CHAPTER - 1

Introduction
About Indian Economy

Indian economy faces many ups and down during the recent past years after independence. Indian economy required a structured approach of the Government in different sector. Realising this need the Government of India announced different five year plans. First five year plan was announced by the Government for the period of 1951-56. Government categorised three sector of Indian economy i.e. Agriculture, industry and service sector.

Agriculture

More than 58% of Country's population depends on agriculture, a Sector producing only 22% of GDP. The agriculture and allied sector witnessed a growth of 9.1% in 2003-04, which fell steeply to 1.1% in the current fiscal year favorable monsoon facilitated an impressive growth rate of 9.6% in 2003-04 on the back of negative growth in the preceding year. However, deficient rain fall from the southwest monsoon is estimated to have caused a significant decline in kharif crops production in the current year.

While looking at some of the agricultural products, one finds that India is the largest producer of Tea, jute and jute like fibre. India is not only the largest producer but also largest consumer of tea in the world. India accounts for around 14% of the world trade in tea. Indian tea is exported in various forms such as bulk tea, packet tea, tea bags, instant tea etc., to more than 80 countries of the World. Among livestock cattle and buffalo are found maximum in India. Indian total milk production is highest in the world. India has also the privilege of having the 1st rank in total irrigated land in area terms in the world. Among cereals production, India is placed third, having second largest production in wheat and rice and the largest production in pulses. However, the full potential of Indian agriculture as a profitable activity hasn't been realized yet. Agriculture upliftment will not only
benefit farmers and a large section of the rural poor, but also will give fillip to overall growth of the economy through the backward and forward linkages of agriculture with the rest of the economy.

Priority must be given to livestock's & fisheries, horticulture, organic farming, commercial crops and agro-processing, as these are the potential areas of high growth. Further, rationalization of minimum support price regime and introduction of other risk-mitigation measures, improvements in rural infrastructure are essential for sustaining high agricultural growth. It is conceived that reforms in legislations, strengthening R&D and improvements in post harvest management technologies will give a further boost to Indian agriculture. While acceleration in agriculture growth to 4-4.5% is imperative, even with such growth rate; share of agriculture in total GDP is likely to reduce further. Therefore, there is a need to absorb excess agricultural labour in other sectors, notably industry. Rapid growth of agro-processing industry close to the agricultural production centers can bring about this shift without moving people from rural to urban areas. Also, Public investment in agriculture needs to be augmented, especially in rural infrastructure, irrigation, and agricultural research & development. Better access to institutional credit for more farmers, in also high on priority list. The New trade policy gives focus to agriculture and all the hurdles in Indian agriculture will be crossed gradually.

Industry

Index of industrial production which measures the overall industrial growth rate was 10.1% in October 2004 as compared to 6.2% in October 2003. The double digit in IIP was aided by a robust growth of 11.3% in the manufacturing sector followed by mining and quarrying and electricity generation. But industrial production saw a decline in Dec 2005 when IIP dipped to 8%. Thus one of the
critical challenges facing Indian economic policy consists in devising strategies for sustained industrial growth. Final phase out of the MFA and India’s conformity with the international intellectual property system from 1st January 2005, have been two significant developments in the world of commerce & industry.

Textile industry is the largest industry in terms of employment economy from the current US $37 billion to $ 85 billion by 2010 creation of 12 million new jobs in the textile sector and modernization & consolidation for creating a globally competitive textile industry. With the phasing out of quota regime under MFA, from January 1st 2005, developing countries including India with both textile & clothing capacity may be able to prosper.

Automobile sector has demonstrated the inherent strengths of Indian labour and capital. The pharma industry and the IT industry are two sunrise sectors for India. Among the sectors that have experienced the greatest transformation in India, the pharmaceutical is perhaps the most significant.

The three main sub sectors of industry viz mining & Quarrying, manufacturing and electricity, gas & water supply recorded growths of 5%, 8.8% and 7.1% respectively.

Apart from infrastructure, particularly adequate and reliable power supply at reasonable cost and transportation facilities, there is need for stepped up investment in manufacturing. Industry needs to grow rapidly not only to boost the overall growth rate in the economy but also to generate gainful employment for the existing unemployed, as well as the new entrants. In a diverse range of industrial activities, several Indian firms have succeeded in getting integrated into global production chains and realised rapid growth of exports. This experience suggests that with appropriate scale, investment and technology, rapid industrial growth is indeed possible.
Services

Service sector has maintained a steady growth pattern since 96-97, except into a fall in 2000-01. Trade hotels, transport & communications have witnessed the highest growth of level 10.9% in 2005, followed by financial services (With an overall growth rate of 6.4% and community, social & personal services 5.9% of all the three sectors, services have been the highest contributor to total GDP growth rate.) While in most parts of the developed world, the services sector’s share of employment rose faster than its share of output in India. There has been a relatively slow growth of jobs in the service sector. This is primarily because of the rise in labour productivity in services in sectors such as information technology that is dependent on skilled labour. Growth in tourism and tourism-related services such as hotels, holds a large potential for employment generation.

IT enabled services, such as business process outsourcing have been growing rapidly in the recent past and will continue to rise. However, the skill requirements for such services are of a specialized nature and the emergence of somewhat inexplicable protectionist tendencies in some developed countries is a disturbing trend. However, it is important that India sees BPO in a larger perspective, than the interned, as India’s share is just $3.5 billion in December 2004 compared to the global market of US $ 178 billion. Also India outsourcing companies need to work more closely with their customers. In the complex BPOs, customers would like to have hybrid processes to control value. Indian companies need the right mix of domain expertise and process expertise, further, mere knowledge of English is not sufficient, management skills are also needed.

The beginning of new year saw Tsunami, a worst ever disaster, Which killed thousands of people in India, Sri Lanka, Indonesia & Thailand. Many of them were international tourists. The disaster was expected to have a negative impact on
India’s tourism in terms of large-scale cancellations of tourists to India but nothing of that sort was seen. In fact, tourist arrivals in India rose 23.5 percent in Dec 2004 and tourist arrivals crossed 3 million mark for the first time in 2004.

**Value Added Tax (VAT)**

Value-Added Tax, one of the most radical reforms to be proposed for the Indian economy, could finally become a reality after four years of political and economic debate. So far 21 States have given their nod for the April 1, 2005 deadline for switching over to VAT. The decision to introduce VAT was publicly discussed first at a conference of state Chief Ministers and Finance Ministers in November 1999. At that time, the deadline of April 2002 was agreed upon to bring in VAT but it couldn’t be implemented due to political instability and a lack of initiatives. Now, Despite a backlash from the trading community and some political circles, there appears to be a realistic scope for VAT to be introduced. VAT is a sales tax collected by the government (of the state in which the final consumer is located)- which is the government of destination state on consumer expenditure.

Over 120 countries world wide have introduced VAT over the past three decades and India is amongst the last few to introduce it. India already has a system of sales tax collection wherein the tax is collected at one point (First/Last) from the transactions involving the sale of goods. VAT would, however, be collected in stages (instalment) from one stage to another.
### Exhibit 1.1

#### Overview of Indian Economy 1998-99 to 2003-04

<table>
<thead>
<tr>
<th>OUTPUT</th>
<th>98-99</th>
<th>99-00</th>
<th>00-01</th>
<th>01-02</th>
<th>02-03</th>
<th>03-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Food grains</td>
<td>203.6</td>
<td>209.8</td>
<td>196.8</td>
<td>212.0</td>
<td>174.2</td>
<td>212.2</td>
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<tr>
<td>(Million tones)</td>
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<tr>
<td>b) Finished steel</td>
<td>24.7</td>
<td>28.5</td>
<td>30.3</td>
<td>31.1</td>
<td>33.4</td>
<td>36.9</td>
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<tr>
<td>(Million tones) $</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>c) Cement</td>
<td>87.9</td>
<td>98.2</td>
<td>97.6</td>
<td>106.9</td>
<td>116.3</td>
<td>123.5</td>
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<tr>
<td>(Million tones)</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td>d) Coal (Inc.lignite)</td>
<td>315.7</td>
<td>322.1</td>
<td>332.6</td>
<td>352.6</td>
<td>367.2</td>
<td>389.1</td>
</tr>
<tr>
<td>(Million tones)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Crude oil</td>
<td>32.7</td>
<td>31.9</td>
<td>32.4</td>
<td>32.0</td>
<td>33.0</td>
<td>33.4</td>
</tr>
<tr>
<td>(Million tones)</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>f) Electricity generated</td>
<td>448.5</td>
<td>480.7</td>
<td>499.5</td>
<td>517.4</td>
<td>532.7</td>
<td>565.1</td>
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<tr>
<td>(Utilities only)</td>
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<tr>
<td>(Billion KWH)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Whole sale price index</td>
<td>140.7</td>
<td>145.3</td>
<td>155.7</td>
<td>161.3</td>
<td>166.8</td>
<td>175.9</td>
</tr>
<tr>
<td>(Base : 1993-94 =100)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer price index</td>
<td>414</td>
<td>428</td>
<td>444</td>
<td>463</td>
<td>482</td>
<td>500</td>
</tr>
<tr>
<td>(Base : 1982 = 100)</td>
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</tbody>
</table>


**Indian economy since 10 years:**

A growth rate of above 8% was achieved by the Indian economy during the year 2003-04 and in the advanced estimates for 2004-05, Indian economy has been predicted to grow at a level of 6.9%. Growth in the Indian economy has
steadily increased since 1979, averaging 5.7% per year in the 23-year growth record. (However in comparison to many East Asian economies, having growth rates above 7%, the Indian growth experience lags behind.) The tenth five year plan aims at achieving a growth rate of 8% for the coming 2-3 years. Though, the growth rate for 2004-05 is less than that of 2003-04, it is still eligible for counting it among the high growth rates seen in India since independence. Many factors are behind this robust performance of the Indian economy in 2004-05. High growth rates in Industry & Service sector and a benign world economic environment provided a backdrop conducive to the Indian economy. Another positive feature was that the growth was accompanied by continued maintenance of relative stability of prices. However, agriculture fell sharply from its 2003-04 level of 9% to 1.1% in the current year primarily because of a bad monsoon. Thus, there is a paramount need to move Indian agriculture beyond its centuries old dependency on monsoon. This can be achieved by bringing more area under irrigation and by better water management.

Because of the weakening of the US dollar for the last two years, (Caused mainly by widening US deficits), Indian Rupee has steadily appreciated vis-a-vis US dollar. Though, this trend saw a brief reversal during may-august 2004. The latest Re/$ Exchange rate (March 2005) stood close to 44. Despite strengthening nominally against US $, Rupee depreciated against other major nondollar currencies. Thus, the Real Effective Exchange rate of the Rupee depreciated and this trend continued until end 2004.

A strong BOP position in recent years has resulted in a steady accumulation of foreign exchange reserves. The level of foreign exchange reserves crossed the US $ 100 billion mark on Dec 19, 2003 and was $ 142.13 billion on March 18, 2005. The capital inflows, current account surplus and the valuation gains arising
from appreciation of the major non-US dollar global currencies against US dollar contributed to such a rise in Forex reserves. The current account of BOP having been in surplus since 2001-02, turned into deficit in the first half of the current year (April-September 2004-05). Such a reversal was observed on the back of rise in POL and non-POL imports which overwhelmed the growth of exports in US dollar terms at over 23 percent. Growth momentum in exports was maintained; India’s exports during Apr-Nov registered a growth of 24% from the last period but India’s position was down from 30th to 31st rank in the top exporting countries of the world.

The main contributors to capital account surplus were the banking capital inflows, foreign institutional investments and other capital inflows. Alike current account, capital account too witnessed decline. The capital account surplus in April September was also down by around US $1.5 million.

Reserve money growth had doubled to 18.3% in 2003-04 from 9.2 in 2002-03, driven entirely by the increase in the net foreign exchange assets of the RBI. However, it declined to 6.4% in the current year to January 28, 2005. During the current financial year 2004-05, broad money stock (M3) (Up to December 10, 2004) increased by 7.4 percent (exclusive of conversion of non-2004 banking entity into banking entity, 7.3 percent) as compared with the growth rate of 10.3 percent registered during the corresponding period of the last year.

The downward trend in interest rates continued in 2004-05, with bank rate standing at 6% as on Dec 10, 2004. Banks recovery management improved considerably with gross NPAs declining from Rs 70861 crore in 2001-02 Rs 68715 in 2002-03. During the current financial year (up to December 10, 2004) incremental gross bank credit increased by 20.5 percent (exclusive of conversion,
16.6 percent) as compared with a growth of 5.9 percent in the same period of the previous year. Non-Food credit during the financial year so far, registered a growth of 20.5 percent (exclusive of conversion, 16.5 percent) as compared with an increase of 8.4 percent during the same period of the last year indicated a positive outlook. Equity market return was 85% in 2003-04, second highest in Asia. With continued higher corporate earnings in 2004-05, the sensex crossed 6800 mark in March 2005 but high stock market volatility remained higher in India compared to other Asian countries. The expectation of sensex crossing 7 K mark is not yet realized. Fiscal deficit of states & center was decreasing in early 90s but due to rise in fiscal deficit in recent years, corrective measures have been adopted. The fiscal deficit decreased to 7.9% in 2004-05 from a 9.4% ofGDP in 2003-04. According to recent estimates, fiscal deficit in April-October 2004 is 45.2 percent of BE compared with 56.0 percent of BE in the corresponding period last year. This was the broad picture of Indian economy; however it is imperative to look at the sectorial performance for a better grasping of the Indian economy.

The average annual growth rate of Gross domestic product (G.D.P) and real per capita income in the pre-independence era that is prior to 1947, were around 0.9 and 11% respectively with in the geographical boundaries of the present day India. The annual average growth rates of N.N.P. At factor cost and per capita NNP at constant prices were as follows up to 1990.
Exhibit 1.2
Growth Rates

<table>
<thead>
<tr>
<th>Period</th>
<th>Growth rate of NNP</th>
<th>Per Capita NNP growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First plan period (1951-56)</td>
<td>3.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Second plan period (1956-61)</td>
<td>4.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Third plan period (1961-66)</td>
<td>2.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Annual plan (1966-69)</td>
<td>3.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>3.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>5.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Annual plan (1979-80)</td>
<td>-6.0</td>
<td>-8.3</td>
</tr>
<tr>
<td>Sixth plan (1980-85)</td>
<td>5.3</td>
<td>3.1</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>5.9</td>
<td>3.7</td>
</tr>
</tbody>
</table>

From the foregoing data it is clear that while the average annual growth rate between the first plan and the fourth plan was hovering between 3% to 4% growth luring the 80’s was at an annual average rate of 5.9%. This was higher than the world output growth rate of 3.3% and that of developing countries at 4.3% during the same period.

The annual growth rate in per capita GDP in the Nineteen Eighties was over 3.5% in spite of the average population growth rate of 2.0%. However the aim of doubling the per capita income in the country in 25 years of planning - i.e. by 1975, could be achieved only by the end of 1980’s. Further the percentage of population that could not get an average intake of 2400 calories per day in rural areas and 2100 calories in Urban areas remained at 38.9% even in 1987-88.
Thus if we examine the impact of 40 years of planning from 1950 to 1990, we find that the economy was at its best in 1980’s. But even then there were structural imbalances. An important factor propelling growth during this period was the enormous rise in Govt. expenditure, which led to deficits even in the revenue budget. Public enterprises created with borrowed money also did not yield adequate returns. The high fiscal deficit also was reflected in the emergence of current account deficit in the external sector, which was around 3.2% of the GDP in 1991. Further external debt of short duration on commercial terms also increased. The high growth of 1980’s. that was largely financed by internal and external debt shook the confidence of the creditors. The gulf crisis and a severe balance of payments problem ultimately led to a mortgage of gold reserves abroad and an over all gloom on the prospects of the Indian economy. In 1991 exports were valued at Rs. 32,553 crores as against imports of Rs. 43,196 crores and foreign exchange reserves just Rs. 5541 crores in July 1990. The economy was in deep crisis along with weakening of international confidence, But this adversity has its own uses.

The adverse economic situation made the Government of India review the policies followed in the preceding four decades, take a "U" turn and try to pull the economy from the brink of disaster and the verge of bankruptcy. In fact the growth rate of NNP (at factor cost in 93-94 prices) in 1991-92 was just 0.5% and that of per capita NNP- 1.5% (negative) Dr Manmohan Singh presenting the Budget for 1991-92 asserted that there is no time to Lose. Neither the Government nor the economy can live beyond its means year after year. Macro economic stabilisation and fiscal adjustment alone can not suffice. This must be followed by essential reforms in economic policy and economic management.
The terms liberalisation, privatisation and globalisation (the new LPG) amply summaries the crucial aspects of the reforms started in 1991. The statement of the Union Finance Minister made on the floor of the Parliament on 16/12/1991 highlighted the problems that confronted the Nation and the steps taken or to be taken by the Govt of India. The Finance Minister claimed that the new Govt. moved swiftly, to the task of pulling the economy back from the brink of disaster and setting it once more on the path of rapid and sustainable growths. Confidence of the creditors was restored and the fear of default was dispelled. The exchange rate was adjusted in July 1991 to a new level deemed credible. While ensuring competitiveness of exports without the need for large export subsidies, trade policy witnessed major changes which included schemes for strengthening of incentives for exports and moving away from the system of import control. Export subsidies were abolished, fertiliser subsidy was reduced and defence expenditure was restrained. Monetary policy was also tightened reflecting the urgent need to control inflationary pressure in the economy.

The statement added that these measures of short term economic management were accompanied by far reaching structural reforms in the area of industrial policy aimed at enhancing productivity and strengthening competitiveness in the industrial sector and promoting an employment oriented pattern of industrialisation. The policy towards foreign investment was restricted to attract foreign investment especially in priority areas including critical infrastructure sectors such as power. Govt also proposed to use supply management in critical commodities and accordingly state Govts., were allowed direct import of edible oils for supply to the public distribution system.

Regarding reforms in the field of public finances, the statement added the burden of achieving reduction in fiscal deficit will fall heavily on the expenditure
side. There is an urgent need to restructure and rationalise our tax system. Maintenance of fiscal discipline also means that plan expenditure cannot depend as heavily as in the past on ever increasing budget support. The budget cannot afford a continual drain on account of permanently loss making public sector units which are only preventing us from investing our resources where they are most needed such as in power in agriculture, rural development, poverty alleviation, education, health and control of environmental degradation where acute scarcities are already evident.

The statement added that the decade of Nineteen Nineties would be a decade of scarce resources both domestically and externally, But we are determined to pursue with renewed vigour the goals of a rapidly expanding economy, a socially just and technologically advanced self reliant society. Scarcity of resources must be reflected in a premium on efficiency whether in the public or in the private sector. That must be the watchword of economic policy in the years ahead. There must be an all-round recognition that a higher standard of living can be ensured only on the basis of rising productivity and there are no short cuts to it. The fear of large scale unemployment and closures resulting from these policies are wholly unfounded. On the contrary we envisage that these policies will lead to greater dynamism and a larger growth in total employment.

Presenting the Budget for 1991-92, the Union Finance Minister (July 1991) declared that employment creation and poverty eradication would continue to receive the highest priority. He also wanted the state Govts. to improve their fiscal performance and streamline the working of their public enterprises. Further in his foreword to the eighth five year plan (1992-97) which followed the launching of the new economic policy, the Prime Minister asserted that the strategy adopted in the plan was not one of choice between market mechanism and planning but of
dovetailing the two so that they become complementary to each other. The Ninth plan documents (1997-2002) also reiterates that the reforms involve a major reorientation of the state. Thus a reorientation of the role of the Govt as well as the process of planning was undertaken. The Ninth five year plan document states that a vigorous private sector operating under the discipline of competition and free markets will encourage efficient use of scare resources and ensure rapid growth at least cost. Indian industry must be unshackled from unnecessary bureaucratic and governmental control. It was also stated that a thorough revamp of the controls and procedures involved at the state govt. level could help to create a climate in which Indian industry can flourish. The process of disinvestment of government equity from public sector enterprises that however, envisaged the minimum of govt equity at 51% originally will be reduced to 26% as early as possible where national security is not involved. In respect of external trade the declared policy was one of removing quantitative restrictions on imports and phased reduction of import tariff. Globalisation also meant an explosion of financial integration in world markets. Further reforms in the real economy, need to be supported by an efficient financial sector capable of mobilising the savings of the community and allocating them to the most productive users. A strong well functioning capital market is an important part of the financial system and is an important source of funds for both the public and private sectors in future. The insurance and pension sector is particularly important for the financing of infrastructure which needs long term funds. Regarding agricultural sector, the Ninth plan document stated that Indian agriculture had always been based on individual farmers with a predominance of small and marginal farmers so the development strategy must focus special attention on this sector which requires a unique combination of private sector and public support.
There was a general recognition of the fact that there can be mistakes and errors in public policy formulation and inefficiency in its implementation. Earlier the rationale for the dominant role of the government was the concept of "market failure" and inadequate of the market mechanism. But subsequent experience exploded the myth of the infallibility of governmental action and led to the recognition of the fact of the possibility of governmental failure. All this led to a greater appreciation of the respective roles of the public and private sectors in the pursuit of economic growth, further more market does not mean less govt. but only a different Government with an eye on capabilities. The prime aim of these measures was to bring about increased competition both domestically and externally and reduce rent seeking activities. All these reforms had their own impact on the macro economic scenario of India and on the lives of the people at large. So now let us examine the results of these multifarious reforms introduced since 1991 either because of choice or of necessity.

During this period the economy has grown at an average rate of 6.4% per year since 1992-93 compared to the 5.8% recorded in the 1980. Poverty has fallen from 36 percent in 1993-94 to 26 percent or less now. Summarising the impact of the decade old reforms the Minister, asserted "While economic reforms have placed the country on a much more secure and sustainable growth path, we still have sonic, serious concerns and can not afford to be complacent.

Investment is the driving force of economic growth. When investment with in the country is not adequate to accelerate economic growth, foreign direct Investment (FDI) has a crucial role to play. The cumulative F.D.I. in flows since 1991 increased to $ 26.89 billion Rs. 103636 crores, while approvals were at $ 72.98 billion Rs. 267798 crores till August 2001. India has received foreign direct investment of US $ 2 to 3 billion last year while China got $ 40 billion in FDI. This
is one of the salutary effects of liberalisation and globalisation. Apart from Delhi, major recipients of FDI had been the states of Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu. However the flow of FDI at US$ 2.26 billion into India in 1998 was far lower than into countries like Singapur (U.S.$ 7.22 billion) China ($ 45.5 billion) and Mexico ($ 7.24 billion). While foreign investment, as a percentage of GDP was almost zero in 1990-91 and 0.1% in 1991-92, its average during 1992-2000 was 1.2%. At the confederation of Indian Industry partnership summit 2002 held in Bangalore European Commissioner said - With total Indian software exports of $ 6.300 billion in 2000-2001 of which European Union accounts for 23% - a mere 0.42% of the total European IT market. India has still long way to go and areas of mobile communications C.R.M. back office management S.C.M. Solutions and e-learning segments, require Indian expertise. The growth of the Indian economy in the post reform era in several sectors in quantitative forms is not as per expectations.

Savings and investment rates have remained more or less stable around 22/23 percent. Further these rates are lower than the comparable rates in Singapore at 51.4% and 34.5% and in China at 42.5% and 38.8% respectively. Moreover the negative rate of savings in the Govt. sector because of revenue deficits is a matter of concern.

For the year 2000, in respect of current competitiveness index (prepared by the world Economic forum) India's rank was 37 out of 58 countries in respect of Growth competitiveness index (GCI). India was in the 49th position out of 59 countries in respect of Emerging market Index (that measures the market openness of a country) India's rank at 46 was higher than China. In the case of Globalisation Index (that measures integration with the rest of the world) the rate of integration during 1993-97 was about 2% per annum. The inference from all these measures is that India is a fairly stable economy. Transport, power,
telecommunication, water, sanitation etc., are the principal constituents of infrastructure, which is essential for sustained economic development.

The foregoing account indicates the success and failure (Short fall) of the Indian Economy in achieving measurable progress in quantitative terms relating to macro economic variables. The question whether the progress is satisfactory or not, whether the prospects are rosy or gloomy for the Indian economy depend not only on quantitative factors but also on the policy of the Govt. For long Indians have been largely described as those that work very hard everywhere excepting in India (With exceptions), punctuality, abiding interest in the work assigned, dedication and sincerity have an important role to play in increasing productivity, particularly in the services sector.

Similarly the linkage between increase in productivity and increase in wages should never be underestimated. Possible pursuit of incomes policy about which we were talking in 1970's along with the recommendations of Bhoothalingam Committee needs to be examined afresh. The query of the Eleventh Finance Commission (EFC) whether periodic appointment of pay revision commission is warranted in view of the financial difficulties experienced by the union and state government after the submission of the fifth pay commission, needs careful examination before such. Commissions are appointed in future. It should also be examined whether the "tyranny of the ten percent" in the Indian economy namely the work force in the organised sector that resists all changes unfavorable to it has been a stumbling block in the pace of economic reforms and growth.

Another factor that reduces the utility and productivity of large investments in India is the extent of leakages and the so called all pervading corruption for which India got 46th rank among 54 countries in 1996 surveyed by the
Transparency International and GOTTINGEN UNIVERSITY. It is this that made Rajeev Gandhi, the former Prime Minister to draw attention to the abysmally low percentage of benefits that reach the targeted groups beneficiaries, out of every rupee spent by the government. A number of persons of every description think that they are entitled to a share in the Governmental expenditure deprive the deserving of the benefits meant for then and rob the utility of public expenditure meant for development or reconstruction or social welfare. As a result the returns cannot be expected to be equal to the full value of the expenditures incurred by the Government while the objective of public expenditure is to make the Governmental rupee go the farthest in terms of utility in practice in several cases it turned out to be futile and intructious expenditure.

Further limited government capacity and individual ingenuity in manipulating public programmes for private gain discredited the post war view that governments could directly replace the private sector to correct market distortions. It has to be recognised that the governments in India are neither omnipotent nor vigorous (hard) in the pursuit of declared state policies. Having recognised the limits of markets and the limitations of the government, the strategy for accelerating economic development has to be worked out. In his address to the FICCI on 5/12/2001 the Union Finance Minister himself admitted that the government was not always the best and most efficient spender of national resources.

It should also be noted that growth alone is not enough. It is not the be all and end all of all economic activity. Poverty anywhere in the world is a danger to prosperity every where. Over the past 40 years (say between 1960 and 2000) the gap between the rich and the poor all over the world has doubled with incomes of the richest 20 countries now averaging 31 times, that in the poorest. In India the percentage share of income or consumption of the lowest 10 percent was 3.5%
in 1997 where as the share of the highest was 33.5%. The Gini index was 37.8 in 1997.

Good Governance matters very much for economic growth and poverty reduction. Good governance also means the absence of corruption, which can subvert the goals of policy and undermine the legitimacy of the public institutions that support market. Good governance in fact is broadly the ability of the state to provide those Institution that support growth and poverty reduction. Smart govt advocated in Andhra Pradesh may be taken as a concrete expression of good governance. Above all public enthusiasm is the lubricating all of planning and petrol for economic development. So how far the public at large is enthusiasm for participation in development activities initiated by the government is a moot question. Among the 162 counties listed in the Human Development Report 2001, India ranks 115 with Norway topping the list and Sierra leone occupying the last rank.

India therefore has to develop its own strategy for planning and development. In the race for economic development every country has to keep running even to stand where it is, that is, even to protect its relative rank among the comity of nations. To improve the rank, naturally, hard work, right policies, effective governance, sincere implementation of programmes, transparency and accountability are essential. India has to distinguish itself increasingly as a leader in the services sector particularly in the IT software, just as China has made a mark in the manufacturing sector and the hardware segment of IT.

The Associated Chambers of Commerce and Industry (ASSOCHAM) in a recent paper says that what the country needs to day is good institutions to nurture its human capital. It has also warned that a sustained, accelerated economic
growth will not be possible without a significant improvement in the integrity and effectiveness of the governmental financial and other institutions on which the economy depends. It also emphasizes that governance is the key to India's future economic growth and lays emphasis on the need for strengthening the expenditure framework. It is to be noted that even in 1999-2000 and 2000-01 about one percent of GDP (1.32% & 1.04%) has been the estimated share of subsidies and more than 4.6% of the GDP was the estimated expenditure on interest payments in the central government's total expenditure of around 15.5% of GDP while total revenue expenditure was nearly 13% of the GDP. Plan expenditure, capital expenditure, developmental expenditure on social and economic infrastructure need to be increased significantly to achieve durable and sustainable growth.

It should be noted that in the post-reform era, though the consumer has not become the "King" his importance has increased. He has a wide variety of goods, particularly consumer durables to choose among competing products at fairly competitive prices. In several cases, the service attached to the products has also improved. The exhibitions and "melas" that are organized for most part of the year in several parts of the country is proof positive of the effort to boost the consumers who were earlier confronted with a sellers market. But then the importance of sovereignty of the consumer depends on the quantum of the purchasing power he commands. While those who are fortunate to have a job to sustain themselves are in a fairly comfortable position, for those who expected to get a secure and stable government job of any description, life seems to have become a nightmare. On a rough estimate for every 100 persons that are involved in the organized sector, more than 142 persons are waiting to be employed without any guarantee that even when posts fall vacant (on account of retirement or other reasons) they would be filled because of the policy of the right sizing the
government. Unemployment is the one word that no one in the govt. dared to utter in recent months.

The Task force on employment opportunities under the chairmanship of Sri Montek Singh Ahulwalia appointed by the planning commission in its Report submitted in June 2001, furnished the following facts regarding unemployment and employment. Its conclusions are depressing.

<table>
<thead>
<tr>
<th>Variable</th>
<th>1993-94</th>
<th>2003-2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Total employment</td>
<td>375 million</td>
<td>397 Million</td>
</tr>
<tr>
<td>2 Unemployment rate as measured on the basis of current daily status C.D.S.</td>
<td>6%</td>
<td>7.3%</td>
</tr>
<tr>
<td>3 Rate of growth of employment per annum</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>4 Number of employed workers in the agriculture sector in Millions</td>
<td>242</td>
<td>238</td>
</tr>
</tbody>
</table>

Regarding the quality of employment the Task Force said "large Numbers of those currently employed according to the N.S.S. definition, earned income levels which are insufficient to take them above the poverty line. About 8.7 million persons enter the market for employment every year but the Employment - G.D.P. elasticity is 0.22 only. So what is needed is a G.D.P. growth rate of 8 to 9 percent over the next 10 years if we want to see a significant improvement in the employments situation. It was jobless growth and joy less growth."
For producers the days of complacency and sellers markets seem to be disappearing. To produce properly and wisely, quality goods at competitive prices or to perish seem to be the choice open to them. The days of protectionism are almost over. Buyers are no longer passive and are more knowledgeable than at any time. Markets have become global. Trading environment, power and expectations of buyers have changed. So the producers and traders should be willing to take up the challenges or else will be pushed to the wall. As Dr. Y.V. Reddy wrote tomorrow’s problems cannot be solved with yesterdays strategies and can not be even understood with day before yesterday’s knowledge. Hence the need for Vivekavardhini" & “Vivekavyapti”. Similarly we must remember that “Sparadhaya Vardhate Vidya”- Cut throat competition and not all round altruism is the characteristic of business. If education is the basis for empowerment and prosperity it is necessary to discriminate between good and bad and take the right decisions at the right time (“Sadasadviveka Chatliuratha” is Education) with the help of strong institutions. Honesty is the best policy is not only an ethical proposition, but a business proposition.

That the economy is poised for growth and is on the road to prosperity are not in doubt. How high the rate of growth will be, depends on all of us governance, people and proper exploitation of resources. Even for 2001-02 the GDP growth rate is expected to be around 5% in spite of the known constraints. Given political stability and peace it should not be difficult to achieve growth rate of 7 to 9 percent in the next decade. But government should ensure (The old adage) that death and taxation are the only certainties in the world in the sphere of resource mobilisation through proper tax collection. Effective tax collection and expenditure management are the prerequisites for growth, among others.
Indian economy is comparison of world economy

Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21st century. At present United States has been the largest economy in the world but major developments have taken place in the world economy since then, leading to the shift of focus from the US and the rich countries of Europe to the two Asian giants - India and China.

The rich countries of Europe have seen the greatest decline in global GDP share by 4.9 percentage points, followed by the US and Japan with a decline of about 1 percentage point each. Within Asia, the rising share of China and India has more than made up the declining global share of Japan since 1990. During the seventies and the eighties, ASEAN countries and during the eighties South Korea, along with China and India, contributed to the rising share of Asia in world GDP.

According to some experts, the share of the US in world GDP is expected to fall (from 21 percent to 18 percent) and that of India to rise (From 6 percent to 11 percent in 2025), and hence the latter will emerge as the third pole in the global economy after the US and China.

By 2025 the Indian economy is projected to be about 60 percent the size of the US economy. The transformation into a tripolar economy will be complete by 2035, with the Indian economy only a little smaller than the US economy but larger than that of Western Europe. By 2035, India is likely to be a larger growth driver than the six largest countries in the EU, though its impact will be a little over half that of the US. India is slated to become the third largest economy with a share of 14.3 percent of global economy by 2015 and graduate to become the "third pole" and growth driver by 2035.
As the share of USA in world GDP falls from 21 to 18 percent and that of India rises from 6 to 11 percent in 2025, the latter emerges as third pole in the global economy according to ADB India Economic Bulletin. India which is now the fourth largest economy in terms of purchasing power parity, will overtake Japan and become third major economic power within 10 years.

ISSUES AND PRIORITIES FOR INDIA

As India prepares herself for becoming an economic superpower, it must expedite socioeconomic reforms and take steps for overcoming institutional and infrastructure bottlenecks inherent in the system. Availability of both physical and social infrastructure is central to sustainable economic growth.

Since independence Indian economy has thrived hard for improving its pace of development. Notably in the past few years the cities in India have undergone tremendous infrastructure upgradation but the situation in not similar in most part of rural India. Similarly in the realm of health the education and other human development indicators India's performance has been far from satisfactory, showing a wide range of regional inequalities with urban areas getting most of the benefits. In order to attain the status that currently only a few countries in the world enjoy and to provide a more egalitarian society to its mounting population, appropriate measures need to be taken. Currently Indian economy is facing these challenges:

* Sustaining the growth momentum and achieving an annual average growth of 7-8% in the next five years.
* Simplifying procedures and relaxing entry barriers for business activities.
* Checking the growth of population, India is the second highest populated
country in the world after China. However in terms of density India exceeds China as India’s land area is almost half of China’s total land. Due to a high population growth, GNI per capita remains very poor. It was only $2880 in 2003 (World bank Figures).

- Boosting agricultural growth through diversification and development of agro processing.
- Expanding industry fast, by at least 10% per year to integrate not only the surplus labour in agriculture but also the unprecedented number of women and teenagers joining the labour force every year.
- Developing world class infrastructure for sustaining growth in all the sectors of the economy.
- Allowing foreign investment in more areas
- Effecting fiscal consolidation and eliminating the revenue deficit through revenue enhancement and expenditure management.
- Empowering the population through universal education and health care.

India needs to improve its HDI rank, as at 127 it is way below many other developing countries’ performance.

China and India enjoyed historically unprecedented average rates of growth of GDP at around 10% and 6% per year respectively during 1980-2000, fewer than 10 of over 200 countries covered by the world bank exceeded India’s growth rate’s growth rate and none exceeded China’s. Both in China and India Poverty Went down substantially in the last two decades of the twentieth century when both experienced acceleration in their growth rate, according to official data of both countries. Without entering into the controversy on poverty estimates for 1999-2000 from the 55’ round of the National Sample Survey, let me just cite estimates by Angus deaton who adjusts for some of the problems with the 55th round data. The ratio of India’s population living below the national poverty line.
fell from 39.0% in 1987-88 to 21.6% in 1999-2000 in rural areas and from 22.8% to 9.5% in urban areas. Though not quite comparably to Deaton, according to Datt, in 1977-78 the poverty ratio was 50.5% and 40.5% in rural and urban areas respectively. In fact from the 1950 to the late seventies the poverty ratio fluctuated with no downward trend. Unlike India, where household survey based estimates are available for the 1950, Chinese poverty data based on household surveys are relatively recent official poverty lines and poverty head counts going back to 1978 were first announced in 1994, superceding some earlier adhoc estimates if these official data are to be believed, rural poverty has been virtually eliminated, falling from 30.7% in 1979 to 9.5% in 1990 and to 4.6% in 1998. A world bank estimate, on the other hand, put rural poverty at nearly four times, at 42.8% in 1990 and it fell to 24.2% in 1997. Although the levels of poverty differ substantially between official and world bank estimates, the trend is similar -- a halving of poverty between 1990 and 2000. It is evident that there is at least a strong association between acceleration in growth and poverty reduction. There are several casual mechanisms that tend to reduce poverty in periods of rapid and sustained growth. For lack of time, I will not go into them except to draw on their existence to argue, with the authors of the tenth plan, that accelerating growth is the most effective strategy for reducing poverty. We all know that China is far ahead of India in its achievement is social indicators, such as educational attainment and life expectancy of its population. Interestingly, most of the gains in social indicators had already been made by the early seventies. However the contribution of better education and health of the population to growth did not come about until after the economic literature and opening of the economy in 1978.

Maddison's estimates suggest that China and India had the same real per capita income in 1870. But by 1950 when the communist regime took over, China's
per capita income had declined by 17% while India had increased by 16%. It took nearly two and a half decades that is from 1950 to 1973, for China to recover the lost ground with double India’s rate of growth of per capita income. It is reasonable to presume that China and India were roughly at the same level of per capita income in 1980, two years after Deng Xiao Ping abandoned the maiost economic strategy that led to the death of 30 million or more and initiated systemic reforms. Although both economics experienced acceleration in growth during 1980-2000 compared to the previous three decades, China’s average growth rate of per capita income at nearly 9% per year, far exceeded India’s 4% per year, so that china’s per capita income was nearly 70% higher than India’s by 2000. Although China grew faster than India also before reforms, most of the difference is attributed to China’s greater savings and investment rates. In fact Maddision estimates that total factor productivity declined at a rate of 0.78% per year in the pre-reform period of 1952-78. Although China had better social indicators than India long before reform in either country this apparently did not translate into higher and productivity driven, rather than input driven growth until the policy framework was changed drastically.

Objectives of the Study

As we know that Indian textile sector plays a vital role in the fast economic development of the country. Since Independence the role of textile industry has been very crucial in terms of the employment and the regional economic development. As mentioned earlier that deep textile sector contributes 7% of total GDP. Our country’s total economy was based on these public enterprises and any significant changes in this sector directly affects the economic position of the country.

Due to great importance of Indian textile sector, Government of India announced textile policies many times and frame the guidelines for the textile
sector. Various assistance and infrastructure are provided to the sick and old textile units. Various types of modernisation techniques are becomes available to such units.

In view of the above the present study is devoted to the following broad objectives.

(1) To review the role of textile sector in the economic development of the country.

(2) To study the agreement on textile and clothing (ATC) with world trade organisation and estimates the benefits of the agreement.

(3) To assess the textile policy and the procedure of its implementation.

(4) To evaluate the government action based on different recommendations of the commissions setup for the upliftment of textile sector in the country.

(5) To evaluate the suggestions and recommendations of the different financial institutions exporters, manufacturers and consumers.

(6) To review the government action plan for the maximum utilisation of the WTO agreements.

(7) To study the growth of the Indian textile sector and review the agreement whether it is going in a right direction or not.

(8) Review the role of Indian textile sector in the economic development of the country.

(9) To review the crucial political will and political intervention in the process of the implementations of the agreement.

(10) To review the growth of textile sector after phasing out the agreement on textile and clothing.

**Hypothesis**

The present study has been undertaken with the following hypothesis-

(1) The growth and performance of textile sector has not been satisfactory in
relation to resources allocated to it.

(2) The Agreement on textile and clothing are not implemented in proper manner.

(3) Manufacturers and exporters are not aware about the contents of the agreement.

(4) Most of the Indian textile manufacturers failed to take the benefit of the agreement on textile and clothing.

(5) Overall performance of the Indian textile industry has not been satisfactory as expected.

(6) Lack of Political will in the implementation of the agreement also responsible for its effectiveness.

**Research Methodology**

Every research project conducted scientifically has a specified frame work for controlling the collection of and analysis of data in a manner that aims at combining relevance to the research purpose with economy in procedure and efforts.

For the purpose of research various places such as ministry of textile, office of the national textile company and various reputed libraries such as from central library Allahabad University, Library of Indian institute of Technologies (Kanpur), library of Chatrapati Shahuji Maharaj University Kanpur library of Ministry of Textile would be visited for the purpose of the study.

During Research work different types of statistical tool would be used to analise the agreement implementation procedure. During the visit of the above places various areas would be discussed with top and lower level management on Indian textile sector performance, Policy and procedure of agreement. Their views on the above matters would be recorded and included in the conclusions.
and recommendations of the study. Since the area of the study is too wide so sampling techniques would used in the analysis during of the study.

Initially we propose to give a brief introduction of the subject and the study of the growth of textile industry as well as WTO agreement impact on Indian textile industry the performance of the Indian textile sector would be studied and analysed on the basis of various performance indicators. They may be financial and non financial indications and both the indicators would be applied for the purpose. The social aspect of agreement on textile and clothing (ATC) would also deserve our due attention.

**Data Collection and analysis**

Data for every research work in very crucial. Total research work is dependent upon the availability and accuracy of data. generally secondary data is used in this research work. Interpretation and analysis of secondary data is critical and successful analysis of available data certainly provides garret help in drawing the conclusion of the study. Different sources would be used for collection of data such as -

1. Annual report’s of Ministry of textiles.
2. News paper such as times of India, Hindustan Times, Economic times, Business Standard etc.
3. Various Economic survey
4. Various research paper
5. Different Official announcement on textile reforms by the Government
6. Various journals of Indian textile industry.
7. Budget speech of union finance ministers and its abstracts on WTO agreement on textile and clothing.
Various books of textile sector and on its reforms.
Various books of World Trade Organisation.
National textile policy announced by the Government of India.

Data collection from the above mentioned sources plays a significant role in drawing the conclusions on textile sector and its reforms process. Due to importance of data special weightage would be given to check and cross and manipulation. Data thus collected then be compiled systematically and analysed on the basis of various statistical techniques. For the study of the management, personal interview would be taken of the various key officers of Ministry of Textile and the soundness of the textile sector reforms through agreement on textile and clothing would be checked.

After drawing conclusions properly, the report would be prepared in the standard format and viable, pragmatic and constriction recommendations would be forward for the benefits of the readers, Policy makers and future researchers.

Limitation of the study

Owing to the various limitations it would be essential to choose those area for which details of works are available. Area of would trade organisation and textile sector are to wide and physically not possible to cover all the areas. Hence sampling techniques would be used for the purpose of the study.
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