BBA 203: Indian Economy

Unit I

Structure of Indian Economy: Concept of Economic Growth and Economic Development, Growth and Development. Basic Characteristics of Indian Economy Changes in structure of Indian Economy (Primary Sector, Secondary Sector & Tertiary Sector). Trends in National Income in India, , Work Force Participation and Changes in Occupational Structure in India.

Unit II

Planning and Economic Development and Problems in Indian Economy: Objective of Economic Planning in India, Current Five Year Plan. Industrial Policy-1991, Disinvestments of Public Enterprises; Economic Problems: Poverty, Inequality, Parallel Economy, Unemployment, Concentration of Economic Power, Balanced Regional Development, Low Capital Formation and Industrial Sickness.

Unit III

Indian Economy & Foreign Trade: Concept, Significance, Foreign Exchange Reserve, Balance of Payment, Balance of Trade, Current Foreign Policy, Foreign Exchange Management Act (FEMA), Export Promotion.

Unit IV

Indian Economy – Emerging Issues: WTO and various agreement & Indian Economy (Emerging Areas), GATT, TRIMS, TRIPS, Foreign Direct Investment, Foreign Institutional Investment.

Text Books:

1. Datt, and Sundhram, R., (2009), Indian Economy, 61st edition, Sultan Chard & Sons.
2. Prakash, B. A., (2009), The Indian Economy since 1991 – Economic Reforms & Performances, 1st edition, Pearson Education.

UNIT1

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, i.e. inflation-adjusted terms, in order to net out the effect of inflation on the price of the goods and services produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment," which is caused by growth in aggregate demand or observed output.

Economic growth focuses on the desire to improve a country's standard of living—the level of goods and services that, on average, individuals purchase or otherwise gain access to. It should be noted that if population has grown along with economic production, increases in GDP do not necessarily result in an improvement in the standard of living. When the focus is on standard of living, economic growth is expressed on a per capita basis.

Definition of 'Economic Growth':

An increase in the capacity of an economy to produce goods and services, compared from one period of time to another. Economic growth can be measured in nominal terms, which include inflation, or in real terms, which are adjusted for inflation. For comparing one country's economic growth to another, GDP or GNP per capita should be used as these take into account population differences between countries

Economic growth per capita is primarily driven by improvements in productivity, also called economic efficiency. Increased productivity means producing more goods and services with the same inputs of labor, capital, energy, and/or materials. For example, labour and land productivity in agriculture were increased during the Green Revolution. The Green Revolution of the 1940s to 1970s introduced new grain hybrids, which increased yields around the world.

Economic development generally refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and qualitative changes in the economy. Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavor with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, as economist Amartya Sen. points out: “economic growth is one aspect of the process of economic development

Basic Characteristics of Indian Economy:

(a) Indian economy is basically an agricultural economy. More than 60% of the population is engaged in agriculture and allied activities.

(b) Low per capita income is the second feature of Indian economy. It is one of the lowest in the world.

(c) The occupational structure has not been changed during the last 100 years. In 1950-51 about 73% of the workers were engaged in primary activities, 11% in secondary and 16% in tertiary activities. In 1999-2000 the share of different sectors in employment amounted to 60%, 17% and 23% respectively.

(d) Inequality of income and wealth is other important feature of Indian economy. In India the main resources are concentrated in the hands of the few people. 40% of the total assets is concentrated in the hands of top 20 percent people.

(e) There has been remarkable improvement in social sectors such as education, health, housing, water supply, civic amenities etc.

(f) Planning process is also an important feature. As the government has adopted planned developmental economy. Five years plans are framed for economic development.

Structure of Indian Economy:

I. Long-Term Growth and Structural Changes: Breaks and Turning Points

Economic growth in post-Independence India has certainly seen several turns and twists. Accordingly, several phases with distinctive features in terms of rates of growth and Structural changes can be identified. It is, however, not very meaningful to highlight Short□term fluctuations in an analysis of the growth and structural changes of an Economy over a long period of about six decades. At the same time, it is also of neither factually realistic nor analytically meaningful to divide the entire period just in two parts, pre and post-reforms, as is often done in most of the recent studies and analysis of India's economic growth. The year 1991, when economic reforms were introduced, is seen as the sole turnings point, providing a break from the low growth to high growth and dividing the post-Independence economic history into two clear phases: the pre-reform 'dark' phase and the post reform 'bright' phase.

Such a simplistic description of India's economic experience can easily be questioned on the basis of historical facts. A major break in history of economic growth in India occurred soon after Independence. An economy which had virtually stagnated over the past half century, growing at about 0.5 per cent per annum, started growing at over three per cent from early 1950s. State directed economic planning, presently a much maligned Initiative (and not just the departure of the British!) was the reason for this turning point.

Growth rate averaged to 3.5 per cent euphemistically called the Hindu rate of growth, over the next three decades though it saw a deceleration in the later part of the period, 1965-1981. The next break in terms of growth occurred in early 1980's, when growth rate of GDP accelerated from around 3 to 3.5 per cent in previous decades to between 5 and 6 per cent. In this respect, introduction of economic reform in early 1990's was not a 'break' as the growth rate in the post–reforms 1990's was not significantly higher than during 1980's. Growth rate, in fact, slowed down in the early years of 21st century, but Significantly picked up after 2004. The period since 2004, even after accounting for slow Down during financial crisis in 2008-09 represents a distinctive phase of high growth in the post-reforms period.

GROWTH AND DEVELOPMENT:

Economic development is a broader term than economic growth Economic growth usually means the growth in production of an economy. On the other hand, economic development includes other factors such as latency health, child mortality rate, equality, regional balance, infbtmchrre, etc.

The difference between economic growth and economic development is a subtle Features of the one. Let us take the example of a child. As a child *grows* her weight and height increases. Simultaneously, her capacity to lean, recognize and distinguish between objects *develops.* Thus growth is not sufficient; we need development also. Similarly, in the case of the Indian economy economic growth is not enough; we need economic development. We need better health of people, education for all, reduction in inequality among sections of people and regions, reduction in infant mortality rate (IMR), access to drinking water for all, etc. The government has to devise policies and allocate government expenditure so that these facilities are measurement of the level of economic development is difficult, because it does not depend upon a single factor. There are a number of indicators of economic development. These indicators could be quite varied and too many .The per capita GDP along with annual growth rates of some of the economies. In order to make comparison possible we have given these figures in a comparable form (in purchasing power parity US$). You can see that Indian economy is not comparable to developed economies. The per capita GDP in India is much lower than in developed countries. However, it has a higher growth rate compared to others. Note that some of the countries have very low GDP per capita and have experienced decline in it over time (see, Nigeria and Tanzania, Economic Development Apart from low per capita income India is far below the developed economies in terms of development indicators. Some of these indicators are consumption of electricity, literacy rate, access to safe drinking water, empowerment of women, etc. United Nations Development Program me (UNDP) brings out a 'human development index' by combining several indicators of development such as life expectancy, education, per capita income, and empowerment of women. According to Human Development Report 2001, India ranks 1 15 out of 162 countries in terms of human development index .A positive feature of the Indian economy is that it is not stagnant; it is developing. It is one of the fastest growing economies in the world. There have been improvements in life expectancy, literacy, and availability of infrastructure.

MIXED ECONOMY:

As mentioned earlier the Indian economy is a mixed economy where private sector and public sector coexist and contribute to the production process. Some of the activities such as law and order, justice and defenses have to be performed by the government. However, the government enters directly into production of goods and services which the private sector can also produce. The extent to which the government should involve itself in the production activities is a controversial issue. During the decades of 1960s and 1 970s the Indian government produced whatever it could and intervened in the production decisions (what to prodae, where to produce, what technology to use) of the private sector through a rigorous licensing policy. We will discuss about the economic policy changes in India later in this block.

Let us look into the reasons for undertaking production activities by the government.

A producer in the private sector (usually motivated by higher profits) takes the risk of setting up an industry, purchases inputs, produces output and sells the output in the market for a price. Imagine a situation where a producer produces a commodity or service but cannot sell it for a price because consumers cannot be excluded from its consumption. You may have observed that in certain cases the benefit derived by you is in no way going to obstruct others from deriving its benefit. An example of the above could be the provision of streetlight by the local government. Thus, if your neighbor puts a light in h n t of her house, you enjoy the benefit that the front of your house also gets lighted; and you do not have to pay for it. In this case there is a market failure in the sense that your neighbor cannot charge you for the benefit you derive. Thus she does not have any incentive to put a bulb in front of her house. On similar logic you also do not put a bulb in your house, which requires street lighting by the government. Secondly, infrastructures such as road, ports, dams, etc., require huge investment but the rate of return is very low in the short run. Thus no private entrepreneur would be interested in providing roads, which prompts the government to come forward.

Thirdly, there are natural monopolies such as electricity generation, railways, etc., where a single producer can serve the entire market. Fourthly, there are certain production activities which have so much social benefits that the government should produce these goods and services (e.g., schools and colleges, hospitals, banks, etc.). Fifthly, the government may enter into production activities to fulfill some other social objectives instead if profit motive. These objectives could be employment generator, regional balance, of the downtrodden. Thus there is a strong case for public sector production and Indian planners

Year	Share of Public Sector	Share of Private Sector
1 960-61	9.9	90.1
1970-71	13.7	86.3
1980-8 1	19.5	80.5
1990-9 1	25.1	74.9
1998-99	25.1	74.1

Recognized it from the very beginning. We observe the presence of public sector Features of the in construction, hotels and restaurants, transport and communication, railways.

SECTORAL COMPOSITION OF GDP:

The composition of GDP in India and the changes in it .The composition of GDP in India has undergone substantial changes since 1950- 51. The share of agriculture has declined while that of industrial and service sectors has increased. Economic activities can be divided into three categories: primary activities, secondary activities and tertiary activities. Primary activities include i) agriculture, ii) forest and logging, and iii) fishing. Secondary activities include i) mining and aqua iii) electricity, gas and water supply, and iv) construction. Tertiary activities include i) trade, ii) hotels and restaurant, iii) transport (railways, road, air, waterways), iv) storage, v) communication, vi) banking and insurance,vii) real estate, and viii) public administration and defense. The tertiary activities are also called service activities. ,

The decline in the share of the primary sector in GDP has taken place as the secondary and tertiary sectors have registered higher growth rate than the primary sector.

EMPLOYMENT STRUCTURE:

India being the second largest country in tern of population, it has a large labor force (people who are able to and willing to work). In the year 1999-2000 there were 39.7crore employed workers in the country, which is about 40 per cent of the total population. The remaining 60 per cent population In the country are dependents. Thus for every worker there is 1.5 dependents. These dependents constitute children, aged and the unemployed. Because of high population growth rate the percentage of children in India is higher than in developed 'countries.

Agriculture has been the main source of employment in India. During the period 1950-70 it provided employment opportunity to more than two-third of the labor force. We mentioned earlier that the share of the primary sector (agriculture and allied activities) in GDP has declined over time in Indian economy. For the year 2000-01 primary sector contributed 24.2 per cent of the GDP. Compare this with the employment share! In the year 1999-2000 nearly 60 per cent of the labor force was engaged in agriculture. We observe that the decline in GDP share of the primary sector is not accompanied by a corresponding decline in employment share. An implication is that workers employed in primary sector have a very low productivity than in secondary and tertiary sector. In the developed economies less than five per cent of the labor force is engaged in agriculture. It has been made possible by using modem technology and mechanization of agriculture. In some parts of India modem technology is employed in agriculture. However, a majority of farmers in India continue to we obsolete technology.

A second implication is that there are too many people engaged in agriculture. In agriculture has been a way of life for the households engaged in the agri-activities. Very few children look for employment outside agriculture. And those who do not get employment anywhere else start working in the family owned land. As a result, often we see a feature termed 'disguised unemployment' in Indian agriculture. It is a situation where a person is engaged llly in agriculture but his contribution is zero. It implies that if we take away the forcer agricultural
Output will not decline. Suppose five persons &working in a field and the output is 10 tomes of wheat. If we reduce the number of workers to four, then also output will remain the same. Thus the fifth worker worked in the field, but he is as good as unemployed, because his contribution is zero. It has been a policy of the government to shift the additional labor hence in the agricultural

sector to secondary and tertiary sectors. Recall that service sector contributes more than half of the GDP but provides employment to less than one-fourth of the labor force. Thus the productivity of labor is higher in the service

The occupational structure of India:

The distribution of the population according to different types of occupation is referred to as the occupational structure. In India, about 64 per cent of the population is engaged only in agriculture. The proportion of population dependent on secondary and tertiary sectors is about 13 and 20 per cent respectively. There has been an occupational shift in favor of secondary and tertiary sectors because of growing industrialization and urbanization in recent times.

UNIT-2

Economic planning:

Economic planning refers to a coordinating mechanism outside the mechanisms of the market. There are various types of planning procedures and different ways of conducting economic planning. As a coordinating mechanism for socialism and an alternative to the market, planning is defined as a direct allocation of resources; contrasted to the indirect allocation of the market.

The level of centralization in decision-making in planning depends on the specific type of planning mechanism employed. As such, there is a distinction to be made between centralized planning and decentralized planning. An economy primarily based on central planning is referred to as a planned economy. In a centrally planned economy the allocation of resources is determined by a comprehensive plan of production which specifies output requirements. Planning may also take the form of directive planning or indicative planning.

Most modern economies are mixed economies incorporating various degrees of markets and planning .A distinction can be made between physical planning (as in pure socialism) and financial planning (as practiced by governments and private firms in capitalism). Physical planning involves economic planning and coordination conducted in terms if disaggregated physical units; whereas financial planning involves plans formulated in terms of financial units.

5 essential objectives of economic planning in India:

Planning without an objective is like driving without any destination. There are generally two sets of objectives for planning, namely the short-term objectives and the long-term objectives. While the short-term objectives vary from plan to plan, depending on the immediate problems faced by the economy, the process of planning is inspired by certain long term objectives. In case of our Five Year plans, the long-term objectives are:

(i) A high rate of growth with a view to improvement in standard of living.

(ii) Economic self-reliance;

(iii) Social justice and

(iv) Modernization of the economy

(v) Economic stability

(i) High Rate of Growth

All the Indian Five Year Plans have given primary importance to higher growth of real national income. During the British rule, Indian economy was stagnant and the people were living in a state of abject poverty. The Britishers exploited the economy both through foreign trade and colonial administration. While the European industries flourished, the Indian economy was caught in a vicious circle of poverty. The pervasive poverty and misery were the most important problem that has to be tackled through Five Year Plan.

During the first three decades of planning, the rate of economic growth was not so encouraging in our economy Till 1980, the average annual growth rate of Gross Domestic Product was 3.73 percent against the average annual growth rate of population at 2.5 percent. Hence the per-capita income grew only around 1 percent. But from the 6th plan onwards, there has been considerable change in the Indian economy. In the Sixth, Seventh and Eight plans the growth rate was 5.4 percent, 5.8 percent and 6.8 percent respectively. The Ninth Plan, started in 1997 targeted a growth rate of 6.5 percent per annum and the actual growth rate was 6.8 percent in 1998 - 99 and 6.4 percent in 1999 - 2000. This high rate of growth is considered a significant achievement of the Indian planning against the concept of a Hindu rate of growth.

(ii) Economic Self Reliance

Self reliance means to stand on one's own legs. In the Indian context, it implies that dependence on foreign aid should be as minimum as possible. At the beginning of planning, we had to import food grains from USA to meet our domestic demand. Similarly, for accelerating the process of industrialization, we had to import, capital goods in the form of heavy machinery and technical know-how. For improving infrastructure facilities like roads, railways, power, we had to depend on foreign aid to raise the rate of our investment.

As excessive dependence on foreign sector may lead to economic colonialism, the planners rightly mentioned the objective of self-reliance from the third Plan onwards. In the Fourth Plan much emphasis was given to self-reliance, more specially in the production of food grains. In the Fifth Plan, our objective was to earn sufficient foreign exchange through export promotion and important substitution.

By the end of the fifth plan, Indian became self-sufficient in food-grain production. In 1999-2000, our food grain production reached a record of 205.91 million tons. Further, in the field of industrialization, now we have strong capital industries based on infrastructure. In case of science and technology, our achievements are no less remarkable. The proportion of foreign aid in our plan outlays have declined from 28.1 percent in the Second Plan to 5.5 percent in the Eighth Plan. However, in spite of all these achievements, we have to remember that hike in price of petroleum products in the international market has made self-reliance a distant possibility in the near future.

(iii) Social Justice:

Social justice means to equitably distribute the wealth and income of the country among different sections of the society. In India, we find that a large number of people are poor; while few lead a luxurious life. Therefore, another objective of development is to ensure social justice and to take care of the poor and weaker sections of the society. The Five-Year Plans have highlighted four aspects of social justice. They are:

(i) Application of democratic principles in the political structure of the country;

(ii) Establishment of social and economic equity and removal of regional disparity;

(iii) Putting an end to the process of centralization of economic power; and

(iv) Efforts to raise the condition of backward and depressed classes.

Thus the Five Year Plans have targeted to uplift the economic condition of socio-economically weaker sections like scheduled caste and tribes through a number of target oriented programmes. In order to reduce the inequality in the distribution of landed assets, land reforms have been adopted. Further, to reduce regional inequality specific programmes have been adopted for the backward areas of the country.

In spite of various efforts undertaken by the authorities, the problem of inequality remains as great as ever. According to World Development Report (1994) in India the top 20 percent of household enjoy 39.3 percent of the national income while the lowest 20 percent enjoy only 9.2 percent of it. Similarly, another study points out that the lowest 40 percent of rural household own only 1.58 percent of total landed asset while the top 5.44 percent own around 40 percent of land. Thus the progress in the field of attaining social justice has been slow and not satisfactory.

(iv) Modernization of the Economy:

Before independence, our economy was backward and feudal in character. After attainment of independence, the planners and policy makers tried to modernize the economy by changing the structural and institutional set up of the country. Modernization aims at improving the standard of living of the people by adopting a better scientific technique of production, by replacing the traditional backward ideas by logical reasoning's and bringing about changes in the rural structure and institutions.

These changes aim at increasing the share of industrial output in the national income, upgrading the quality of products and diversifying the Indian industries. Further, it also includes expansion of banking and non-banking financial institutions to agriculture and industry. It envisages modernization of agriculture including land reforms.

(v) Economic Stability:

Economic stability means to control inflation and unemployment. After the Second Plan, the price level started increasing for a long period of time. Therefore, the planners have tried to stabilize the economy by properly controlling the rising trend of the price level. However, the progress in this direction has been far from satisfactory.

Thus the broad objective of Indian plans has been a non-inflationary self-reliant growth with social justice.

FIVE-YEAR PLANS OF INDIA:

The economy of India is based in part on planning through its five-year plans, which are developed, executed and monitored by the Planning Commission of India. The eleventh plan completed its term in March 2012 and the twelfth plan is currently underway. Prior to the fourth plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which led to the adoption of the gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans.

The first Indian Prime Minister, Jawaharlal Nehru presented the kushagra nijhara.first five-year plan to the Parliament of India and needed urgent attention. The total planned budget of ₹2069 crore was allocated to seven broad areas: irrigation and energy (27.2 percent), agriculture and community development (17.4 percent), transport and communications (24 percent), industry (8.4 percent), social services (16.64 percent), land rehabilitation (4.1 percent), and for other sectors and services (2.5 percent).The most important feature of this phase was active role of state in all economic sectors. Such a role was justified at that time because immediately after independence, India was facing basic problems—deficiency of capital and low capacity to save.

The target growth rate was 2.1% annual gross domestic product (GDP) growth; the achieved growth rate was 3.6%The net domestic product went up by 15%. The monsoon was good and there were relatively high crop yields, boosting exchange reserves and the per capita income, which increased by 8%. National income increased more than the per capita income due to rapid population growth. Many irrigation projects were initiated during this period, including the Bhakra Dam and Hirakud Dam. The World Health Organization, with the Indian government, addressed children's health and reduced infant mortality, indirectly contributing to population growth.

At the end of the plan period in 1956, five Indian Institutes of Technology (IITs) were started as major technical institutions. The University Grant Commission was set up to take care of funding and take measures to strengthen the higher education in the country.] Contracts were signed to start five steel plants, which came into existence in the middle of the second five-year plan. The plan was successful.

- 1 First Plan (1951-1956)
- 2 Second Plan (1956–1961)
- 3 Third Plan (1961–1966)
- 4 Fourth Plan (1969–1974)
- 5 Fifth Plan (1974–1979)

- 6 Sixth Plan (1980–1985)
- 7 Seventh Plan (1985–1990)
- 8 Eighth Plan (1992–1997)
- 9 Ninth Plan (1997–2002)
- 10 Tenth Plan (2002–2007)
- 11 Eleventh Plan (2007–2012)
- 12 Twelfth Plan (2012–2017)

First Plan (1951-1956):

• Industrial sector • Energy and Irrigation • Transport and Communications • Land rehabilitation • Social services • Developments of agriculture and community • Miscellaneous issues

The target set for the growth in the gross domestic product was 2.1percent every year. In reality, the actual achieved with regard to gross domestic product was 3.6 percent per annual. This is a clear indication of the success of the 1st five year plan.

Some important events that took place during the tenure of the 1st five year plan: The following Irrigation projects were started during that period: • Mutter Dam • Hirakud Dam • Bhakra Dam.

The government had taken steps to rehabilitate the landless workers, whose main occupation was agriculture. These workers were also granted fund for experimenting and undergoing training in agricultural know how in various cooperative institutions. Soil conservation, was also given considerable importance. The Indian government also made considerable effort in improving posts and telegraphs, railway services, road tracks, civil aviation. Sufficient fund was also allocated for the industrial sector. In addition measures were taken for the growth of the small scale industries. 1st three plans (1951-1965) had industrial growth of 8% steady growth.

Second Plan (1956–1961):

The second five-year plan focused on industry, especially heavy industry. Unlike the First plan, which focused mainly on agriculture, domestic production of industrial products was encouraged in the Second plan, particularly in the development of the public sector. The plan followed the Mahalanobis model, an economic development model developed by the Indian statistician Prasanta Chandra Mahalanobis in 1953. The plan attempted to determine the optimal allocation of investment between productive sectors in order to maximize long-run economic growth . It used the prevalent state of art techniques of operations research and optimization as well as the novel applications of statistical models developed at the Indian Statistical Institute. The plan assumed a closed economy in which the main trading activity would be centered on importing capital goods.

Hydroelectric power projects and five steel mills at Bhilai, Durgapur, and Rourkela were established. Coal production was increased. More railway lines were added in the north east.

The Atomic Energy Commission was formed in 1958 with Homi.J.Bhabha as the first chairman. The Tata Institute of Fundamental Research was established as a research institute. In 1957 a talent search and scholarship program was begun to find talented young students to train for work in nuclear power.

The total amount allocated under the second five-year plan in India was Rs. 4,800crore. This amount was allocated among various sectors:

- Power and irrigation
- Social services
- Communications and transport
- Miscellaneous

Target Growth:4.5% Growth achieved:4.0%[

Third Plan (1961–1966):

The third plan stressed on **agriculture** and improvement in the production of wheat, but the brief Sino-Indian War of 1962 exposed weaknesses in the economy and shifted the focus towards the Defense industry or Indian army. In 1965–1966, India fought a [Indo-Pak] War with Pakistan. Due to this there was a severe drought in 1965. The war led to inflation and the priority was shifted to price stabilization. The construction of dams continued. Many cement and fertilizer plants were also built. Punjab began producing an abundance of wheat.

Many primary schools have been started in rural areas. In an effort to bring democracy to the grassroot level, Panchayat elections have been started and the states have been given more development responsibilities.

State electricity boards and state secondary education boards were formed. States were made responsible for secondary and higher education. State road transportation corporations were formed and local road building became a state responsibility.

Target Growth: 5.6% Actual Growth: 2.4%

Fourth Plan (1969–1974)

At this time Indira Gandhi was the Prime Minister. The Indira Gandhi government nationalized 14 major Indian banks and the Green Revolution in India advanced agriculture. In addition, the situation in East Pakistan (now Bangladesh) was becoming dire as the [Indo-Pakistan War of 1971] and Bangladesh Liberation War took Funds earmarked for the industrial development had to be diverted for the war effort. India also performed the Smiling Buddha underground nuclear test in 1974, partially in response to the United States deployment of the Seventh Fleet in the

[Bay of Bengal]. The fleet had been deployed to warn India against attacking West Pakistan and extending the war.

Target Growth: 5.7% Actual Growth: 3.3%

Fifth Plan (1974–1979):

Stress was by laid on employment, poverty alleviation, and justice. The plan also focused on self-reliance in agricultural production and defense. In 1978 the newly elected Morarji Desai government rejected the plan. Electricity Supply Act was enacted in 1975, which enabled the Central Government to enter into power generation and transmission.

The Indian national highway system was introduced and many roads were widened to accommodate the increasing traffic. Tourism also expanded.

Target Growth: 4.4% Actual Growth: 5.0

Sixth Plan (1980–1985):

The sixth plan also marked the beginning of economic liberalization. Price controls were eliminated and ration shops were closed. This led to an increase in food prices and an increase in the cost of living. This was the end of Nehruvian socialism and Rajeev Gandhi was prime minister during this period.

Family planning was also expanded in order to prevent overpopulation. In contrast to China's strict and binding one-child policy, Indian policy did not rely on the threat of force More prosperous areas of India adopted family planning more rapidly than less prosperous areas, which continued to have a high birth rate. The sixth five year plan was a great success to indian economy.

Target Growth: 5.2% Actual Growth: 5.4%

Seventh Plan (1985–1990):

The Seventh Plan marked the comeback of the Congress Party to power. The plan laid stress on improving the productivity level of industries by upgrading of technology.

The main objectives of the 7th five-year plans were to establish growth in areas of increasing economic productivity, production of food grains, and generating employment.

As an outcome of the sixth five-year plan, there had been steady growth in agriculture, control on rate of Inflation, and favorable balance of payments which had provided a strong base for the seventh five Year plan to build on the need for further economic growth. The 7th Plan had strived towards socialism and energy production at large. The thrust areas of the 7th Five year plan have been enlisted below:

- Social Justice
- Removal of oppression of the weak
- Using modern technology
- Agricultural development
- Anti-poverty programs
- Full supply of food, clothing, and shelter
- Increasing productivity of small- and large-scale farmers
- Making India an Independent Economy

Based on a 15-year period of striving towards steady growth, the 7th Plan was focused on achieving the pre-requisites of self-sustaining growth by the year 2000. The Plan expected a growth in labor force of 39 million people and employment was expected to grow at the rate of 4 percent per year.

Some of the expected outcomes of the Seventh Five Year Plan India are given below:

- Balance of Payments (estimates): Export – ₹33,000crore (US$5.7 billion), Imports – (-)₹ 54,000crore (US$9.3 billion), Trade Balance – (-)₹21,000crore (US$3.6 billion)
- Merchandise exports (estimates): ₹60,653crore (US$10.4 billion)
- Merchandise imports (estimates): ₹95,437crore (US$16.4 billion)
- Projections for Balance of Payments: Export – ₹60,700crore (US$10.4 billion), Imports – (-) ₹95,400crore (US$16.4 billion), Trade Balance- (-) ₹34,700crore (US$6.0 billion)

Under the Seventh Five Year Plan, India strove to bring about a self-sustained economy in the country with valuable contributions from voluntary agencies and the general populace.

Target Growth: 5.0% Actual Growth: 6.1%

Eighth Plan (1992–1997):

1989–91 was a period of economic instability in India and hence no five-year plan was implemented. Between 1990 and 1992, there were only Annual Plans. In 1991, India faced a crisis in Foreign Exchange (Forex) reserves, left with reserves of only about US$1 billion. Thus, under pressure, the country took the risk of reforming the socialist economy. P.V. Narasimha Rao was the twelfth Prime Minister of the Republic of India and head of Congress Party, and led one of the most important administrations in India's modern history overseeing a major economic transformation and several incidents affecting national security. At that time Dr. Manmohan Singh (currently, Prime Minister of India) launched India's free market reforms that brought the nearly bankrupt nation back from the edge. It was the beginning of privatization and liberalization in India.

Modernization of industries was a major highlight of the Eighth Plan. Under this plan, the gradual opening of the Indian economy was undertaken to correct the burgeoning deficit and foreign debt. Meanwhile India became a member of the World Trade Organization on 1 January 1995.This plan can be termed as Rao and Manmohan model of Economic development. The major objectives included, controlling population growth, poverty reduction, employment generation, strengthening the infrastructure, Institutional building, tourism management, Human Resource development, Involvement of Panchayat raj, Nagar Palikas, N.G.O'S and Decentralization and people's participation. Energy was given priority with 26.6% of the outlay. An average annual growth rate of 6.78% against the target 5.6% was achieved.

To achieve the target of an average of 5.6% per annum, investment of 23.2% of the gross domestic product was required. The incremental capital ratio is 4.1.The saving for investment was to come from domestic sources and foreign sources, with the rate of domestic saving at 21.6% of gross domestic production and of foreign saving at 1.6% of gross domestic production.

Ninth Plan (1997–2002):

Ninth Five Year Plan India runs through the period from 1997 to 2002 with the main aim of attaining objectives like speedy industrialization, human development, full-scale employment, poverty reduction, and self-reliance on domestic resources.

Background of Ninth Five Year Plan India: Ninth Five Year Plan was formulated amidst the backdrop of India's Golden jubilee of Independence.

The main objectives of the Ninth Five Year Plan of India are:

- to prioritize agricultural sector and emphasize on the rural development
- to generate adequate employment opportunities and promote poverty reduction
- to stabilize the prices in order to accelerate the growth rate of the economy
- to ensure food and nutritional security.
- to provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy
- to check the growing population increase
- to encourage social issues like women empowerment, conservation of certain benefits for the Special Groups of the society
- to create a liberal market for increase in private investments

During the Ninth Plan period, the growth rate was 5.35 per cent, a percentage point lower than the target GDP growth of 6.5 per cent.

Tenth Plan (2002–2007):

- Attain 8% GDP growth per year.

- Reduction of poverty rate by 5 percentage points by 2007.
- Providing gainful and high-quality employment at least to the addition to the labour force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007.
- 20 point programme was introduced.

Target growth: 8.1% Growth achieved:7.7%

Eleventh Plan (2007–2012):

The eleventh plan has the following objectives:

1. Income & Poverty
   - Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per capita income by 2016–17
   - Increase agricultural GDP growth rate to 4% per year to ensure a broader spread of benefits
   - Create 70 million new work opportunities.
   - Reduce educated unemployment to below 5%.
   - Raise real wage rate of unskilled workers by 20 percent.
   - Reduce the headcount ratio of consumption poverty by 10 percentage points.
2. Education
   - Reduce dropout rates of children from elementary school from 52.2% in 2003–04 to 20% by 2011–12
   - Develop minimum standards of educational attainment in elementary school, and by regular testing monitor effectiveness of education to ensure quality
   - Increase literacy rate for persons of age 7 years or above to 85%
   - Lower gender gap in literacy to 10 percentage point
   - Increase the percentage of each cohort going to higher education from the present 10% to 15% by the end of the plan.
3. Health
   - Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births
   - Reduce Total Fertility Rate to 2.1
   - Provide clean drinking water for all by 2009 and ensure that there are no slip-backs
   - Reduce malnutrition among children of age group 0–3 to half its present level
   - Reduce anaemia among women and girls by 50% by the end of the plan
4. Women and Children
   - Raise the sex ratio for age group 0–6 to 935 by 2011–12 and to 950 by 2016–17
   - Ensure that at least 33 percent of the direct and indirect beneficiaries of all government schemes are women and girl children
   - Ensure that all children enjoy a safe childhood, without any compulsion to work

5. Infrastructure
    - Ensure electricity connection to all villages and BPL households by 2009 and round-the-clock power.
    - Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015
    - Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012
    - Provide homestead sites to all by 2012 and step up the pace of house construction for rural poor to cover all the poor by 2016–17
6. Environment
    - Increase forest and tree cover by 5 percentage points.
    - Attain WHO standards of air quality in all major cities by 2011–12.
    - Treat all urban waste water by 2011–12 to clean river waters.
    - Increase energy efficiency by 20%

Target growth: 8.3% Growth achieved:7.9%

Twelfth Plan (2012–2017):

12th Five Year Plan of the Government of India (2012–17) had decided for the growth rate at 8.2% but NDC on 27th Dec 2012 approved 8% growth rate for 12th five year plan.;

With the deteriorating global situation, the Deputy Chairman of the Planning Commission Mr. Montek Singh Ahluwalia has said that achieving an average growth rate of 9 per cent in the next five years is not possible. The Final growth target has been set at 8% by the endorsement of plan at the National Development Council meeting held in New Delhi.

"It is not possible to think of an average of 9 per cent (in 12th Plan). I think somewhere between 8 and 8.5 per cent is feasible," Mr. Ahluwalia said on the sidelines of a conference of State Planning Boards and departments. The approached paper for the 12th Plan, approved last year, talked about an annual average growth rate of 9 per cent.

"When I say feasible...that will require major effort. If you don't do that, there is no God given right to grow at 8 per cent. I think given that the world economy deteriorated very sharply over the last year...the growth rate in the first year of the 12th Plan (2012-13) is 6.5 to 7 per cent."

He also indicated that soon he would share his views with other members of the Commission to choose a final number (economic growth target) to put before the country's NDC for its approval.

Though the 12th Plan has taken off, it is yet to be formally approved. The Planning Commission has set a deadline of September for taking the approval of the National Development Council. The council is expected to meet after July subject to the convenience of the Prime Minister.

Poverty The government intends to reduce poverty by 10 per cent during the 12th Five-Year Plan. Mr Ahluwalia said, "We aim to reduce poverty estimates by9 per cent annually on a sustainable basis during the Plan period."

Earlier, addressing a conference of State Planning Boards and Planning departments, he said the rate of decline in poverty doubled during the 11th Plan. The commission had said, while using the Tendulkar poverty line, the rate of reduction in the five years between 2004–05 and 2009–10, was about 1.5 percentage points each year, which was twice that when compared to the period between 1993-95 to 2004-05. what is the government focus of now a five-year plan, i.e. 2012–2017

India's new industrial policy:

The Industrial Policy plan of a country, sometimes shortened IP, is its official strategic effort to encourage the development and growth of the manufacturing sector of the economy. The government takes measures "aimed at improving the competitiveness and capabilities of domestic firms and promoting structural transformation." A country's infrastructure (transportation, telecommunications and energy industry) is a major part of the manufacturing sector that usually has a key role in IP.

Industrial policies are sector specific, unlike broader macroeconomic policies. They are sometimes labeled as interventionist as opposed to laissez-faire economics. Examples of horizontal, economy wide policies are tightening credit or taxing capital gain, while examples of vertical, sector-specific policies comprise protecting textiles from imports or subsidizing export industries. Free market advocates consider industrial policies as interventionist measures typical of mixed economy countries.

Many types of industrial policies contain common elements with other types of interventionist practices such as trade policy and fiscal policy. An example of a typical industrial policy is import-substitution-industrialization (ISI), where trade barriers are temporarily imposed on some key sectors, such as manufacturing By selectively protecting certain industries, these industries are given time to learn (learning by doing) and upgrade. Once competitive enough, these restrictions are lifted to expose the selected industries to the international market.

Industrial Policy:

The Government continued with industrial reforms in 1998-99. Coal and lignite, petroleum (other than crude) and its distillation products, bulk drugs and sugar were deli censed. At present, only five items of health, strategic and security considerations remain under the purview of industrial licensing. Coal and lignite and mineral oils were also removed from the list of industries reserved for the public sector. To provide a strong stimulus to the infrastructure sector,

boost industrial growth and accelerate overall economic activity, the Union Budget substantially increased allocations for energy, transport and communications. The Budget also announced disinvestment of specified portions of equity from select PSEs like IOC, GAIL, CONCOR and VSNL. A separate package of measures was announced in the Budget for the SSI sector. A number of items including some farm implements and tools have been removed from the products reserved for exclusive manufacture by SSI sector. The prevailing customs tariff structure was revised to provide a level playing field to the domestic industry by imposing an additional non- moveable duty of 4 per cent on majority of imports. The duty was designed to compensate indigenous industry for price disadvantage suffered on account of sales tax and other local taxes.

Reforms initiated by the Government to revive the depressed capital markets and rejuvenate corporate growth include the issue of an ordinance permitting companies to buy back their own shares; awarding nomination facility to holders of shares/debentures and fixed deposits; permission for inter corporate investments without prior approval of the Government; establishment of Investor Education and Protection Fund; and statutory enforcement of Accounting Standards. Certain changes in the provision on buy-back of shares like restricting buy-back to 25 per cent of paid-up capital and free reserves and defining 'free reserves' for the purpose of buy-back, have been introduced through the Companies (Amendment) Ordinance, 1999. The Government also constituted separate Task Forces on steel, capital goods and commercial vehicles for addressing the problems being faced by these industries. In the light of their recommendations, seven inputs used in steel manufacturing have been exempted from special customs duty. "Seconds" and "defectives" of specified steel inputs have been permitted for imports against specified values. It has been decided that depreciation, for income-tax purposes, will also be allowed at 40 per cent for commercial vehicles purchased between October 1, 1998 and March 31, 1999 and at 60 per cent in cases where purchase has been made to replace condemned vehicles (over 15 years of age) in the same period. A Council on Trade and Industry to the Prime Minister has been set up for deliberating on critical policy issues put forward by industry leaders for accelerating industrial growth.

Poverty:

What does it mean to be poor? How is poverty measured? Third World countries are often described as "developing" while the First World, industrialized nations are often "developed". What does it mean to describe a nation as "developing"? A lack of material wealth does not necessarily mean that one is deprived. A strong economy in a developed nation doesn't mean much when a significant percentage (even a majority) of the population is struggling to survive.

Successful development can imply many things, such as (though not limited to):

- An improvement in living standards and access to all basic needs such that a person has enough food, water, shelter, clothing, health, education, etc;
- A stable political, social and economic environment, with associated political, social and economic freedoms, such as (though not limited to) equitable ownership of land and property;
- The ability to make free and informed choices that are not coerced;
- Be able to participate in a democratic environment with the ability to have a say in one's own future;
- To have the full potential for what the United Nations calls Human Development:
- At household, community, societal, national and international levels, various aspects of the above need to be provided, as well as commitment to various democratic institutions that do not become corrupted by special interests and agendas.
- Yet, for a variety of reasons, these "full rights" are not available in many segments of various societies from the richest to the poorest. When political agendas deprive these possibilities in some nations, how can a nation develop? Is this progress?
- Politics have led to dire conditions in many poorer nations. In many cases, international political interests have led to a diversion of available resources from domestic needs to western markets. (See the structural adjustment section to find out more about this.) This has resulted in a lack of basic access to food, water, health, education and other important social services. This is a major obstacle to equitable development.

Inequality:

While poverty alleviation is important, so too is tackling inequality. Inequality is often discussed in the context of relative poverty, as opposed to absolute poverty.

That is, even in the wealthiest countries, the poor may not be in absolute poverty (the most basic of provisions may be obtainable for many) or their level of poverty may be a lot higher than those in developing countries, but in terms of their standing in society, their relative poverty can also have serious consequences such as deteriorating social cohesion, increasing crime and violence, and poorer health.

Some of these things are hard to measure, such as social cohesion and the level of trust and comfort people will have in interacting with one another in the society. Nonetheless, over the years, numerous studies have shown that sometimes the poor in wealthy countries can be unhappier or finding it harder to cope than poor people in poorer countries.

In the context of tackling poverty then, the Overseas Development Institute (ODI) for example sees poverty reduction as a *twin* function of

1. The rate of growth, and
2. Changes in income distribution.

The ODI also adds that as well as increased growth, additional key factors to reducing poverty will be:

- The reduction in inequality
- The reduction in income differences

A few places around the world do see increasing rates of growth in a positive sense. But globally, there is also a negative change in income distribution. The reality unfortunately is that the gap between the rich and poor is quite wide in most places.

parallel economy:

Parallel economy, based on the black money or unaccounted money, is a big menace to the Indian economy. It is also a cause of big loss in the tax-revenues for the government. As such, it needs to be curbed. Its elimination will benefit the economy in more than one way.

In a general way, we can define black economy as the money that is generated by activities that are kept secret, in the sense that these are not reported to the authorities. As such, this money is also not accounted to (he fiscal authorities i.e., taxes are not paid on this money.

An estimate by Suraj B. Gupta had put the size of black money at over 50 per cent of GDP (at factor cost) in 1987-88. It is also stated that annual rate of growth of black economy is higher than the annual growth rate of GDP.

According to Global Financial Integrity Study of 2009, $ 1.4 trillion belongs to Indians were parked in safe havens abroad. $ 1.4 trillion is equivalent to Rs. 70lakh crore, more than India's national income of around Rs. 50lakh crore.

A statement from the Swiss Central Bank declared that Indians have $2.5 billion deposits in various Swiss Banks. It is suspected that the deposits of Indians in tax havens are mostly being withdrawn and shifted to a third country; making it difficult for the government to gather any further details once the accounts are closed.

Harmful Effects of Parallel Economy:

The circulation of black money has adversely affected the economy in several ways. First, is the misdirection of precious national resources? A part of black money is kept in a form that contributes nothing/little to productive activities. Again, much around half to two third is squandered away on ostentatious consumption of goods and services.

Second, it has enormously worsened the income distribution, and has thereby undermined the fabric of the society.

Third, the existence of a big-sized unreported segment of the economy is a big handicap in making a correct analysis and formulation of right policies for it. Nor. it is possible to monitor the development in the economy with precision.

Fourth, the black money has eroded the social values of the society. The undeclared income is 'earned' by illegitimate ways. This is spent in undesirable and vulgar manner

Unemployment:

Unemployment (or joblessness) occurs when people are without work and actively seeking work. The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During periods of recession, an economy usually experiences a relatively high unemployment rate. According to International Labor Organization report, more than 197 million people globally are out of work or 6% of the world's workforce were without a job in 2012.

There remains considerable theoretical debate regarding the causes, consequences and solutions for unemployment. Classical economics, New classical economics, and the Austrian School of economics argue that market mechanisms are reliable means of resolving unemployment. These theories argue against interventions imposed on the labor market from the outside, such as unionization, bureaucratic work rules, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers.

Keynesian economics emphasizes the cyclical nature of unemployment and recommends government interventions in the economy that it claims will reduce unemployment during recessions. This theory focuses on recurrent shocks that suddenly reduce aggregate demand for goods and services and thus reduce demand for workers. Keynesian models recommend government interventions designed to increase demand for workers; these can include financial stimuli, publicly funded job creation, and expansionist monetary policies.

In addition to these comprehensive theories of unemployment, there are a few categorizations of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment include structural unemployment which focuses on structural problems in the economy and inefficiencies inherent in labour markets, including a mismatch between the supply and demand of laborers with necessary skill sets. Structural arguments emphasize causes and solutions related to disruptive technologies and globalization. Discussions of frictional unemployment focus on voluntary decisions to work based on each individuals' valuation of their own work and how that compares to current wage rates plus the time and effort required to find a job. Causes and solutions for frictional unemployment often address job entry threshold and wage rates. Behavioral economists highlight individual biases in decision making, and often involve problems and solutions concerning sticky wages and efficiency wages.

Limitations of the unemployment:

Some critics believe that current methods of measuring unemployment are inaccurate in terms of the impact of unemployment on people as these methods do not take into account the 1.5% of the available working population incarcerated in U.S. prisons (who may or may not be working while incarcerated), those who have lost their jobs and have become discouraged over time from actively looking for work, those who are self-employed or wish to become self-employed, such as tradesmen or building contractors or IT consultants, those who have retired before the official retirement age but would still like to work (involuntary early retirees), those on disability pensions who, while not possessing full health, still wish to work in occupations suitable for their medical conditions, those who work for payment for as little as one-hour per week but would like to work full-time.

These people are "involuntary part-time" workers, those who are underemployed, e.g., a computer programmer who is working in a retail store until he can find a permanent job, involuntary stay-at-home mothers who would prefer to work, and graduate and Professional school students who were unable to find worthwhile jobs after they graduated with their Bachelor's degrees.

Internationally, some nations' unemployment rates are sometimes muted or appear less severe due to the number of self-employed individuals working in agriculture. Small independent farmers are often considered self-employed; so, they cannot be unemployed. The impact of this is that in non-industrialized economies, such as the United States and Europe during the early 19th century, overall unemployment was approximately 3% because so many individuals were self-employed, independent farmers; yet, unemployment outside of agriculture was as high as 80%.

Many economies industrialize and experience increasing numbers of non-agricultural workers. For example, the United States' non-agricultural labour force increased from 20% in 1800, to 50% in 1850, to 97% in 2000. The shift away from self-employment increases the percentage of the population who are included in unemployment rates. When comparing unemployment rates between countries or time periods, it is best to consider differences in their levels of industrialization and self-employment.

It is possible to be neither employed nor unemployed by ILO definitions, i.e., to be outside of the "labour force."] These are people who have no job and are not looking for one. Many of these are going to school or are retired. Family responsibilities keep others out of the labour force. Still others have a physical or mental disability which prevents them from participating in labour force activities. And of course some people simply elect not to work, preferring to be dependent on others for sustenance.

Balanced Regional Development:

Balanced regional development – a key government objective – provides the basis for the WDC Policy Team's work. The team publishes policy commentary and analysis on development issues for the Western Region.

I. GENERAL APPROACH

Balanced development of different parts of the country, extension of the benefits of economic progress to the less developed regions and widespread diffusion of industry are among the major aims of planned development. Successive Five Year Plans seek to realize these aims in larger measure. Expansion of the economy and more rapid growth increase progressively the capacity to achieve a better balance between national and regional development. In striving for such a balance, certain inherent difficulties have to be met, especially in the early phases of economic development. As resources are limited, frequently advantage lies in concentrating them at those points within the economy at which the returns are likely to be favorable. As development proceeds investments are undertaken over a wider area and resources can be applied at a large number of points, thereby resulting in greater spread of benefits. In the interest of development itself, the maximum increase in national income should be achieved and resources obtained for further investment. The process is a cumulative one, each stage determining the shape of the next. In some fields, as in industry, intensive and localized development may be inevitable. Along with this, in other areas, the aim should be to provide for more dispersed advance in sectors like agriculture, small industries, power, communications and social services. Equally with industry, investment in economic and social overheads helps to create numerous promising centers for growth. Once a minimum in terms of national income and growth in different sectors is reached, without affecting the progress of the economy as a whole, it becomes possible to provide in many directions for a larger scale of development in the less developed regions. A large country with extensive natural resources, viewing each phase of its development in the perspective of a long-term plan, has the means not only to realise a high and sustained rate of growth but also to enable its less developed regions to come up to the level of the rest.

2. The two aims—increase in national income and more balanced development of different parts of the country—are thus related to one another and, step by step, it becomes possible to create conditions in which resources in terms of natural endowment, skill and capital in each region are fully utilized. Sometimes the sense of lagging behind in development may be due not so much to a slower rate of overall growth in the region as to inadequate or tardy development in specific fields, such as, agriculture, irrigation, power or industry or employment. In each region the nature of the problem and the impediments to rapid development in particular fields should be carefully studied, and appropriate measures devised for accelerated development. The essential object should be to secure the fullest possible utilization of the resources of each region, so that it can contribute its best to the national pool and take its due share from the benefits accruing from national development.

3. The growth potential of each region should be fully developed, but the precise manner in which this goal is achieved and the stages of growth will not be identical. Some regional factors, such as those connected with physical features and geographical location, cannot be easily altered, but there are others which can be influenced by raising levels of education and skill, developing power and, generally, by applying science and technology on a larger scale. Large scale industries, especially basic and heavy industries, frequently serve as a spearhead of intensive and broad-based development. However, not all regions can offer equally favorable conditions for the development of industry. It is also possible to over-estimate the significance of the location of large industrial units in relation to the living standards of the bulk of the population. There are many examples, both of countries and of regions within a country, in which, with limited development in industry, an appreciable rise in living standards has been achieved through the fuller utilization of local natural and human resources. There are also instances of areas around massive projects where no great impact on the levels of living of the people is to be observed. Apart from the basic and capital goods industries and other large industries, there are other industries whose possibilities need to be fully explored, such as labour intensive industries of the traditional type, small scale industries of the modern type, agricultural processing industries, forest industries, assembly operations and recreational industries. Each region should endeavor to identify, plan for and promote industries which are specially suited to its conditions and for which it can provide relatively greater facilities.

II. POLICIES FOR REGIONAL GROWTH

4. The general approach set out above was expressed through a variety of policies and programmes which were embodied in the Second Five Year Plan. Among the most important of these were :

1. the priority given to programmes like agriculture, community development, irrigation, specially minor irrigation, local development works, etc. which spread over the entire area within the shortest possible time;
2. provision of facilities such as power, water supply, transport and communications, training institutions, etc. in areas which were lagging behind industrially or where there was greater need for providing opportunities for employment;
3. programmes for the expansion of village and small industries; and
4. in the location of new enterprises, whether public or private, consideration given to the need for developing a balanced economy in different parts of the country. In particular, this aspect was to be kept in view where the location of an industry was not determined almost entirely by the availability of raw materials or other natural resources.

In addition to these measures, the Second Plan envisaged an effort to promote greater mobility of labor between different parts of the country and to organize schemes of migration and settlement from more to less densely populated areas, The Plan also suggested that there should be continuous study of the problem of regional disparities and suitable indicators of regional development should be evolved.

5. In drawing up and implementing the Second Plan, the regional aspects of development were dealt with in three different ways. Firstly, through the plans of States emphasis was given to programmes which had a direct bearing on the welfare of the people in different parts of the country. Secondly, special programmes were undertaken in particular areas where development had either received a temporary setback, or was being held back by certain basic deficiencies. In the third place, steps were taken to secure more dispersed development of industry which, in turn, creates conditions for development in several related fields.

6. Programmes of agriculture, community development, village and small industries, irrigation and power, communications and social services have the widest coverage, and aim at providing basic facilities and services to people in all regions. Since these programmes are included in the plans of States, it is largely through the shape given to State plans and the changes through which they pass in the course of the Plan period that the benefits of development are carried to every part of the country. River valley projects formed a most important segment in the plans of several States and large investments have been made in multi-purpose projects like the Hirakud, Kosi, Chambal, Rihand, D.V.C., Bhakra Nangal, Koyna and Nagar-junasagar. These and other projects were essential for the development of vast regions in the country, some of which suffered from scarcity or unemployment or were otherwise poorly developed. Implementation of agricultural production and community development programmes, and of education and health schemes aiso carried the benefits of development to the remotest areas.

7. In addition to these general or overall programmes of development, both in the First and the Second Plan, special schemes were formulated for particular areas which had difficult problems to face. Thus, in 1953-54 a programme of permanent improvements in scarcity areas was taken in hand in several States at a total cost of about Rs. 40crores. Tlie programme included medium as well as minor irrigation schemes, construction of embankments for flood protection and land reclamation and contour bonding schemes. Again, in-1957, when scarcity conditions developed in some States, the problem was studied and additional development programmes were taken up. For less developed areas situated in different States, such as, Vidharba and Marathwada, the eastern districts and other backward areas in Uttar Pradesh and hill areas in Punjab and Uttar Pradesh, the States concerned have frequently provided for special outlays within their plans, and have made special arrangements for the representatives of sucli areas to purtic:pale in making their own plans. In States like Madhya Pradesh, Orissa and Assam, additional programmes have been undertaken in areas inhabited by backward classes. These include roads and communications, multi-purpose development blocks, forest cooperative societies, and measures to improve upon the existing systems of shifting cultivation. A study of the problems of inaccessible areas in different States has also been undertaken by the Ministry of Food and Agriculture.

8. As regards the diffusion of industrial activity, so far as the larger industries are concerned, economic and technical considerations are always important and in practice only marginal deviations are feasible. The disadvantages which particular areas may have for the location of the larger projects are not always basic or irremediable for at times they may reflect only the lack of basic facilities and services. In the location of public sector projects, the claims of relatively

backward areas have been kept in view wherever this could be done without giving up essential technical and economic criteria. The location of several important projects like the steel plants has been determined on the basis of expert study and on economic considerations. But as tic are situated in areas which were hitherto industrially backward, the latter will benefit. Similarly, schemes for the development of certain natural resources such as lignite deposits in Arcot, iron ore in Orissa, bauxite deposits in Salem and lead and zinc deposits in Rajasthan will benefit areas which have been relatively less developed.

9. While, in the selection of sites for basic capital and producer goods industries, proximity to raw materials and other economic considerations have naturally been important, it was felt that in a wide range of consumer goods and processing industries it was possible to foster regional patterns of development. These include cotton textiles, sugar, light engineering industries such as bicycles, sewing machines, electric motors, radio receivers, re-rolling of steel and non-ferrous metals from billets and semis, molded plastics and manufacture and further processing of bulk drugs from penultimate products. Typical examples are the establishment of textile units in Rajasthan, Orissa, Assam and Punjab; sugar factories and distilleries in Andhra Pradesh, Madras, Mysore and Maharashtra; steel re-rolling mills in Assam, Madhya Pradesh, Kerala and North Bihar and tyre and tubes factory and electric lamps factory in Kerala. In the case of light engineering industries, the decision to sell steel at a uniform price at all rail-heads is an important step taken during the Second Plan for securing their wider dispersal. The policy followed regarding the licensing of new units in the sugar industry has assisted development in the peninsula. Similarly, new cotton textile mills have been encouraged to come up in areas in which the industry had not so far developed.

10. To some extent the development of new processes and new uses of raw materials has assisted in the spread of industry. Thus, a beginning was made with the use of biogases as a raw material for paper, and a number of paper factories based on the use of biogases have been approved for being set up in sugarcane growing areas. In Uttar Pradesh a synthetic rubber plant is being established on the basis of alcohol, which was formerly being used mainly for admixture with petrol. A decision has been taken to license pig iron plants, each up to a capacity of about 100,000 tons, in areas where non-metallurgical coals locally available could be used, if necessary, along with coke produced from metallurgical coal. Besides increasing the production of pig iron this will ensure dispersal of the industry. In encouraging such developments care has of course to be taken to ensure that a balance is maintained between regional distribution and considerations of economy in production.

11. Village and small industries are spread all over the country and various forms of assistance provided by the Central and State Governments are made available in the areas according to the programmes which are undertaken. Industrial estates have been set up in all States, and increasingly they are to be located in the smaller towns and rural areas.

Industrial sickness:

Industrial sickness is defined in India as "an industrial company (being a company registered for not less than five years) which has, at the end of any financial year, accumulated losses equal to, or exceeding, its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year"

Industrial Sickness in India:

Industrial sickness specially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like – cotton, Jute, Sugar, Textiles small steel and engineering industries are being affected by this sickness problem.

As per an estimate 300 units in the medium and large scale sector were either closed or were on the stage of closing in the year 1976. About 10% of 4lakhs unit were also reported to be ailing. And this position also remain same in the next decades. At the end of year 1986, the member of sick units in the portfolio of scheduled commercial banks stood at 1.47,740 involving an out standing bank credit of Rs. 487crores.

- Where the total number of large Industries which are sick were 637 units at the end of year 1985 increased to 714 units in the end of next year 1986.
- Likewise on the other hand the number of sick small scale units was also increased 1.18 lacks at the end of 1985 to 1.46lakhs at the end of 1986.
- The bank amount which was outstanding in case of large industries for the same period also increased from Rs.2,900crores to Rs. 3287crores at the end of year 1986
- Dues of Small Scale sector also increased from Rs.1071crores to Rs.1306 at the end of the year 1986.
- Of the 147, 740 sick industrial units which contains large medium as well as small scale involving the total bank loan (credit) of Rs. 4874 at the end of the year 1986.

Causes of sickness in small scale industry:

The different types of industrial sickness in Small Scale Industry (SSI) fall under two important categories. They are as follows:

Internal causes for sickness:

We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

a) Lack of Finance: This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

b) Bad Production Policies : The another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

c) Marketing and Sickness : This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

d) Inappropriate Personnel Management: The another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labor relations, lack of behavioral approach causes dissatisfaction among the employees and workers.

e) Ineffective Corporate Management: Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

External causes for sickness:

a) Personnel Constraint: The first for most important reason for the sickness of small scale industries are non availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

b) Marketing Constraints: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restrain of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

c) Production Constraints: This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions.

d) Finance Constraints: The another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

Low Capital formation:

Capital formation is a concept used in macroeconomics, national accounts and financial economics. Occasionally it is also used in corporate accounts. It can be defined in three ways:

- It is a specific statistical concept used in national accounts statistics, econometrics and macroeconomics. In that sense, it refers to a measure of the *net additions* to the (physical) capital stock of a country (or an economic sector) in an accounting interval, or, a measure of the amount by which the total physical capital stock *increased* during an accounting period. To arrive at this measure, standard valuation principles are used
- It is used also in economic theory, as a modern general term for capital accumulation, referring to the total "stock of capital" that has been formed, or to the growth of this total capital stock.
- In a much broader or vaguer sense, the term "capital formation" has in more recent times been used in financial economics to refer to savings drives, setting up financial institutions, fiscal measures, public borrowing, development of capital markets, privatization of financial institutions, development of secondary markets. In this usage, it refers to any method for increasing the amount of capital owned or under one's control, or any method in utilising or mobilizing capital resources for investment purposes. Thus, capital could be "formed" in the sense of "being brought together for investment purposes" in many different ways. This broadened meaning is not related to the statistical measurement concept nor to the classical understanding of the concept in economic theory. Instead, it originated in credit-based economic growth during the 1990s and 2000s, which was accompanied by the rapid growth of the financial sector, and consequently the increased use of finance terminology in economic discussions.

UNIT-3

foreign exchange reserves:

Foreign-exchange reserves (also called forex reserves or FX reserves) are assets held by central banks and monetary authorities, usually in different reserve currencies, mostly the United States dollar, and to a lesser extent the euro, the United Kingdom pound sterling, and the Japanese yen, and used to back its liabilities, e.g., the local currency issued, and the various bank reserves deposited with the central bank, by the government or financial institutions

In a strict sense, foreign-exchange reserves should only include foreign currency deposits and bonds. However, the term in popular usage commonly also adds gold reserves, special drawing rights (SDRs), and International Monetary Fund (IMF) reserve positions. This broader figure is more readily available, but it is more accurately termed official international reserves or international reserves.

Foreign Exchange reserves are called Reserve Assets in the Balance of Payments and are located in under the financial account. Hence, they are usually an important part of the International Investment Position of a country. The reserves are labeled as reserve assets under assets by functional category. In terms of financial assets classifications, the reserve assets can be classified as Gold bullion, Unallocated gold accounts, Special drawing rights, currency, Reserve position in the IMF, interbank position, other transferable deposits, other deposits, debt securities, loans, equity (listed and unlisted), investment fund shares and financial derivatives, such as forward contracts and options. There is no counterpart for reserve assets in liabilities of the International Investment Position. Usually, when the monetary authority of a country has some kind of liability, this will be included in other categories, such as Other Investments In the Central Bank's Balance Sheet, foreign exchange reserves are assets, along with domestic credit

Purpose:

Official international reserves assets allow a central bank to purchase the domestic currency, which is considered a liability for the central bank (since it prints the money or fiat currency as IOUs). Thus, the quantity of foreign exchange reserves can change as a central bank implements monetary policy but this dynamics should be analyzed generally in the context of the level of capital mobility, the exchange rate regime and other factors. This is known as Trilemma or Impossible trinity. Hence, in a world of perfect capital mobility, a country with fixed exchange rate would not be able to execute an independent monetary policy.

A central bank that implements a fixed exchange rate policy may face a situation where supply and demand would tend to push the value of the currency lower or higher (an increase in demand for the currency would tend to push its value higher, and a decrease lower) and thus the central bank would have to use reserves to maintain its fixed exchange rate. Under perfect capital mobility, the change in reserves is a temporary measure, since the fixed exchange rate attaches the domestic monetary policy to that of the country of the base currency. Hence, in the long term, the monetary policy has to be adjusted in order to be compatible with that of the country of the base currency. Without that, the country will experience outflows or inflows of capital. Fixed pegs were usually used as a form of monetary policy, since attaching the domestic currency to a currency of a country with lower levels of inflation should usually assure convergence of prices.

In a pure flexible exchange rate regime or floating exchange rate regime, the central bank does not intervene in the exchange rate dynamics; hence the exchange rate is determined by the market. Theoretically, in this case reserves are not necessary. Other instruments of monetary policy are generally used, such as interest rates in the context of an inflation targeting regime. Milton Friedman was a strong advocate of this arrangement, since he considered that independent monetary (and in some cases fiscal) policy and openness of the capital account are more valuable than a fixed exchange rate. Also, he valued the role of exchange rate as a price. As a matter of fact, he believed that sometimes could be less painful and thus desirable to adjust only one price (the exchange rate) than the whole set of prices of goods and wages of the economy, that are less flexible.

Mixed exchange rate regimes ('dirty floats', target bands or similar variations) may require the use of foreign exchange operations to maintain the targeted exchange rate within the prescribed limits, such as fixed exchange rate regimes. As seen above, there is an intimate relation between exchange rate policy (and hence reserves accumulation) and monetary policy. Foreign exchange operations can be (sterilized and unsterilized.

The last will cause an expansion or contraction in the amount of domestic currency in circulation, and hence directly affect inflation and monetary policy. For example, to maintain the same exchange rate if there is increased demand, the central bank can issue more of the domestic currency and purchase foreign currency, which will increase the sum of foreign reserves. Since (if there is no sterilization) the domestic money supply is increasing (money is being 'printed'), this may provoke domestic inflation. Also, some central banks may let the exchange rate appreciate to control inflation, usually by the channel of cheapening tradable goods.

Reserve accumulation:

Since the end of the Breton Woods system, many countries adopted flexible exchange rate. In theory reserves are not needed under this type of exchange rate arrangement, thus the expected trend should be a decline in foreign exchange reserves. However, the opposite happened and foreign reserves present a strong upward trend. Reserves grew more than gross domestic product (GDP) and imports in many countries. The only ratio that is relatively stable is foreign reserves.

Precautionary Aspect:

The traditional use of reserves is as savings for potential times of crises, especially balance of payments crises. As we will see below, originally those fears were related to the current account, but this gradually changed to include financial account needs as well. Originally, the creation of the IMF was viewed as a response to the need of countries to accumulate reserves. If a specific country is suffering from a balance of payments crisis, he would be able to borrow from the IMF, as this would be a pool of resources, and so the need to accumulate reserves would be lowered. However, the process of obtaining resources from the Fund is not automatic, which can cause problematic delays especially when markets are stressed. Hence, the fund never fulfilled completely its role, serving more as provider of resources for longer term adjustments. Another caveat of the project is the fact that when the crisis is generalized, the resources of the IMF could prove insufficient. After the 2008 crisis, the members of the Fund had to approve a capital increase, since its resources were strained. Some critics point out that the increase in reserves in Asian countries after the 1997 Asia crisis was a consequence of disappointment of the countries of the region with the IMF. During the 2008 crisis, the Federal Reserve instituted currency swap lines with several countries, alleviating liquidity pressures in dollars, thus reducing the need to use reserves.

External trade:

As most countries engage in international trade, reserves would be important to assure that trade would not be interrupted in the event of a stop of the inflow of foreign exchange to the country, what could happen during a financial crisis for example. A rule of thumb usually followed by central banks is to at least hold an amount of foreign currency equivalent to three months of imports. As commercial openness increased in the last years (part of the process known as globalization), this factor alone could be responsible for the increase of reserves in the same period. As imports grew, reserves should grow as well to maintain the ratio. Nonetheless, evidence suggests that reserve accumulation was faster than what would be explained by trade, since the ratio has increased to several months of imports. The external trade factor also explains why the ratio of reserves in months of imports is closely watched by credit risk agencies.

Financial openness:

Besides external trade, the other important trend of the last decades is the opening of the financial account of the balance of payments. Hence, financial flows, such as direct investment and portfolio investment became more important. Usually financial flows are more volatile, which enforces the necessity of higher reserves. The rule of thumb for holding reserves as a consequence of the increasing of financial flows is known as Guidotti-Greenspan rule and it states that a country should hold liquid reserves equal to their foreign liabilities coming due within a year. An example of the importance of this ratio can be found in the aftermath of the crisis of 2008, when the Korean Won depreciated strongly. Because of the reliance of Korean banks on international wholesale financing, the ratio of short-term external debt to reserves was close to 100%, which exacerbated the perception of vulnerability.

Exchange rate policy:

Reserves accumulation can be an instrument to interfere with the exchange rate. Since the first General Agreement on Tariffs and Trade (GATT) of 1948 to the foundation of the World Trade Organization (WTO) in 1995, the regulation of trade is a major concern for most countries throughout the world. Hence, commercial distortions such as subsides and taxes are strongly discouraged. However, there is no global framework to regulate financial flows. As an example of regional framework, members of the European Union are prohibited of introducing capital controls, except in an extraordinary situation. The dynamics of the China's trade balance and reserve accumulation during the first decade of the 2000 was one of the main reasons for the interest in this topic. Some economists are trying to explain this behavior. Usually, the explanation is based on a sophisticated variation of mercantilism, such as to protect the take-off in the tradable sector of an economy, by avoiding the real exchange rate appreciation that would naturally arise from this process. One attempt uses an standard model of open economy intertemporal consumption to show that it is possible to replicate a tariff on imports or a subsidy on exports by closing the current account and accumulating reserves. Another is more related to the economic growth literature. The argument is that the tradable sector of an economy is more capital intense than the non-tradable sector. The private sector invests too little in capital, since it fails to understand the social gains of a higher capital ratio given by externalities (like improvements in human capital, higher competition, technological spillovers and increasing returns to scale). The government could improve the equilibrium by imposing subsidies and tariffs, but the hypothesis is that the government is unable to distinguish between good investment opportunities and rent seeking schemes. Thus, reserves accumulation would correspond to a loan to foreigners to purchase a quantity of tradable goods from the economy. In this case, the real exchange rate would depreciate ant the growth rate would increase. In some cases, this could improve welfare, since the higher growth rate would compensate the loss of the tradable goods that could be consumed or invested. In this context, foreigners have the role to choose only the useful tradable goods sectors.

Intergenerational savings:

Reserves accumulations can be seen as a way of "forced savings". The government, by closing the financial account, would force the private sector to buy domestic debt in the lack of other alternative. With these resources, the government buys foreign assets. Thus, the government coordinates the savings accumulation in the form of reserves. Sovereign Wealth Funds are examples of governments that try to save the windfall of booming exports as long-term assets to be used when the source of the windfall is extinguished.

Costs:

There are costs in maintaining large currency reserves. Fluctuations in exchange markets result in gains and losses in the purchasing power of reserves. In addition to fluctuations in exchange rates, the purchasing power of fiat money decreases constantly due to devaluation through inflation. Therefore, a central bank must continually increase the amount of its reserves to maintain the same power to manipulate exchange rates. Reserves of foreign currency provide a small return in interest. However, this may be less than the reduction in purchasing power of that currency over the same period of time due to inflation, effectively resulting in a negative return known as the "quasi-fiscal cost". In addition, large currency reserves could have been invested in higher yielding assets.

Several calculations have been attempted to measure the cost of reserves. The traditional one is the spread between government debt and the yield on reserves. The caveat is that higher reserves can decrease the perception of risk and thus the government bond interest rate, so this measures can overstate the cost. Alternatively, another measure compares the yield in reserves with the alternative scenario of the resources being invested in capital stock to the economy, which is hard to measure. One interesting measure tries to compare the spread between short term foreign borrowing of the private sector and yields on reserves, recognizing that reserves can correspond to a transfer between the private and the public sectors. By this measure, the cost can reach 1% of GDP to developing countries. While this is high, it should be viewed as an insurance against a crisis that could easily cost 10% of GDP to a country. In the context of theoretical economic models it is possible to simulate economies with different policies (accumulate reserves or not) and directly compare the welfare in terms of consumption. Results are mixed, since they depend on specific features of the models.

History:

The modern exchange market as tied to the prices of gold began during 1880. Of this year the countries significant by size of reserves were Austria, Belgium, Canada, Denmark, Finland, Germany and Sweden.

Official international reserves, the means of official international payments, formerly consisted only of gold, and occasionally silver. But under the Bretton Woods system, the US dollar functioned as a reserve currency, so it too became part of a nation's official international reserve assets. From 1944–1968, the US dollar was convertible into gold through the Federal Reserve System, but after 1968 only central banks could convert dollars into gold from official gold reserves, and after 1973 no individual or institution could convert US dollars into gold from official gold reserves. Since 1973, no major currencies have been convertible into gold from official gold reserves. Individuals and institutions must now buy gold in private markets, just like other commodities. Even though US dollars and other currencies are no longer convertible into gold from official gold reserves, they still can function as official international reserves.

Central banks throughout the world have sometimes cooperated in buying and selling official international reserves to attempt to influence exchange rates and avert financial crisis. For example, in the crisis of 1890, the Bank of England borrowed GBP 2 million from the Banque de France. The same was true for the Louvre Accord and the Plaza Accord. More recently, the Fed organized Central bank liquidity swaps with other institutions. During the crisis of 2008, developed countries authorities adopted extra expansionary monetary and fiscal policies, which led to the appreciation of currencies of some emerging markets. The resistance to appreciation and the fear of lost competitiveness led to policies aiming to prevent inflows of capital and more accumulation of reserves. This pattern was called Currency war by an exasperated Brazilian authority.

Balance of payment &balance of trade:

The balance of payments accounts of a country record the payments and receipts of the residents of the country in their transactions with residents of other countries. If all transactions are included, the payments and receipts of each country are, and must be, equal. Any apparent inequality simply leaves one country acquiring assets in the others. For example, if Americans buy automobiles from Japan, and have no other transactions with Japan, the Japanese must end up holding dollars, which they may hold in the form of bank deposits in the United States or in some other U.S. investment. The payments of Americans to Japan for automobiles are balanced by the payments of Japanese to U.S. individuals and institutions, including banks, for the acquisition of dollar assets. Put another way, Japan sold the United States automobiles, and the United States sold Japan dollars or dollar-denominated assets such as Treasury bills and New York office buildings....

Although the totals of payments and receipts are necessarily equal, there will be inequalities—excesses of payments or receipts, called deficits or surpluses—in particular kinds of transactions. Thus, there can be a deficit or surplus in any of the following: merchandise trade (goods), services trade, foreign investment income, unilateral transfers (foreign aid), private investment, the flow of gold and money between central banks and treasuries, or any combination of these or other international transactions.

IMPORTS: Goods and services produced by the foreign sector and purchased by the domestic economy. In other words, imports are goods purchased from other countries. The United States, for example, buys a lot of the stuff produced within the boundaries of other countries, including bananas, coffee, cars, chocolate, computers, and, well, a lot of other products. Imports, together with exports, are the essence of foreign trade--goods and services that are traded among the citizens of different nations. Imports and exports are frequently combined into a single term, net exports (exports minus imports)....

EXPORTS: The sale of goods to a foreign country. The United States, for example, sells a lot of the stuff produced within our boundaries to other countries, including wheat, beef, cars, furniture, and, well, almost every variety of product you care to name. In general, domestic producers (and their workers) are elated with the prospect of selling their goods to foreign countries--leading to more buyers, a higher price, and more profit. The higher price, however, is bad for domestic consumers. In that domestic consumers tend to have far less political clout than producers, very few criticisms of exports can be heard....

BALANCE OF TRADE: The difference between the value of goods and services exported out of a country and the value of goods and services imported into the country. The balance of trade is the official term for net exports that makes up the balance of payments. The balance of trade can be a "favorable" surplus (exports exceed imports) or an "unfavorable" deficit (imports exceed exports). The official balance of trade is separated into the balance of merchandise trade for tangible goods and the balance of services....

A balance of trade surplus is most favorable to domestic producers responsible for the exports. However, this is also likely to be unfavorable to domestic consumers of the exports who pay higher prices.

Alternatively, a balance of trade deficit is most unfavorable to domestic producers in competition with the imports, but it can also be favorable to domestic consumers of the exports who pay lower prices....

Balance of payments should be distinguished from balance of trade. Balance of trade refers to the export and import of visible items, i.e., material goods. It is the difference between the value of visible exports and imports.

Visible items are those items which are recorded in the customs returns; for example, material goods exported and imported. If the value of visible exports is greater than that of visible imports, the balance of trade is favourable.

If the value of visible imports is greater than that of visible exports the balance of trade is unfavourable; if the value of visible exports is equal to that of visible imports, the balance of trade is in equilibrium. Balance of trade is also known as merchandise account of exports and imports.

Balance of payments, on the other hand, is a more comprehensive concept because it covers (a) visible items (i.e., balance of trade or merchandise account) and (b) invisible items.

Invisible items are those items which are not recorded in the customs returns; for example, services (such as transpiration, banking, insurance, etc.), capital flows, purchase and sale of gold, etc.

Thus, balance of payments is a broader term than balance of trade; balance of payments includes both visible as well as invisible items, whereas balance of trade includes only visible items.

Current Foreign Policy:

India foreign policies were formulated by our national leaders ever since India's independence. The principles of India's foreign policies are -

- Fostering cordial relations with other countries
- Solving conflicts by peaceful means
- Sovereignty and equality of all nations
- Independence of thought and action as per the principles of Non-align Movement or NAM
- Equality in conducting international relations

India - the founder member of the Non-aligned Movement (NAM), raised its voice representing collective aspirations and interests of all the developing nations of the world. India Foreign Policy covers vital issues of development, peace and stability. India was the first country to raise the question of racial discrimination in South Africa in 1946 and also aims at eradicating colonialism. Indian foreign policy has been voicing the need for complete disarmament of nuclear weapons. India has taken several initiatives within the United Nations and outside, like Disarmament - an action plan for ushering in a nuclear weapons free and non-violent world. Indian foreign policy has opposed discriminatory treaties such as the Nuclear Non-Proliferation Treaty (NPT) and Comprehensive Nuclear Test Ban Treaty (CTBT) and has refused to give up its nuclear program until all nations of the world including nuclear weapon states accepts and respects the idea of total nuclear disarmament in a phased manner.

India foreign policy has been firmly committed to the purposes and principles of the United Nations and has made significant contributions like participating in all peace-keeping operations like those in Korea, Egypt, and Congo in earlier years of its operation and then in Somalia, Angola, and Rwanda in recent years. India foreign policy focuses on active participation in the creation of more balanced international economies. India has been an active member of the Group of 77, and later the core group of the G-15 nations. India foreign policy constantly addresses other important issues of international importance, such as environmentally sustainable development and the promotion and protection of human rights.

India Foreign Policy is well aligned with its national interests and security. A well crafted India Foreign Policy has succeeded in establishing a network of mutually beneficial relations with all countries of the world, particularly in the improving relations with its neighbors.

Foreign Exchange Management Act (FEMA):

The Foreign Exchange Management Act (FEMA) is a 1999 Indian law "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India". It was passed in the winter session of Parliament in 1999, replacing the Foreign Exchange Regulation Act (FERA). This act seeks to make offenses related to foreign exchange civil offenses. It extends to the whole of India.,[1] replacing FERA, which had become incompatible with the pro-liberalization policies of the Government of India. It enabled a new foreign exchange management regime consistent with the emerging framework of the World Trade Organization (WTO). It is another matter that the enactment of FEMA also brought with it the Prevention of Money Laundering Act of 2002, which came into effect from 1 July 2005.

Unlike other laws where everything is permitted unless specifically prohibited, under this act everything was prohibited unless specifically permitted. Hence the tenor and tone of the Act was very drastic. It required imprisonment even for minor offences. Under FERA a person was presumed guilty unless he proved himself innocent, whereas under other laws a person is presumed innocent unless he is proven guilty.

FERA:

FERA, in place since 1974, did not succeed in restricting activities such as the expansion of transnational corporations (TNCs). The concessions made to FERA in 1991-1993 showed that FERA was on the verge of becoming redundant .After the amendment of FERA in 1993, it was decided that the act would become the FEMA. This was done in order to relax the controls on foreign exchange in India, as a result of economic liberalization. FEMA served to make transactions for external trade (exports and imports) easier – transactions involving current account for external trade no longer required RBI's permission. The deals in Foreign Exchange were to be 'managed' instead of 'regulated'. The switch to FEMA shows the change on the part of the government in terms of foreign capital.

Need for its management:

The buying and selling of foreign currency and other debt instruments by businesses, individuals and governments happens in the foreign exchange market. Apart from being very competitive, this market is also the largest and most liquid market in the world as well as in India It constantly undergoes changes and innovations, which can either be beneficial to a country or expose them to greater risks. The management of foreign exchange market becomes necessary in order to mitigate and avoid the risks. Central banks would work towards an orderly functioning of the transactions which can also develop their foreign exchange market

Whether under FERA or FEMA's control, the need for the management of foreign exchange is important. It is necessary to keep adequate amount of foreign ex. from Import Substitution to Export Promotion.

Main Features:

- Activities such as payments made to any person outside India or receipts from them, along with the deals in foreign exchange and foreign security is restricted. It is FEMA that gives the central government the power to impose the restrictions.

- Restrictions are imposed on people living in India who carry out transactions in foreign exchange, foreign security or who own or hold immovable property abroad.

- Without general or specific permission of the MA restricts the transactions involving foreign exchange or foreign security and payments from outside the country to India – the transactions should be made only through an authorized person.

- Deals in foreign exchange under the current account by an authorized person can be restricted by the Central Government, based on public interest.

- Although selling or drawing of foreign exchange is done through an authorized person, the RBI is empowered by this Act to subject the capital account transactions to a number of restrictions.

- People living in India will be permitted to carry out transactions in foreign exchange, foreign security or to own or hold immovable property abroad if the currency, security or property was owned or acquired when he/she was living outside India, or when it was inherited by him/her from someone living outside India.

- Exporters are needed to furnish their export details to RBI. To ensure that the transactions are carried out properly, RBI may ask the exporters to comply to its necessary requirements.

Export Promotion:

The objectives of this session are to introduce the concept of export promotion and export development and to explain how responsibilities are distributed among various organizations and Agencies to formulate approve and implement policies that promote and develop exports. This session will also describe and list the components of foreign trade and trade promotion policies and other factors affecting foreign trade. The various levels of export promotion strategies for example; the enterprise, industrial, and national levels will be introduced together with explanations of the SWOT approach to export strategies. Newly emerging developing countries have been unable to significantly increase their export volume on their own. There are many reasons related to the level of national economic development to explain this. One main reason is the lack of knowledge about the many complex challenges involved in marketing abroad. International marketing is a much more complicated process than marketing and selling in the domestic economy.

To encourage growth of exports, governments can step in and provide business communities with needed support in various ways. Governments have many different policies, programmes and activities to help develop competitive products and increase export sales.

Justification for export promotion activities:

Governments can assist businesses in the private sector with a wide range of services, from simply providing information about current opportunities in the world market to giving specialized assistance to design and implement marketing programmes and sales campaigns abroad. These activities may be described by the words "export promotion" or "export development." The activities are usually carried out by a trade promotion organization (TPO).

In most countries, TPOs concentrate most of their efforts on export promotion; that is, a set of actions aimed at promoting export of the country's existing production.

The basic objective of Export Promotion:

Export promotion activities are to encourage increased sales of products that are currently available for export. All promotional efforts are based on existing production and aim at increasing the value of foreign sales by a given target.

In recent years, some governments have focused on programmes of export development. Governments were responding to greater liberalization of foreign trade regulations and increased competition from abroad. Export development is different from export promotion, because export development aims at producing new export products and/or penetrating new Markets that were not accessible before. The aim of export development activities is to identify existing opportunities and encourage new industries or production facilities to be set up in Order to meet newly identified demands in the international market.

To a great extent, export development can concentrate on product adaptation; that is, use of existing production capacity to manufacture new products when better markets are found for those products than for traditional products. The export development approach clearly requires more effort, resources, and persistence than the simple traditional export promotion approach. One consequence is that export development cannot always be fully adopted, given limits that might exist in many countries.

In this manual, the two different definitions will be kept for export promotion and export development, but they will not always be kept separate as distinct activities.

Most developing countries make export promotion and development a priority in order to achieve economic development goals. Governments expect that sustained export promotion and development efforts will help earn additional foreign exchange needed to cover the cost of imports, solve balance of payments problems, help reduce the burden of increased foreign indebtedness and create additional employment for people. Export development is not only desirable, but also absolutely necessary in some countries in order to widen a narrow export base.

UNIT-4

WTO and various agreement:

The World Trade Organization (WTO) is the international organization dealing with the rules of trade between nations. As of February 2005, 148 countries are Members of the WTO. In becoming Members of the WTO, countries undertake to adhere to the 18 specific agreements annexed to the Agreement establishing the WTO. They cannot choose to be party to some agreements but not others (with the exception of a few "plurilateral" agreements that are not obligatory).

Of these agreements, Trade-Related Aspects of Intellectual Property Rights (TRIPS) is expected to have the greatest impact on the pharmaceutical sector and access to medicines. The TRIPS Agreement has been in force since 1995 and is to date the most comprehensive multilateral agreement on intellectual property. The TRIPS Agreement introduced global minimum standards for protecting and enforcing nearly all forms of intellectual property rights (IPR), including those for patents. International conventions prior to TRIPS did not specify minimum standards for patents. At the time that negotiations began, over 40 countries in the world did not grant patent protection for pharmaceutical products. The TRIPS Agreement now requires all WTO members, with few exceptions, to adapt their laws to the minimum standards of IPR protection. In addition, the TRIPS Agreement also introduced detailed obligations for the enforcement of intellectual property rights.

However, TRIPS also contains provisions that allow a degree of flexibility and sufficient room for countries to accommodate their own patent and intellectual property systems and developmental needs. This means countries have a certain amount of freedom in modifying their regulations and, various options exist for them in formulating their national legislation to ensure a proper balance between the goal of providing incentives for future inventions of new drugs and the goal of affordable access to existing medicines.

Key Provisions of TRIPS:

Patent protection:

Patent protection The TRIPS Agreement requires WTO Members to provide protection for a minimum term of 20 years from the filing date of a patent application for any invention including for a pharmaceutical product or process. Prior to the TRIPS Agreement, patent duration was significantly shorter in many countries. For example, both developed and developing countries provided for patent terms ranging from 15 to 17 years, whilst in certain developing countries, patents were granted for shorter terms of 5 to 7 years. The TRIPS Agreement also requires countries to provide patent protection for both processes and products, in all fields of technology.

Before TRIPS, many countries provided only process — but not product — patents. Product patents provide for absolute protection of the product, whereas process patents provide protection in respect of the technology and the process or method of manufacture. Protection for process patents would not prevent the manufacture of patented products by a process of reverse engineering, where a different process or method from that which has been invented (and patented) is used. For example, national legislation requiring only process patent protection has enabled manufacturers in certain countries to make generic versions of patented medicines. These countries have opted to make use of the transition period that permitted countries to delay, until 2005, patent protection in the areas of technology that had not been so protected before the TRIPS Agreement. (See transition periods below).

Protection of data submitted for the registration of pharmaceuticals:

As a condition for permitting the sale or marketing of a pharmaceutical product, drug regulatory authorities require pharmaceutical companies to submit data demonstrating the safety, quality and efficacy of the product. The TRIPS Agreement requires that WTO Members protect undisclosed test data, submitted to drug regulatory authorities for the purposes of obtaining marketing approval, against unfair commercial use. Since countries have considerable discretion to define "unfair commercial use", it is argued that countries can meet their obligations to protect test data by prohibiting "dishonest" use of data. Use by government authorities to assess the efficacy and toxicity of a pharmaceutical would not be affected, in this case.

However, it is now argued that data exclusivity is a requirement of the TRIPS Agreement. The data exclusivity approach grants the originator exclusive rights over their test data and prevents regulatory authorities from relying on the test data to register generic substitutes. Prior to the TRIPS Agreement coming into force, most countries allowed reliance on originator test data to approve generic products. Once test data was submitted by the originator company, the regulatory authorities could rely on the data to approve subsequent applications on similar products, or to rely on proof of prior approval of a similar product in another country. Generic manufacturers need only to prove that their product is chemically identical to the brand-name, original product, and in some countries, that it is bioequivalent. This approach enabled swift introduction of generics into the market without registration data-related costs. Within the data exclusivity approach, once a company has submitted original test data, no competing manufacturer is allowed to rely on these data for a period of time. Data exclusivity could thus pose an obstacle to effective use of compulsory licenses, as the entry of the generic product would be delayed for the duration of the exclusivity period or for the time it takes to undertake a new compilation of test data. The public interest in limiting data protection is to promote competition and ensure that data protection does not become the means to block timely entrance of affordable generic medicines of public health importance.

Transition periods:

The TRIPS Agreement provides for transition periods, permitting developing countries additional time to bring national legislation and practices into conformity with TRIPS provisions. There are three main transition periods. First was the 1995–2000 transition period, at the end of which countries were required to implement the TRIPS Agreement. The 2000–2005 transition period allowed certain countries to delay providing product patent protection in the areas of technology that had not been so protected at the time of the TRIPS Agreement coming into operation in that country. These countries were allowed a further 5 years to put in place a product patent regime for technologies and products, which they had not thus far provided patent protection, such as pharmaceuticals and agro-chemicals. During the transition period, these countries are required to accept patent applications from 1995 onwards and to keep such applications pending, in a patent "mailbox" until the mailbox is opened in 2005 when the applications will be assessed. The third transition period allows least-developed countries (LDCs) until 2006 to implement their obligations under the TRIPS Agreement in view of their economic, financial and administrative constraints. This period may still be extended by the TRIPS Council on request of an LDC Member. LDCs now have a further extension of time, until 2016 with respect to patents on pharmaceutical products and exclusive marketing rights by the Doha Declaration on the TRIPS Agreement and Public Health. Thus, LDCs need not provide for, nor enforce patents and data protection with respect to pharmaceutical products until 1 January 2016 (see below). The transition periods have meant that pharmaceuticals or medicines patented before developing countries implemented their TRIPS obligations will not receive patent protection, and thus generic competition is possible. Medicines patented after developing countries have implemented their TRIPS obligations are progressively coming onto the market and will constitute an increasing share of marketed medicines. A substantial change is expected after 2005, when all developing countries will be required to provide patent protection for pharmaceutical products and the mailbox patents are processed.

The WTO's rules — the agreements — are the result of negotiations between the members. The current set were the outcome of the 1986–94 Uruguay Round negotiations which included a major revision of the original General Agreement on Tariffs and Trade (GATT).

GATT is now the WTO's principal rule-book for trade in goods. The Uruguay Round also created new rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement, and trade policy reviews. The complete set runs to some 30,000 pages consisting of about 30 agreements and separate commitments (called schedules) made by individual members in specific areas such as lower customs duty rates and services market-opening.

Through these agreements, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

GATT, TRIMS, TRIPS:

The Uruguay Round was the 8th round of multilateral trade negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986 to 1994 and embracing 123 countries as "contracting parties". The Round led to the creation of the World Trade Organization, with GATT remaining as an integral part of the WTO agreements. The broad mandate of the Round had been to extend GATT trade rules to areas previously exempted as too difficult to liberalize (agriculture, textiles), and to increasingly important new areas previously not included (trade in services, intellectual property, investment policy trade distortions). The Round came into effect in 1995 with deadlines ending in 2000 (2004 in the case of developing country contracting parties) under the administrative direction of the newly created World Trade Organization (WTO).

The Doha Development Round is the next trade round, beginning in 2001 and still unresolved after missing its official deadline of 2005.

The main objectives of the Uruguay Round were:

- to reduce agricultural subsidies
- to put restrictions on foreign investment, and
- to begin the process of opening trade in services like banking and insurance.

They also wanted to draft a code to deal with copyright violation and other forms of intellectual property rights.

History:

The round was launched in Punta del Este, Uruguay in September 1986, followed by negotiations in Geneva, Brussels, Washington, D.C., and Tokyo, with the 20 agreements finally being signed in Marrakesh—the Marrakesh Agreement—in April 1994.The 1982 Ministerial Declaration identified problems including structural deficiencies, spill-over impacts of certain countries' policies on world trade GATT could not manage. To address these issues, the eighth GATT round (known as the Uruguay Round) was launched in September 1986, in Punta del Este, Uruguay. It was the biggest negotiating mandate on trade ever agreed: the talks were going to extend the trading system into several new areas, notably trade in services and intellectual property, and to reform trade in the sensitive sectors of agriculture and textiles; all the original GATT articles were up for review.

The round was supposed to end in December 1990, but the US and EU disagreed on how to reform agricultural trade and decided to extend the talks. Finally, In November 1992, the US and

EU settled most of their differences in a deal known informally as "the Blair House accord", and on April 15, 1994, the deal was signed by ministers from most of the 123 participating governments at a meeting in Marrakesh, Morocco.[The agreement established the World Trade Organization, which came into being upon its entry into force on January 1, 1995, to replace the GATT system. It is widely regarded as the most profound institutional reform of the world trading system since the GATT's establishment.

Achievements:

The GATT still exists as the WTO's umbrella treaty for trade in goods, updated as a result of the Uruguay Round negotiations (a distinction is made between GATT 1994, the updated parts of GATT, and GATT 1947, the original agreement which is still the heart of GATT 1994). The GATT 1994 is not, however, the only legally binding agreement included in the Final Act; a long list of about 60 agreements, annexes, decisions and understandings was adopted. In fact, the agreements fall into a simple structure with six main parts:

- an umbrella agreement (the Agreement Establishing the WTO);
- goods and investment (the Multilateral Agreements on Trade in Goods including the GATT 1994 and the Trade Related Investment Measures (TRIMS));
- services (General Agreement on Trade in Services (GATS));
- intellectual property (Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS));
- dispute settlement (DSU);
- reviews of governments' trade policies (TPRM).

The agreements for the two largest areas under the WTO, goods and services, share a three-part outline:

- broad principles (such as the General Agreement on Tariffs and Trade and General Agreement on Trade in Services);
- extra agreements and annexes;
- lengthy schedules (lists) of commitments made by individual countries. One of the achievements of the Uruguay round would be the Uruguay Round Agreement on Agriculture, administered by the WTO, which brings agricultural trade more fully under the GATT. Prior to the Uruguay Round, conditions for agricultural trade were deteriorating with increasing use of subsidies, build-up of stocks, declining world prices and escalating costs of support. It provides for converting quantitative restrictions to tariffs and for a phased reduction of tariffs. The agreement also imposes rules and disciplines on agricultural export subsidies, domestic subsidies, and sanitary and phytosanitary (SPS) measures through the Agreement on the Application of Sanitary and Phytosanitary Measures

Criticism:

Groups such as Oxfam have criticized the Uruguay Round for paying insufficient attention to the special needs of developing countries. One aspect of this criticism is that figures very close to rich country industries—such as former Cargill executive Dan Amstutz—had a major role in the drafting of Uruguay Round language on agriculture and other matters. As with the WTO in general, non-governmental organizations (NGOs) such as Health Gap and Global Trade Watch also criticize what was negotiated in the Round on intellectual property and industrial tariffs as setting up too many constraints on policy-making and human needs. Some articles have pointed out some reasons why the Uruguay Round resulted in an unbalanced outcome. An article asserts that the developing countries' lack of experience in WTO negotiations and lack of knowledge of how the developing economies would be affected by what the industrial countries wanted in the WTO new areas; the intensified mercantilist attitude of the GATT/WTO's major power, the US.; the structure of the WTO that made the GATT tradition of decision by consensus ineffective, so that a country would not preserve the status quo, were the reasons for this imbalance.

The Agreement on Trade Related Investment Measures (TRIMs) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organization. The agreement was concluded in 1994 and came into force in 1995. (The WTO wasn't established at that time, it was its predecessor, the GATT (General Agreement on Trade and Tariffs. The WTO came about in 1994-1995.)

Policies such as local content requirements and trade balancing rules that have traditionally been used to both promote the interests of domestic industries and combat restrictive business practices are now banned.

Trade Related Investment Measures is the name of one of the four principal legal agreements of the WTO trade treaty.

TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets.

(1) Trade-Related Investment Measures:

In the late 1980s, there was a significant increase in foreign direct investment throughout the world. However, some of the countries receiving foreign investment imposed numerous restrictions on that investment designed to protect and foster domestic industries, and to prevent the outflow of foreign exchange reserves. Examples of these restrictions include local content requirements (which require that locally-produced goods be purchased or used), manufacturing requirements (which require the domestic manufacturing of certain components), trade balancing requirements, domestic sales requirements, technology transfer requirements, export performance requirements (which require the export of a specified percentage of production volume), local equity restrictions, foreign exchange restrictions, remittance restrictions, licensing requirements, and employment restrictions. These measures can also be used in connection with fiscal incentives as opposed to requirement. Some of these investment measures distort trade in violation of GATT Article III and XI, and are therefore prohibited. Until the completion of the Uruguay Round negotiations, which produced a well-rounded Agreement on Trade-Related Investment Measures (hereinafter the "TRIMs Agreement"), the few international agreements providing disciplines for measures restricting foreign investment provided only limited guidance in terms of content and country coverage. The OECD Code on Liberalization of Capital Movements, for example, requires members to liberalize restrictions on direct investment in a broad range of areas. The OECD Code's efficacy, however, is limited by the numerous reservations made by each of the members. In addition, there are other international treaties, bilateral and multilateral, under which signatories extend most-favoured-nation treatment to direct investment. Only a few such treaties, however, provide national treatment for direct investment. Moreover, although the APEC Investment Principles adopted in November 1994 provide rules for investment as a whole, including non-discrimination and national treatment, they have no binding force.

(2) Legal Framework:

GATT 1947 prohibited investment measures that violated the principles of national treatment and the general elimination of quantitative restrictions, but the extent of the prohibitions was never clear. The TRIMs Agreement, however, contains statements prohibiting any TRIMs that are inconsistent with the provisions of Articles III or XI of GATT 1994. In addition, it provides an illustrative list that explicitly prohibits local content requirements, trade balancing requirements, foreign exchange restrictions and export restrictions (domestic sales requirements) that would violate Article III:4 or XI:1 of GATT 1994. TRIMs prohibited by the Agreement include those that are mandatory or enforceable under domestic law or administrative rulings, or those with which compliance is necessary to obtain an advantage (such as subsidies or tax breaks). Figure 8-1 contains a list of measures specifically prohibited by the TRIMs Agreement. Note that this figure is not exhaustive, but simply illustrates TRIMs that are prohibited by the TRIMs Agreement. The figure, therefore, calls particular attention to several common types of TRIMs. We would add that this figure identifies measures that were also inconsistent with Article III:4 and XI:1 of GATT 1947. Indeed, the TRIMs Agreement is not intended to impose new obligations, but to clarify the pre-existing GATT 1947 obligations. Under the WTO TRIMs Agreement, countries are required to rectify any measures inconsistent with the Agreement, within a set period of time, with a few exceptions

The GATT

The GATT is at the heart of the world multilateral trading system. As its name implies, the GATT is aimed principally reducing tariffs and other barriers to trade (e.g., quotas) between GATT members, and the elimination of discriminatory treatment in international commerce. These objectives of the GATT influence domestic law of member countries, discussed below.

The focus of GATT **is** trade in goods**;** trade in services, intellectual property, and investment are covered under separate agreements (GATS, TRIPs, and TRIMs, respectively) which are also administered by the WTO.

The WTO:

The WTO was established in 1994 under the WTO Agreement. The WTO is the primary institution of the world multilateral trading system. The WTO is responsible for the administration of the trade agreements above (i.e., GATT, GATS, TRIPs, and TRIMs), ongoing trade negotiations, dispute settlement, and enforcement. Currently, approximately 150 countries are members of the WTO.

Basic GATT Obligations :

As a member country, Canada has bound itself to conduct its international trade according to the rules of the GATT. Canada, like other member countries, has the following basic obligations:

- Tariff levels commitment to apply GATT-negotiated tariff levels (and associated rules for valuation and origin);
- Most Favoured Nation (MFN) principle commitment to not discriminate in the treatment of like goods imported from different trading partners (subject to exception for free trade areas, such as NAFTA);
- National Treatment commitment to not discriminate between like goods of domestic and foreign origins;
- Subsidies and Countervailing Duties rules; and
- Dumping and Anti-Dumping Duties rules.

These obligations are reflected in Canadian domestic customs laws, discussed below.

Canadian Domestic Law Customs Laws :

In order to fulfil Canada obligations under the GATT, Canadian domestic laws reflect the basic GATT obligations.

For example, the Canadian rules on tariffs, set out in the Customs Tariff, reflect the tariffs for goods negotiated under the GATT/WTO framework. These tariffs are the basic GATT MFN rate, but the Customs Tariff also sets out more preferential rates, which reflects the rates negotiated under free trade agreements such as NAFTA and arrangements with developing countries (e.g., the General System of Preferences rate).

As a further example, the Canadian rules for valuation for duty purposes reflect the requirements of GATTS Article VII, which requires member countries determine the value based on the actual value of the imported goods (a separate agreement on the implementation of Article VII further specifies that this value is to be the transaction value of the imported goods. For more information on investor disputes, please return to our Practice Area Index and select Valuation).

Canadian Domestic Law Trade Laws :

The GATT permits countries to continue applying domestic trade remedies laws such as anti-dumping and countervailing duties to tackle the unfair trade practices of other countries. However, the GATT imposes general conditions before these measures can apply, and these conditions are reflected in Canadas trade laws under the *Special Import Measures Act* (SIMA).

For example, Article VI of GATT condemns dumping of products of one country into another country at less than the normal value of those products if it causes or threatens material injury to an established industry in that country or materially retards the establishment of a domestic industry.

This requirement for injury is reflected in the bifurcated approach to anti-dumping remedies under SIMA, where the Canadian Border Agency makes an initial determination of whether dumping has occurred, and then the Canadian International Trade Tribunal determines whether there is injury, threat of injury or retardation of an industry, and whether this is caused by the dumping (if so, then anti-dumping remedies may be applied to the imports of the offending goods).

Dispute Settlement

Finally, note that the nature of dispute settlement under the WTO concerns challenges by one state of another states fulfilment of its GATT obligations. These are state-to-state disputes, and as such, there is no formal mechanism through which private enterprises can challenge the activities of a country in which they operate.

In contrast, the North American Free Trade Agreement (the NAFTA) and bilateral investment treaties provide an avenue for private enterprises to challenge governmental actions that threaten their investments. For more information on investor disputes, please return to our Practice Area Index and select NAFTA Chapter 11 Disputes and NAFTA Investor Disputes.

Foreign Direct Investment:

Foreign direct investment (FDI) is a direct investment into production or business in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds

Foreign direct investment has many forms. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intercompany loans". In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable.

As a part of the national accounts of a country, and in regard to the national income equation Y=C+I+G+(X-M), I is investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward and outward, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements

Types:

1. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
2. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. **Vertical FDI** takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

Horizontal FDI decreases international trade as the product of them is usually aimed at host country; the two other types generally act as a stimulus for it.

Methods:

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

Foreign direct investment incentives may take the following forms:

- low corporate tax and individual income tax rates
- tax holidays
- other types of tax concessions
- preferential tariffs
- special economic zones
- EPZ – Export Processing Zones
- Bonded Warehouses
- Maquiladoras
- investment financial subsidies
- soft loan or loan guarantees
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects)

Importance and barriers to FDI

The rapid growth of world population since 1950 has occurred mostly in developing countriesThis growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita.

Foreign direct investment and the developing world:

A 2011 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

Foreign direct investment in China:

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of FDI.

During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

Foreign direct investment in India:

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current (2012) election India disallowed overseas corporate bodies (OCB) to invest in India.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.

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