markets allow people to invest their money. In exchange, they receive ownership of a stock or bond. Bond certificates cannot be used to purchase a car, food, or other assets, so they may need to be liquidated. Investors can sell their assets for liquid funds to a third party on the capital markets.

Capital markets play a very important role in the financial industry. They connect capital suppliers with those seeking it. The funding may come from the government, businesses, or even individuals who want to buy a home. These markets help move money from people who have it to people who need it.

8.3 DEVELOPMENT OF CAPITAL MARKET

The capital market was suffering from many problems such as lack of transparency in procedures, price rigging and insider trading. In order to remove these problems, the Government of India set up the SEBI in 1988. In January, 1992, SEBI was made a statutory body and was authorized to regulate all merchant banks on issue activity, lay guidelines and supervise and regulate the working of mutual funds and oversee the working of stock exchanges in India. SEBI has taken a number of steps to improve the functioning of the capital market in India. The Narasimham Committee recommended the abolition of CCI and proposed SEBI to protect the investors and take over the regulatory function of CCI. The Government of India repealed the CCI Act, 1947 and gave SEBI the power to control and regulate the stock exchanges in India. The following measures were undertaken by the Government to reform the capital market in India:

1) Measures to Strengthen the Government Securities Market:

The following measures have been taken to strengthen the government securities market:

- a) The auction system for the sale of Government of India medium and long term securities was introduced from June 1992. New instruments such as conversion of auction treasury bills into term securities, zero coupon and capital indexed bonds, tap stocks and partly paid stocks were introduced.
- b) 364 day treasury bills auction was introduced in April 1992 and 91 day treasury bills auction from January 1993, 14 day treasury bills was introduced in June 1997. 182 day treasury bills were introduced once again in May 1999. The auction of 14 day and 182 day treasury bills was discontinued from 14th May 2001.

- c) The Securities Trading Corporation of India was established in 1994 to develop institutional structure for an active secondary market in government securities.
- d) A system of primary dealers was established in March 1995 and the guidelines for Satellite Dealers were issued in December 1996.
- e) From 01st April, 1997 a new scheme of ways and means advances was commenced and the practice of automatic monetization of central government budget deficit through ad hoc treasury bills was abandoned.
- f) The RBI initiated steps for the introduction of a Delivery versus Payment system for transactions in government securities in Mumbai. This system ensures settlement by synchronizing the transfer of securities with cash payment. This has reduced settlement risk in securities transactions and has also prevented diversion of funds.
- g) The RBI started providing liquidity support to mutual funds dedicated to investments in government securities.
- h) Foreign institutional investors with 100 per cent debt funds were permitted to invest in government securities and treasury bills. Other foreign institutional investors were also allowed to invest in debt market including government securities subject to the ceiling of 30 per cent.
- i) The interest income on government securities was exempted from the provision of tax deduction at source.
- j) Retail trading in government securities at select stock exchanges commenced in January 2003.

2) Establishment of the Securities & Exchange Board of India:

The SEBI was set up in 1988. It was given statutory recognition in 1992. The SEBI has been created to develop an environment which would facilitate mobilization of adequate resources through the securities market and its efficient allocation.

3) Establishment of the National Stock Exchange of India:

The NSE was set up in November 1992 and it started its operations in 1994. Four important innovations were made in the way in which trading takes place at the NSE. These innovations are:

- a) Replacement of the physical floor by computerized order matching with strict price time priority.
- b) Use of satellite communications by setting up 2000 satellite terminals all over the country. On a given day, about 3500 traders log into the trading computer over this network.

- c) NSE is a limited liability company and brokers are franchisees. Hence NSE staff is free from pressures from brokers and is able to perform its regulatory and enforcement functions more effectively.
- d) Traditional practices of unreliable fortnightly settlement cycle with the escape clause of badla were replaced by a strict weekly settlement cycle without badla.

These innovations brought the advantages of transparency, anonymity, efficiency and competition in the brokerage industry and also gave equal access to the trading floor from all locations in India.

4) Establishment of the National Securities Clearing Corporation:

The National Securities Clearing Corporation was set up in 1996 to tackle the problem of counter party risks. The NSCC started guaranteeing all trades on NSE. Thus every trade that takes place is free from the risk of counter party defaulting.

5) Introduction of Dematerialization:

Share certificates were printed on paper resulting in operational cost and risk. Theft and counterfeiting of share certificates gave rise to criminal activities. In order to solve this problem, the National Securities Depository Services (India) Limited was set up in November 1996. The depository maintains a computer record of ownership of securities and dispenses with physical share certificates. This form of trading is known as “Demat”.

6) Derivatives Trading:

Derivatives are contracts whose value is derived from the underlying asset. The underlying asset can be equity/foreign exchange/any other financial asset. Derivatives help in transferring the price risks either partially or fully by locking-in asset prices. By doing so, derivatives minimize the impact of asset price fluctuations on profitability and cash flow status of investors who are averse to risk. Derivative trading in equities began in India in June 2000. There are four equity derivative products in India. They are stock options, stock futures, index options and index futures. Derivatives trading take place only in the National Stock Exchange and the Bombay Stock Exchange.

7) Trading in Central Government Securities:

Trading in government securities was introduced in January, 2003. It can be carried out through a nationwide, anonymous, order driven, screen-based trading system of stock exchanges. Retail investors are allowed to buy and sell government securities in stock exchanges. Individuals, firms, companies, corporate bodies, institutions, trusts and other entities approved by the RBI are allowed to participate in the retail market.

8) Rolling Settlement:

Rolling settlement improves the efficiency and integrity of the securities market. Under rolling settlement, all trades executed on a trading day (T) are settled after certain days (N). This is called T + N rolling settlement. Since 01st April, 2002 trades are settled under T + 3 rolling settlement. The NSE has introduced T + 2 rolling settlement from 01st April, 2003. Under it, each order has a unique settlement date specified at the time of order entry. It is mandatory for trades to be settled on the predetermined settlement date.

9) Mandatory PAN Requirement:

In order to maintain a good audit trail of the transactions in the securities market and to strengthen the 'know your client' concept, Permanent Account Number (PAN) has been made compulsory w.e.f. 01st January, 2007.

10) Stock Exchanges permitted to set Trading Hours:

In 2009-10, the stock exchanges were permitted to set their trading hours in the cash and derivative segments subject to the condition that the trading hours are between 9 a.m. and 5 p.m. and the stock exchange has a risk management system and infrastructure commensurate with the trading hours.

11) Investor Protection Measures:

The SEBI has introduced an autonomous complaints handling system to deal with investor complaints. It has given recognition to many investor associations. It issues advertisement to guide and enlighten investors on various issues related to the securities market. In October, 2001, the Central Government established the Investor Education and Protection Fund for protecting the rights of the investors.

8.4 SEBI AND ITS FUNCTIONS

8.4.1 Introduction:

The capital market was regulated by the Capital Issue (Contract) Act, 1947. The abolition of the Controller of Capital Issues was abolished in the year 1991 and SEBI was given the responsibility of a market regulator. With the abolition of CCI, prior permission of the government is not required by the companies to access the capital markets. Companies are free to approach the capital markets without prior government permission subject to getting offer documents cleared by SEBI. Controls over price and premium fixation have also been removed and most issuing companies are free to fix the price of their securities for public as well as rights issues.

SEBI stands for Securities and Exchange Board of India. It is a statutory regulatory body that was established by the Government of India in 1992 for protecting the interests of investors investing in securities along with

regulating the securities market. SEBI also regulates how the stock market and mutual funds function.

8.4.2 Objectives of SEBI:

Following are some of the objectives of the SEBI:

1. **Investor Protection:** This is one of the most important objectives of setting up SEBI. It involves protecting the interests of investors by providing guidance and ensuring that the investment done is safe.
2. Preventing the fraudulent practices and malpractices which are related to trading and regulation of the activities of the stock exchange
3. To develop a code of conduct for the financial intermediaries such as underwriters, brokers, etc.
4. To maintain a balance between statutory regulations and self-regulation.

8.4.3 Purpose of SEBI:

The purpose for which SEBI was setup was to provide an environment that paves the way for mobilisation and allocation of resources. It provides practices, framework and infrastructure to meet the growing demand.

It meets the needs of the following groups:

1. **Issuer:** For issuers, SEBI provides a marketplace that can be utilised for raising funds.
2. **Investors:** It provides protection and supply of accurate information that is maintained on a regular basis.
3. **Intermediaries:** It provides a competitive market for the intermediaries by arranging for proper infrastructure.

8.4.4 Structure of SEBI:

SEBI board comprises nine members. The Board consists of the following members.

1. One Chairman of the board who is appointed by the Central Government of India
2. One Board member who is appointed by the Central Bank, that is, the RBI
3. Two Board members who are hailing from the Union Ministry of Finance
4. Five Board members who are elected by the Central Government of India

8.4.5 Steps taken by SEBI to Improve Capital Market in India:

The important steps taken by SEBI to improve the functioning of capital market in India are as follows:

- 1) Periodic inspection of stock exchanges.
- 2) An advertisement code has been laid down to ensure that the advertisements are fair and do not contain misleading statements.
- 3) Appointment of SEBI representative to supervise the allotment process in the event of oversubscription.
- 4) Stock brokers and sub-brokers are required to register under the SEBI Act.
- 5) Merchant banking has been brought under the supervisory role of SEBI and hence pricing and premium fixation is regulated by SEBI.
- 6) 'Insider trading' has been prohibited in November 1992.
- 7) Free pricing is permitted subject to consistent track record for three years and credit rating is compulsory for debentures and bonds of more than 18 months.
- 8) The SEBI (Mutual Fund) Regulations provide for an approval of the offer documents of schemes by SEBI. The regulations prescribe minimum amount to be raised by each scheme. A close ended scheme with a fixed size of mutual fund must raise a minimum of Rs.20 crore and open-ended scheme of Rs.50 crore. The entire subscription amount must be refunded within six weeks of the closure of the scheme in case the amount collected by the scheme falls short of the prescribed amount.
- 9) Brokers are mandatorily required to maintain separate accounts for their clients and for themselves. They must disclose the transaction prices and brokerages separately in the contract notes issued to their clients and file their audited reports with SEBI. Brokers are required to issue contract notes to the clients within 24 hours of the execution of the contract. In order to ensure execution of the deals and to give protection to the investors, capital adequacy norms for brokers have been introduced.
- 10) Infrastructure firms have been exempted from requirements such as making a minimum public offer of 25 per cent of equity, five shareholders per Rs. One lakh of offer and minimum subscription of 90 per cent while floating a public issue.
- 11) A company can finance buy back out of its free reserves, the securities premium account or proceeds of an earlier issue other than fresh issue of shares made specifically for buyback purposes.
- 12) Companies have been given the freedom to fix the par value of shares issued by them. Companies who have issued shares at Rs.10 and

Rs.100 can fix the par value of their shares either by consolidating or by splitting their existing shares.

- 13) Floating of public issues through the Book Building mechanism.
- 14) Collective Investment Schemes needs to be registered with SEBI. In case of failure of registration, the scheme will have to be wound up.
- 15) In January, 2000, compulsory rolling settlement in ten select scrips was introduced and since then more scrips have come under the system. In June, 2000, SEBI introduced derivatives trading.
- 16) An ordinance promulgated on October 28, 2002 gave SEBI the power to search an entity's premises and seize documents, impound cash proceeds and securities connected to any transaction it is investigating and freeze bank accounts. In case of market manipulation or insider trading violations, SEBI can impose a fine of Rs.25 crore or three times the profits made by the entity concerned whichever is higher and for other violations like non-disclosures, Rs. One crore fine can be imposed.
- 17) In November 2002, SEBI approved the establishment of a Central Listing Authority.
- 18) In May 2006, listed companies were permitted to raise funds in the form of Qualified Institutional Placement.
- 19) Permanent Account Number (PAN) was made the sole identification number for all participants in the securities market from July 2007.
- 20) From January 2008, entry load by mutual funds was waived for investors making applications for investment in mutual fund schemes directly.

SEBI has introduced numerous measures to improve the efficiency of the capital market in India. By improving market efficiency, increasing transparency, preventing unfair trade practices, SEBI has succeeded in raising the standard of Indian capital market to the international level.

8.4.6 Functions of SEBI:

SEBI has the following functions

1. Protective Function
2. Regulatory Function
3. Development Function

The following functions will be discussed in detail

1) Protective Function:

The protective function implies the role that SEBI plays in protecting the investor interest and also that of other financial participants. The protective function includes the following activities.

a. Prohibits insider trading:

Insider trading is the act of buying or selling of the securities by the insiders of a company, which includes the directors, employees and promoters. To prevent such trading SEBI has barred the companies to purchase their own shares from the secondary market.

b. Check price rigging:

Price rigging is the act of causing unnatural fluctuations in the price of securities by either increasing or decreasing the market price of the stocks that leads to unexpected losses for the investors. SEBI maintains strict watch in order to prevent such malpractices.

c. Promoting fair practices:

SEBI promotes fair trade practice and works towards prohibiting fraudulent activities related to trading of securities.

d. Financial education provider:

SEBI educates the investors by conducting online and offline sessions that provide information related to market insights and also on money management.

2) Regulatory Function:

Regulatory functions involve establishment of rules and regulations for the financial intermediaries along with corporates that helps in efficient management of the market.

The following are some of the regulatory functions.

- a. SEBI has defined the rules and regulations and formed guidelines and code of conduct that should be followed by the corporates as well as the financial intermediaries.
- b. Regulating the process of taking over of a company.
- c. Conducting inquiries and audit of stock exchanges.
- d. Regulates the working of stock brokers, merchant brokers.

3) Developmental Function:

Developmental function refers to the steps taken by SEBI in order to provide the investors with a knowledge of the trading and market function. The following activities are included as part of developmental function.

1. Training of intermediaries who are a part of the security market.
2. Introduction of trading through electronic means or through the internet by the help of registered stock brokers.
3. By making the underwriting an optional system in order to reduce cost of issue.

8.5 SUMMARY

India's capital market is a crucial component of the country's financial system, playing a significant role in mobilizing savings and channeling them toward productive investments. The capital market provides a platform for corporations to raise funds from investors and the public, facilitating economic growth and development. Everything has evolved throughout time, including the way the market operates, the asset classes, the structure of the exchanges, and more. In accordance with the convenience of the investors and market participants, the adjustments have been implemented progressively. The Securities Regulatory authorities throughout the world have monitoring mechanisms for mitigating such acts in order to prevent market participants to take undue advantage of the information.

Types of Capital Market:

In India, the capital market comprises two major segments, namely the primary market and the secondary market. The primary market is where corporations issue new securities, such as stocks, bonds, and other financial instruments, to raise capital. The secondary market, on the other hand, is where existing securities are traded between investors.

Role of SEBI in Capital Market:

The Securities and Exchange Board of India (SEBI) is the regulatory authority that oversees the functioning of the capital market. SEBI was established in 1992 with the objective of protecting investors' interests and promoting the development of the capital market.

The following are the duties and objectives of SEBI:

1. Regulation of stock market activity
2. Defending the interests of investors
3. Ensuring the investments' security.
4. To stop fraud and malpractice.

5. To create a code of behavior for intermediaries, such as brokers and sellers of mutual funds.

In conclusion, the Indian capital market has come a long way in terms of growth and development, driven by a range of factors, including economic liberalization, technological advancements, and investor awareness. The market has also faced several challenges, which need to be addressed to ensure the continued growth and development of the Indian capital market. The future of the Indian capital market looks promising, with a range of initiatives and reforms underway to improve its functioning and make it more robust and efficient.

8.6 QUESTIONS

- Q1. Write a note on Capital Market.
- Q2. Discuss the functions of Capital Market.
- Q3. Differentiate between primary capital market and secondary capital market.
- Q4. Describe the development of capital market.
- Q5. Write a note on SEBI.
- Q6. Discuss the functions of SEBI.
