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Determinant of Indian Economy

ABSTRACT

1. *The growth rate of Indian economy is 8.1 percent at the end of 2005-06.*
2. *Illiteracy, general socio-economic backwardness, slow progress in implementing land reforms and inefficient finance and marketing services for farm produce.*
3. *India has set up special economic zones and software parks that offer tax benefits and better infrastructure to set up business.*
4. *57% of the work force is in agriculture, which contributes to 25% of the G.D.P.*
5. *The difference in growth rate between the forward and backward states was 0.3% (5.2% and 4.9%) during 1980-81 to 1990-91, but has grown to 3.3% (6.3% & 3.0%) during 1990-91 to 1997-98.*

1. INTRODUCTION

India is rich in natural resources and manpower. These resources have however, not been exploited fully and are capable of greater utilisation. The Indian economy is still predominantly agricultural. Agriculture has acquired a remarkable resilience in the last decade. About one-third of the national income is derived from agriculture and allied activities, employing about two-third of the working force. Since 1947, the national endeavour has been to diversify the economy.

2. DEMOGRAPHY AND GEOGRAPHY

India, with a population of 1.027 billion people, is the second most populous country in the world, accounting for nearly 17% of the world's population. Growth rate of population has shown signs of decrease, coming down from a compound annual growth rate of 2.15 (1951–1981) to 1.93 (1991–2001); despite the decrease in the death rates owing to improvements in healthcare.

India's geography ranges from mountain ranges to deserts, plains, hills and plateaus, while its climate varies from tropical in the south to a more temperate climate in the north. India's total cultivable area is 1,269,219 km² (56.78% of total land area), which is decreasing due to constant pressure from an ever growing population and increased urbanization.

Dams like these have mitigated India's power needs, but India faces a power deficit. India has a total water surface area of 314,400 km² and receives an average annual rainfall of 1,100 mm. Irrigation accounts for 92% of the water utilisation, and comprised 380 km² in 1974, and is expected to rise to 1,050 km² by 2025, with the balance accounted for by industrial and domestic consumers.

Cheap and environment friendly public transport is seen as a necessity for India's crowded and polluted metros. Pictured here, is the New Delhi Metro, operational since 2002 and seen as a model for other metros.

India's low spending on power, construction, transportation, telecommunications and real estate, at $31 billion or 6% of GDP, compared to China's spending of $260 billion or 20% of its GDP in 2002 has prevented India from sustaining a growth rate of around 8%. This has prompted the government from opening up infrastructure to the private sector and allowing foreign investment.

3. THE RESOURCES

- **Agriculture**

Agriculture and allied sectors like forestry, logging and fishing accounted for 25% of the GDP, employed 57% of the total workforce in 1999-2000 and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the green revolution. However, international comparisons reveal that the average yield in India is generally 30% to 50% of the highest average yield in the world.

- **Industry**

Concerted efforts at industrialisation by the government, aiming at self-sufficiency in production and protection from foreign competition, for nearly four decades since independence, have encouraged a broad industrial base, both in the public and private sectors. They together account for 28.4% of the GDP and employ 17% of the total workforce. Economic reforms bought foreign competition, led to privatisation of certain public sector firms, opened up sectors hitherto reserved for the public sector and the small scale sector and led to an expansion in the production of durable consumer goods.

- **Services**

India has set up Special Economic Zones and software parks that offer tax benefits and better infrastructure to set up business. Pictured here is the Tidel Park in Chennai, one of the largest software parks in India.

The service sector, providing employment to 23% of the work force, is the fastest growing sector, with a growth rate of 7.5% in 1991-2000 up from 4.5% in 1951-80. It has the largest share in the GDP, accounting for 48% in 2000 up from 15% in 1950. Business services (including information technology (IT) and IT enabled services), communication services, financial services, hotels and restaurants, community services and trade (distribution) services are among the fastest growing sectors contributing to one third of the total output of services in 2000. The growth in the service sector is attributed to increased specialisation, availability of a large population of highly-educated and fluent English-speaking workers on the supply side and on the demand side, increased demand from domestic consumers resulting from growth in personal incomes and from foreign consumers interested in India's service exports or those looking to outsource their

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operations. India's IT industry, despite contributing significantly to its balance of payments, accounted for only about 1% of the total GDP or 1/50th of the total services.

- **Banking and finance**

Indian money market is classified into: the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as *scheduled banks*); and the unorganised sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs)). The unorganised sector and micro credit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans.

Indira Gandhi nationalized 14 banks in 1969, followed by seven others in 1980 and made it mandatory for banks to provide 40% (since reduced to 10%) of their net credit to priority sectors like agriculture, small-scale industry, retail trade, small businesses, etc. to ensure that the banks fulfill their social and developmental goals. Since then, the number of bank branches has increased from 10,120 in 1969 to 98,910 in 2003 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. The total deposits increased 32.6 times from 1971 to 1991 compared to 7 times from 1951 to 1971. Despite an increase of rural branches, from 1,860 or 22% of the total number of branches in 1969 to 32,270 or 48%, only 32,270 out of 5 lakh (500,000) villages are covered by a scheduled bank.

Since liberalisation, the government has approved significant banking reforms. While some of these relate to nationalised banks (like encouraging mergers, reducing government interference and increasing profitability and competitiveness), other reforms have opened up the banking and insurance sectors to private and foreign players.

4. SOCIO-ECONOMIC CHARACTERISTICS

- **Occupations and unemployment**

57% of the workforce is in agriculture, which contributes to 25% of the GDP. Agricultural and allied sectors accounted for about 57% of the total workforce in 1999-2000, down from 60% in 1993-94. While agriculture has faced stagnation in growth, services have seen a steady growth. Of the total workforce, 8% is in the organised sector, two-thirds of which are in the public sector. The NSSO survey estimated that in 1999-2000, 106 million, nearly 10% of the population were unemployed and the overall unemployment rate was 7.32%, with rural areas doing marginally better (7.21%) than urban areas (7.65%).

Unemployment in India, like most other developing countries, is characterised by chronic underemployment or disguised unemployment. Government schemes that target eradication of both poverty and unemployment, attempt to solve the problem, by providing financial assistance for setting up businesses, skill honing, setting up public sector enterprises, reservations in governments, etc. The decreased role of the public sector after liberalisation has further undermined the need for focusing on better education and has also put political pressure on further reforms.

- **Regional imbalance**

One of the critical problems facing India's economy is the sharp and growing regional variations among India's different states and territories in terms of per capita income, poverty, availability of infrastructure and socio-economic development. For instance, the difference in growth rate between the forward and backward states was 0.3% (5.2% & 4.9%) during 1980-81 to 1990-91, but had grown to 3.3% (6.3% & 3.0%) during 1990-91 to 1997-98.

The five-year plans have attempted to reduce regional disparities by sanctioning industrial development in the interior regions, but industries still tend to concentrate around urban areas and port cities. The union and state governments of backward regions are trying to reduce the disparities by offering tax holidays, cheap land, etc., and focusing more on sectors like tourism, which although being geographically and historically determined, can become a source of growth and is faster to develop than other sectors.

5. EXTERNAL TRADE AND INVESTMENT

Until the liberalisation of 1991, India was largely and intentionally isolated from the world markets in order to protect its fledging economy and achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment was restricted by upper limit equity participation, requirements on technology transfer, export obligations and government approvals, which were needed for nearly 60% of new FDI in the industrial sector. These restrictions ensured that FDI averaged only around $200 million annually from 1985-1991 and a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non-resident Indians.

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6. CONCLUSION

This way, the Indian economy where enjoys a wealthy reserve of resources and human being. It has some problems too. India's trade has been satisfactory. Now, it is increasing. But, the main problem i.e., unemployment is of high concern.

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