

M.A Economics First year, Elective Paper- 1, Semester- I Code: 18PECE1

INDIAN ECONOMY AND REFORMS

Study Materials for UNIT-2, 4 and Second part of Unit 5

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Study Material for Unit: 2 Follows

(Title of the Unit 2 : Agriculture and Economic Reforms)


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INDIAN ECONOMY AND REFORMS

Dr.B.BALAMURUGAN

INTRODUCTION

- Agriculture is the **backbone of Indian economy**. Agriculture is the most important occupation for most of the Indian families.
- In India, agriculture contributes about 16% of total GDP & 10% of total exports.
- That's reason India secured **second position** worldwide in terms of farm output. About 75% people are living in rural areas and are still dependent on Agriculture. About 43% of India's geographical area is used for agricultural activity.



Importance of Agriculture In Indian Economy

- Sources of Livelihood.
- Major Component of National Income.
- Support Industries.
- Commercial Importance.
- Sources of Government Revenue.



Importance of Agriculture



- All humans depend on agriculture for food
- Urban-industrial societies depend on the base of food surplus generated by farmers and herders
- Without agriculture there could be no cities, universities, factories, or offices
- Today agriculture remains the most important economic activity in the world
- Agriculture employs 45 percent of the working population (only 2% in US)
- In some parts of Asia and Africa, over 80 percent of the labor force is engaged in agriculture






History

AGRICULTURAL MECHANIZATION

- **Agricultural Mechanization** is machinery used in the operation of an agricultural area or farm.
- Many advancements in farming techniques and tools have been manifested since agriculture's beginnings thousands of years ago. The greatest strides have occurred in the last three hundred years.
- A substantial contribution to agriculture has been the escalation from manual and stock-animal labor to steam-and then gas-powered implements.

MEANING AND CONCEPT

- Mechanization of farms means the use of machines for conducting agricultural operations, replacing the traditional methods which involve human and animal labour.
 - Farm mechanization implies the use of mechanical technology in the varied farming operations like sowing, harvesting, threshing, levelling, watering, spraying, weeding etc.
- 

OBJECTIVES OF FARM MECHANIZATION

- Definition:

It is all forms of mechanical assistance at all levels of sophistication. Usually it involves an injection of capital usually labour augmenting.

Mechanization objectives in the context of agricultural development strategy are:

- i) Agricultural productivity to increase the sector's contribution to economic growth and security.
- ii) Increase rural welfare: incomes, employment, living standards, alleviating poverty.
- iii) Achieving social modernisation; attitudes and behaviour.

Advantages of Farm Mechanization

- Improves **utilization efficiency of inputs** such as seeds, chemicals, fertilizers and energy.
- Ensures **timeliness of farm operations** leading to higher productivity and cropping intensity.
- **Reduces cost of production** and increases agricultural income.
- **Reduces drudgery and improves safety in operation** of farm machinery.
- Helps in **conserving natural resources** e.g. water .

NEED OF FARM MECHANIZATION

- To increase the production and productivity of food grains and to meet the global standards.
- For timely operations of agricultural activities.
- Efficient utilisation of inputs ,fertilizers, water and other natural resources.
- To meet the growing needs of growing population in almost the same amount of cultivable land.
- Availability of adequate farm power is very crucial for timely farm operations for increasing production and productivity and handling the crop produce to reduce losses.

What is the Green Revolution

- The term Green Revolution refers to the renovation of agricultural practices beginning in Mexico in the 1940s. Because of its success in producing more agricultural products there, Green Revolution technologies spread worldwide in the 1950s and 1960s, significantly increasing the amount of calories produced per acre of agriculture.

Definition:

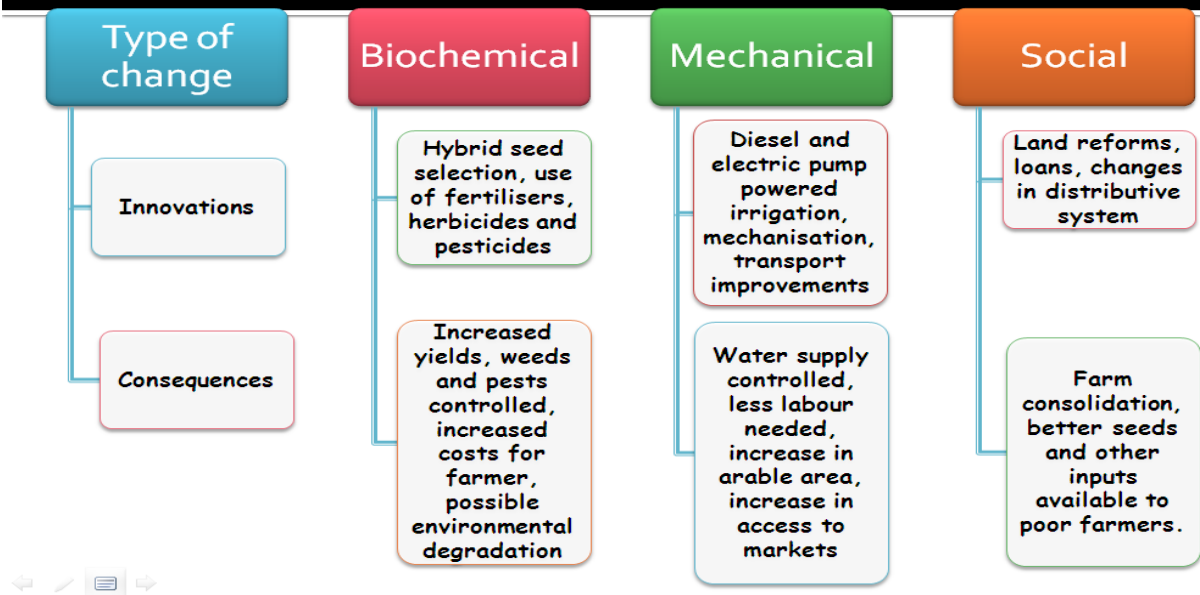
- **J. G. Harrar**, “The green revolution is the phrase generally used to describe the Spectacular increase that took place during 19687-68 and is continuing in the production of food grains in India”.



Effects of Green Revolution:

- Increase in Production
- Capitalistic Farming
- Effect on Rural Employment
- Reduction in Imports of food grains
- Development of Industries
- Effect on Prices
- Base for Economic Growth
- Effect on consumers
- Effect on Planning
- Increase in Trade
- Change in Thinking of Farmers

The 3 strands of the Green Revolution



Definition of Agricultural labour

- Agricultural labor means human efforts in agricultural products, including crops, livestock, agro forestry, and aquaculture.
- On farm (e.g. agricultural production activities such as planting, weeding, harvesting, milking or fishing)
- Off farm (e.g. agro processing activities such as cleaning, cutting, labeling or marketing)

Characteristics of Agricultural Labourers



- ▶ Agricultural Laborers are Scattered
- ▶ Agricultural Laborers are Unskilled and Lack Training
- ▶ Unorganized Sector
- ▶ Low Social Status
- ▶ Demand and Supply of Labour
- ▶ Less Bargaining Power
- ▶ At the Bidding of the Landlord

Welfare Measures for Agricultural Labour

- ▶ The old age pension scheme, to those who have attained the age of 60 and having no sons, needs to be extended to cover all agricultural workers of age 60, irrespective of presence of sons/daughters.
- ▶ Minimum wages, through a single window, for agricultural labourers.
- ▶ A crop insurance scheme on the pattern of 'livestock insurance' and 'life insurance' needs to be introduced.
- ▶ Drought Prone areas, Desert areas development programmes etc.

Measures taken by the Government to improve the Conditions of Agricultural Labourers

- ▶ Passing of Minimum Wage Act.
- ▶ Abolition of Bonded Labourers
- ▶ Providing land to landless labourers
- ▶ Provision of Housing cities to houseless



RURAL DEVELOPMENT

- ⊕ As a concept, it **connotes overall development of rural areas** with a view to improve the **quality of life rural people**.
- ⊕ As a discipline, it is **multi-disciplinary in nature** representing an **intersection of agricultural, social, behavioural and management of sciences**.
- ⊕ In short, rural development is a process that aims at **improving the standard of living of the people living in the rural areas**.

OBJECTIVE OF RURAL DEVELOPMENT

The main objective of the Rural Development is improving the living standards of rural people by utilizing the easily available natural and human resources.

The other objectives of rural development programmers are as follow:

1. Development of agriculture and allied activities.
2. Development of village and cottage industries and handicrafts.
3. Development of socio-economic infrastructure which includes setting up of rural banks, co-operatives, schools etc.
4. Development of community services and facilities i.e. drinking water, electricity, rural roads, health services etc.
5. Development of Human resource mobilization.

Prepared by Dr. Balaraman

- Rural development may also be seen as an ideology and a practice.
- It may mean planned change by public agencies based outside the rural areas such as the national Government and International organization.
- Rural development as the improvement in the living standard of the rural dwellers by engaging them in productive activities such as the establishment of rural industries that will increase their income.
- It is seen by these scholars as a means of raising the sustainable living of the rural poor by giving them the opportunity to develop their full potentials.

IMPORTANCE OF RURAL DEVELOPMENT

- ◉ Improvement in the quality of life of rural people is the important agenda of rural development programme.
- ◉ In India - a country where the number of people living in rural areas, rural development programme is necessary aspect.
- ◉ Rural development implies both the economic betterment of people as well as greater social transformation.
- ◉ The basic objective of all rural development endeavors / programmes has been the welfare of the millions.

PROBLEMS IN RURAL DEVELOPMENT

- ◉ As we know the 60-70% of rural population in India lives in primitive conditions.
- ◉ There are many obstacles in the rural development programmes which are as under:
 1. In 21st Century, there is no electricity supply in many villages.
 2. Now also many rural peoples using primitive methods of cooking, living and farming and they have trust on these methods.
 3. By using primitive cook stoves, around 300,000 death/year takes place due to pollution.
 4. 54% of India's population is below 25 years and most of them live in rural areas with very little employment opportunities.
 5. Literacy is the major problem in rural development programme.

Agriculture Policy: Vision 2020

- India has made impressive strides on the agricultural front during the last three decades. Much of the credit for this success should go to the several million small farming families that form the backbone of Indian agriculture and economy.
- Policy support, production strategies, public investment in infrastructure, research and extension for crop, livestock and fisheries have significantly helped to increase food production and its availability.

- During the last 30 years, India's foodgrain production nearly doubled from 102 million tons in the triennium ending 1973 to nearly 200 million tons (mt) in the triennium ending (TE) 1999.
- Virtually all of the increase in the production resulted from yield gains rather than expansion of cultivated area.
- Availability of foodgrains per person increased from 452 gm/capita/day to over 476 gm/capita/day, even as the country's population almost doubled, swelling from 548 million to nearly 1000 million.

Main Issues

- In national priority setting, the following recurring and emerging issues for sustainable agricultural development and poverty alleviation must be considered:
- (i) Population pressure and demographic transition; (ii) Resource base degradation and water scarcity; (iii) Investment in agriculture, structural adjustment and impact on the poor; (iv) Globalization and implication on the poor; (v) Modern science and technology and support to research and technology development; and (vi) Rapid urbanization and urbanization of poverty, and deceleration in rural poverty reduction.
- • Institutional change: Policy document must spell out new approaches and new institutions free from the shackles of bureaucratic and self-help framework. • Investment priorities: There is a need to develop a consensus on investment themes, priorities and policies. Policy document must lend strength to the claim for greater investment in rural areas, and also re-examine its programmes in the light of complementarities. • Incentives: Document must articulate a clear vision on the incentive framework. • Risk management.

Vision

- The Agriculture Policy document must articulate a clear vision on following few basic parameters of the agricultural sector around which a policy framework must be developed.
- • Organization of agriculture: A clear long-term vision where inter-sectoral linkages are explicit. • Sustainability and natural resource management: Prescription must lie in the domain of political economy. Otherwise, allocating funds for watershed development, agroforestry, soil conservation, and so on will not produce desired results.

END OF UNIT- 2

Study Material for Unit: 4 Follows
(Title of Unit-4 : Foreign Trade and Balance of Payment)

MEANING OF FOREIGN TRADE POLICY


Foreign trade policy is the combination of words

First is foreign trade and

Second is policy

- ✘ **Foreign trade:** It is the exchange of goods and services between nations. Goods can be defined as finished products, as intermediate goods used in producing other goods, or as agricultural products and foodstuffs.
- ✘ **Policy:** policy is the set of rules and procedure.

Importance of Foreign Trade

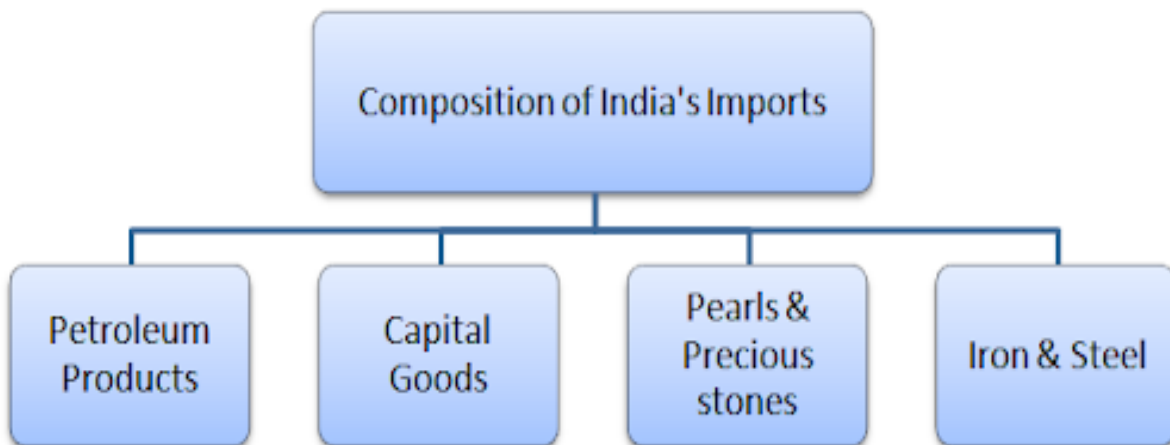
- Development of the Economy
 - Meeting the shortages
 - Imports for better living standard
 - Improving quality of production
 - Growth of the Economy- Production; Employment; Expansion; Demand of other goods; utilization of resources
 - Source of Foreign Exchange
- 
- IMPORTS**

Composition of Foreign Trade

- Combination of Export and Import
- Major portion of imports in India are in the areas of Fuels, capital goods, chemicals, food grains,
- Exports are in the area of manufactured goods textiles , gems and jewellery, handicraft, light machinery etc.

Composition Of India's Foreign Trade

- Composition of Exports



FOREIGN TRADE POLICY (2009-2014)

OBJECTIVES

- To arrest and reverse declining trend of exports is the main aim of the policy.
- To Double India's exports of goods and services by 2014.
- Simplification of the application procedure for availing various benefits.
- To set in motion the strategies and policy measures which catalyse the growth of exports
- To double India's share in global merchandise trade by 2020 as a long term aim of this policy.
- To encourage exports through a "mix of measures including fiscal incentives, institutional changes, procedural rationalisation and efforts for enhance market access across the world and diversification of export markets



Objectives of India's Foreign Trade Policy 2015-2020



- ✧ To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two and half years.
- ✧ To set in motion the strategies and policy measures which catalyze the growth of exports.
- ✧ To encourage exports through a mix of measures including fiscal incentives, institutional changes, procedural rationalization and efforts for enhance market access across the world and diversification of export markets.

DEFINITION OF SEZ

- A special economic zone, in short SEZ is a geographically bound zone where the economic laws in matters related to export and import are more broadminded and liberal when compared to rest of the country.
- SEZs are protected as duty-free areas for the purpose of trade, operations, duty, and tariffs. SEZ units are self-contained and integrated having their own infrastructure and support services.

EVALUATION OF SEZ

- Determine how resources are used
- Whether Employment opportunities are created
- Cost outweighs the benefit of SEZ



Flow Chart for Setting up SEZ



The Advantages of S.E.Z. in India

1. Exemption from duties on all Import duties, excise /VAT, and other Taxes.
2. Income tax holidays on business income.
3. Abundant supply of technically skilled manpower.
4. Abundant supply of semi-skilled labor across all industry sectors.
5. Simplification of procedures and self-certification in the labor acts.
6. A vibrant industrial city with abundant supply of skilled manpower, covering the entire spectrum of industrial and business expertise.
7. Well connected with network of public transport, local railways and cabs.
8. Pollution free environment with proper drainage and sewage system.
9. Easy access to airport and local Railway Station.

The Disadvantages of S.E.Z. in India

1. Farmers will be landless
2. Increase unemployment
3. The existence of small scale industries is in risk
4. The agricultural sector will be neglected
5. lost revenue of government for tax free facilities
6. Capitalism will take birth
7. No rules about the construction
8. Increase in financial disequilibrium
9. Imbalance in environment
10. No protection of the workers



Foreign Exchange Reserves

- **If there is a deficit in the Balance of Payments the government will draw on reserves to rectify the deficit and support the exchange rate.**

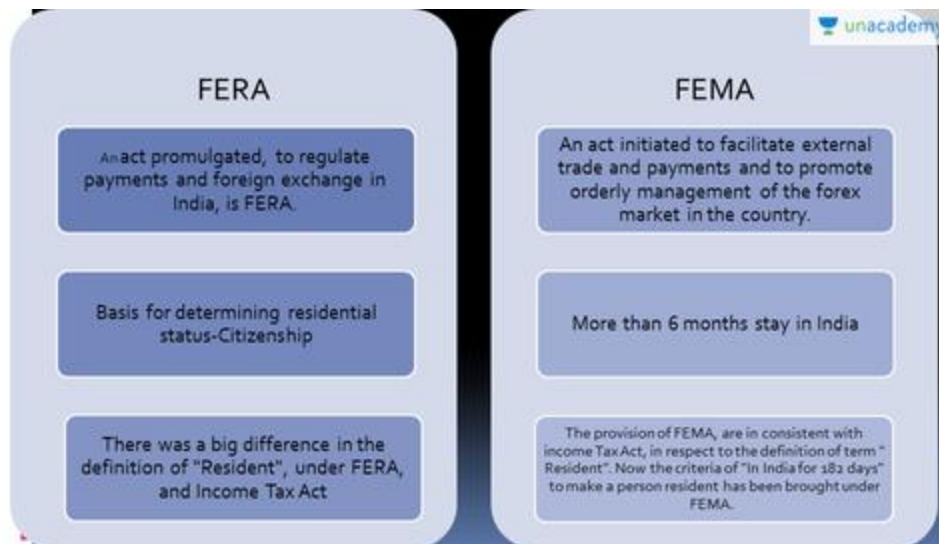
INTRODUCTION

- Foreign exchange reserve Strict definition is the total of a country's foreign currency deposits and bonds held by the central bank and monetary authorities.
- Foreign exchange reserves (Forex reserves) are generally defined as assets held by RBI which is denominated in other foreign currencies.
- Forex reserves include foreign currency assets, gold, special drawing rights (SDR) and reserve position in IMF.
- **Foreign currency assets** are investments in foreign bonds, Tbills, deposits with foreign central banks etc.
- It is maintained in major currencies like US dollar, Euro, Pound sterling, Japanese Yen etc and valued in terms of US dollar.

Foreign Exchange Regulation Act

FEMA vs. FERA

Foreign Exchange Management Act



Differences between FERA and FEMA

FERA

- FERA consisted of 81 sections, and was more complex.
- Presumption of negative intention (Mens Rea) and joining hands in offence (abatement) existed in FEMA.
- Terms like Capital Account Transaction, current Account Transaction, person, service etc. were not defined in FERA.

FEMA

- FEMA is much simple, and consist of only 49 sections.
- These presumptions of Mens Rea and abatement have been excluded in FEMA.
- Terms like Capital Account Transaction, current account Transaction person, service etc., have been defined in detail in FEMA

FERA & FEMA

- Object to conserve and prevent misuse
- Violation was Criminal Offence and was non compoundable
- It was a draconian police law
- To facilitate external trade and payments
- Violation is a civil offence and is compoundable
- It is a civil law

WTO and Impact on India

Introduction

- The World Trade Organization (WTO) is an organization that intends to supervise and liberalize international trade. The WTO is the only global international organization dealing with the rules of trade between nations.
- At its heart are the WTO agreements, negotiated and signed by the bulk of world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters and importers conduct their business.

Functions of WTO

- Implementing WTO agreements & administering the international trade.
- Cooperating with IMF & World Bank & its associates for establishing coordination in Global Trade Policy-Making.
- Settling trade related disputes among member nations with the help of its Dispute Settlement
- Reviewing trade related economic policies of member countries with help of its Trade Policy Review Body (TPRB).

Objective of WTO

- The primary aim of WTO is to implement the new world trade agreement.
- To promote multilateral trade .
- To promote free trade by abolishing tariff & non-tariff barriers.
- To enhance competitiveness among all trading partners so as to benefit consumers.

WTO and its impact on Indian economy

- The WTO has both favorable and non-favorable impact on Indian economy
- **Favorable impact**

1.Increase in export earning

i. Growth in merchandise export;

- The establishment of the has increase the exports of developing countries because of reduction in tariff and non-tariff trade barrier India's merchandise have increased from 32 billion US \$(1995) to 185 billion US \$ (2008-09) .

ii. Growth in service exports

- The WTO introduced the GATS (General Agreement on Trade in Service) that proved beneficial for countries like India. India's service exports increased from 5 billion US \$(1995) to 102 billion US \$ (2008-09) for 45% of India's service.

2.Agriculture export

- Reduction of trade barrier and domestic subsidies raise the price of agricultural products in international market, India hopes to benefit from this in the form of higher export earning from agriculture.

3. Textile and clothing

- Textiles and clothing. The phasing out of the MFA (Multi Fiber Arrangements) will help the developing countries like India to increase the export of textile and clothing.

4.Foreign direct investment

- As per the TRIMs agreement, restrictions on foreign investment have been withdrawn by the member nations of the WTO. This has benefited developing countries by way of foreign direct investment, euro equities and portfolio investment. In 2008-09 the net foreign direct investment in India was 35 billion US\$.

IMPACT ON INDIAN ECONOMY

India is one of the founding member of WTO . There has been several benefits for India along with few concerns by virtue of its participation in the multilateral trading system within WTO.

Here goes some of the benefits :-

- (a.) WTO has helped India to improve its export competitiveness.
- (b.) Lower tariff barriers and market access has helped India to integrate and participate in the global economy in a more efficient manner.
- (c.) Transfer & Exchange of Technology ,ideas etc. has been of tremendous help for India in pursuit of its growth and development.
- (d.) Having market access has helped in reduction of cost and time which would have otherwise required for bilateral trade negotiations.
- (e.) A well defined and structured dispute settlement mechanism also makes it easier to settle the trade disputes.

Impact of WTO on Economy

- **Helps promote peace between nations**
- **Disputes are handled constructively**
- **Rules make it easier for all – WTO based on rules not on power**
- **Free trade cuts the cost of living, provides more choice of products and quality**
- **Trade stimulates economic growth**
- **Trade raises income of country and it's people**
- **Basic principles make life more efficient**
- **Governments shielded from lobbying**
- **System encourages good governance**

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End of UNIT-4

**Study Material of Second Part of Unit 5 Follows
(Title of Unit- 5 Demonetization)**

Demonetisation



- Demonetization refers to discontinuing of current currency units.
- Replacing those currency units with new currency units.
- All the money you have **become a piece of paper by overnight on _____**
- **At _____ time.**

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- The demonetisation of Rs. 500 and Rs.1,000 banknotes was a policy enacted by the Government of India on 8 November 2016.
- The announcement was made by the Prime Minister of India Hon'ble. Mr. Narendra Modi in an unscheduled live televised address at 19:15 (IST) on 8 November 2016.

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History of Demonetisation

- Historically, previous Indian governments had demonetised bank notes.
- **In January 1946**, banknotes of 1,000 and 10,000 rupees were withdrawn and new notes of 1,000, 5,000 and 10,000 rupees were introduced in 1954.
- The Janata Party coalition government had demonetized banknotes of 1,000, 5,000 and 10,000 rupees on **16 January 1978** as a means of curbing black money.

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Impact of Demonetization

- **Reduction in Monetary Circulation:** This will lead to reduction of money circulation in the economy leading to deflation.
- **Value of money** will be increasing which we have because the total money supply will be going down.
- **Cash Deposits in Banks:** A lot of cash will be deposited in the banks and now the banks with more deposits will be able to do more lending.
- **Easy Loans:** Loans will become easier and interest rates may come down as banks will have more money.

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Advantages

- **To Track** people who are having large sums of unaccounted cash.
- **Due to lack** of funding there will be no arms smuggling and all the terrorist activities will also be choked.
- **People depositing money** in their bank accounts, government gets a good amount of tax.
- **Real estate** industry is totally corrupted and now real estate sector will bring in more transparency.

Advantages

- 2,138 fake companies have deposited 1,321 crores.
- Companies have more than 100 accounts.
- So far Rs. 13,300 crores of suspicious transactions have been identified.
- Rs. 21,400 crores deposited in Non functional accounts.

Disadvantages

- The chaos and frenzy among public as everybody wants to get rid of demonetized notes.
- It will cause great inconvenience to common man who will start running to bank to exchange Rs.500 and Rs.1000 notes.
- Printing of new currency new units involve costs and time.
- It will be very difficult for half of the population who are not well versed with the card transactions.
- The major problem is that big fishes will be left out whose black money is in the form of foreign currency, gold and property.

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Action required...

- Stringent Laws to curb money laundering. And Severe punishments for economic offences
- Regulation of Election spending
- Control over the charitable trusts and societies
- Investments in property, jewellery, luxury cars to be scanned
- Reduce Red tapism

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The GST – a preamble

The Goods and Services Tax Bill or **GST** Bill, officially known as The Constitution (122) Bill, 2014, proposes a national Value added Tax to be implemented in **India** from 1 April 2017.



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GST – some facts

- What makes GST an important tax reform -- it simplifies the tax structure, increases tax compliance, increases government revenue and integrates states.
- It will replace all indirect taxes levied on goods & services by the Indian central & state governments.
- **Taxes levied by Central Govt.** : Central Exercise. Service Tax. Central Surcharges. Central Cesses.
Taxes levied by State Govt. : VAT/Sales Tax. Entertainment Tax. Luxury Tax. State Taxes and Cesses.

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GST & its Impact on Indian Economy

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General Points

- This new tax reform will take time to settle.
- There will be an increase in inflation.
- Black money will reduce



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Positive & Negative points about GST

Life gets simpler

GST will replace 17 indirect tax levies

Revenue will get a boost

- Evasion set to drop - Input tax credit will encourage suppliers to pay taxes - States and Centre will have dual oversight - The number of tax-exempt goods will decline

Automobiles

On-road price of vehicles could drop by 8%

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Logistics costs will fall

Checks at state borders slow movement of trucks.

Investment boost

Due to low tax more investment will be expected in the coming years.

Less developed states get a lift

The current 2% inter-state levy means production is kept within a state. Under the GST it is removed.

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Services on Hotel, consultancy, Transport Beauty parlors, theme park, education will cost more.

(right now 14.5% service tax – 18% thru GST)

Insurance policies: life, health and motor will begin to cost more from April 2017.

Flight: Flying to become expensive, as service tax will be replaced by GST. Service tax on fares currently range between 6% and 9% (depending on the class of travel). With GST it will range between 15% and 18%.

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FMCG companies pay nearly 24-25% including excise duty, VAT and entry tax. GST at 17-19% could yield significant reduction in taxes. Key beneficiaries: Hindustan Unilever, Colgate, GSK,(medicines, tablets) Paints etc.,

Pensioners: Will get more affected due to high price in few products / service.

Make in India: Small business will get boost.

GST..... finally...

- A more efficient system for collecting indirect taxes.
- Good for the country in short term.
- And..... Good for the people in Long term