UNIT -II

HUMAN RESOURCES AND POPULATION PROBLEM:

The study of human resources is vital from the point of view of economic welfare. Human resources and it is development for economic progress have been attracting the attention of modern economists and administrators.

Through Adamsmith , Malthus and Recardo were also interested in population problem , there approach was negative in nature.

They created an alarm about the effect of population growth with out properly visualising the beneficial effects of human resources in industrialisation and capital formation in the economy.

Trends in population in India: (size and growth rate of population in India)

Causes of growth of population:

Consequences of population: (effects of economic development in India):

1. Reduce per capita income:

The growth of population, particularly in underdeveloped and developing countries, will retard the per capita income in many ways. It increases the pressure of population on land and reduces the productivity of land. Increases in population leads to rise in the costs of consumption goods, because of their scarcity, as co-operative factors will not be elastic to increases their supplies. Every increase in national output will be accompanied by an equal or even more of consumers. The number of children in a family will be large, consuming more of the resources of the economy Without contributing anything towards productivity of the economy.

2 .poor standard of living:

Since the per capita income determines the living standard of the people, poor per capita income will result in poor standard of living. The people will be caught in the vicious circle of poverty. The economic hardships encountered by the people would always drive them to seek and depend on traditional methods. In due course the people would resign to a state of fatalisms.

3 .lack of agriculture development:

Increase in population would exert pressure only in rural areas, as many would seek to settle down working on land. The land man ratio will become high it adds to disguised unemployment and low productivity in agriculture. Low per capita income and poor productivity will result in poor savings and investments .capital formation in agriculture cannot take place and there will not be any agricultural development. Agriculture will be carried on at subsistence level, as a way of living without any improvement or modernization.

4.Mass unemployment:

A rapid increase in population will result in mass unemployment and underemployment in the economy. With the increase in labour force, it may not be possible to expand job opportunities, due to absence of complementary resources and effective ‘man power planning’. The unemployment will not only be increasing year after year, only but the backlog of unemployment people will be a staggering figure in underdeveloped countries.

5.Retards capital formation:

unplanned population growth retards capital formation. The per capita formation. The per capita income will be very poor and consequently the people will be making hand to mouth existence. They will not anything left by way of savings for investment. Domestic savings for capital formation will be very poor. The government may have to divert its capital more on social overheads, rather than economically productive activities the diversion of resource for social overheads such as schools, hospitals, roads, water supply, sanitation, etc., does not add to the national product directly and immediately. All these will keep the level of technology at a rudimentary stage. Poor and low technology will retard capital formation.

POPULATION POLICY

There is need of suitable population policy in India. After examining the nature and growth of Indian, population, the demographic expert, and former planning minister Dr. Chandrasekhar has said "India's bed rooms are more fertile than India's oil and child producing has become a big cottage industry in India.

Population policy means "policy or programme recognized by the Govt. which is capable of encouraging population growth or its control" Prof. Jerao has defined, in population policy we include all those measures which are used to solve population growth and control over the population. Prof. Gurrer Mydral has defined population policy in this way population policy can be nothing than a social policy at large.

If practical social sciences is not on a there is a probable danger that population policy will be rationally narrowed down and forced into remedial quackery. Population programme must work itself into other while fabric of social life arid inter penetrate and be interpenetrated by all other measures of social change.

Important features of Population Policy:

The following are some of the important feature of population policy in India:

1. Reducing Death Rate:

Morality is an undesirable characteristics Indian population policy.

2. Reducing of Birth Rate:

The government has been making effort to, reduce the birthrate to reduce the growth rate of population. Measure adopted for the purpose include popularizing sterilization, increasing the use of different birth control devices spread of education among introduction of poverty alleviation programme raising the minimum age of marriage etc .

3. Voluntary approach:

The population policy adopted by our country is based on Voluntary approach. No one is forced adopt family planning measures. The policy aims at implementing family welfare measures with the help of voluntary co-operation of the people. Some of the measures taken by the Govt. include emphasis on the nature of the programme securing the co-operation of rural institutions and Panchayatraj bodies.

4. Wide approach:

The population policy of India has adopted a wide and integrated approach for control of population growth. It includes various family welfare measures for improvement of the health of mothers and children and nutrition programmes etc. Reproductive and child Health (RCH) approach was accepted in 1995.

5.Population Education:

Steps have on taken to educate children and adults make them conscious about the problem of population explosion and to realize the need of population control. Family welfare advertisements are made in Medias like T.V. radio and newspapers.

6. Incentives:

In order to popularize the birth control measurers under, family welfare programme incentives are offered by the Govt. to that individual's couples or groups .These incentives are given in cash or kind.

POLICY OF INDIA

Population policy refers to the Government policy to control the population. Government has realized the problem of rising population on economic development of a country. Improvement in standard of living of the people needs a significant decline in the growth of population. Improvement in health facilities leads to decline in death-rate. It implies that decline in birth-rate is necessary to control the growth rate of population.

Family planning measures have been adopted by the Government for the effective control of birthrate. Government does not make any coercive method to implement the family planning programme. Family planning is democratic in nature. It means married people are persuaded to limit the size of their family. It persuades couple to limit the size of the family and also gives incentive for the family planning. Different steps which are taken by the Government in the family planning programme are given below:

FAMILY PLANNING PROGRAMME:

Government gives different advertisements on radio, television, newspapers and films to educate the couple about the benefits of small family and teaches people those children by choice and not by chance. This type of advertisement gives incentive for the people to control their family. People are now being educated about the problems of large family and different methods to control birth.

(i) Birth control facilities are now being provided in different health centre and hospitals.

(ii) Financial incentives are. Now being given to the couple for vasectomy operation,

(iii) Green card is now being provided to the couple who have operated two-child-norm. This card helps people to get facilities in employment and promotion.

OTHER MEASURES:

Except these above stated programmes other steps are now being adopted to reduce birth-rate.

(i) Child marriage is prohibited. The marriage age for male and female has been increased lo 21 years and 18 years respectively.

(ii) Educated couples are generally interested for small family. So education is being given to the females to reduce birth-rate. If females are educated, they will prefer small family and late marriage. Due to more incentive for the female education, it is expected to control the growth rate of population.

(iii) The measures which are now being taken in different five year plans will help to control birth-rate because, due to economic development standard of living of the people rises. So to maintain a high standard of living, people should be interested to adopt small family norm.

The growth estimates for the country's economy for the current financial year, as per the latest release of the Central Statistics Office, has reiterated the toning down of the Indian economic expansion. These advance estimates, based on the performance so far of key sectors, study of the government expenditure and the anticipated levels of production in agriculture and industry, also help highlight the extent of slowdown in the country's economic growth momentum.

India National Income 2011

- The growth in GDP at factor cost at constant prices (2004-05) during 2011-12 is estimated to be 6.9%, as against the 8.4% growth in the previous year.
- The agriculture sector is expected to grow by 2.5% this year compared with the 7% growth last fiscal.
- The manufacturing sector too is likely to see a decline in growth rate to 3.9% during 2011-12 from the 7.6% growth attained in 2010-11.
- The service sector is the only sector that is expected to register stable/marginal higher growth in the current financial year.
- The growth in trade, hotels, transport and communication sectors during 2011-12 is estimated to be 11.2% compared with the 11.1% growth in 2010-11
- Per capita income at constant prices (2004-05) is likely to grow at 5.6% during 2011-12 to Rs.38,005 and the same at current prices is estimated to growth by 14.3% to Rs. 60,972.
- Private consumption as show by the rate of Private Final Consumption Expenditure (PFCE) at constant prices is likely to decline by 0.6% to 58.1 % of GDP at market prices in 2011-12
- The rate of investment as seen in Gross Fixed Capital Formation (GFCF) at constant prices is estimated to decline to 31.9% of GDP at market prices in 2011-12 from 32.5% in 2010-11.

GDP

The " less than market expectation" 6.9% rate of GDP growth for 2011-12 compares unsatisfactorily with the 8.4% growth in the previous year and the 9% original forecast for the year. This sharp decline in growth, a consequence of the series of monetary tightening efforts of the Reserve Bank of India that went on for more than two years to reign in stubbornly highly inflation (that averaged 9.3% in the first 9 months of the fiscal), as well as low demand conditions resulted in weaker growth in industrial output. The weakness in the global economy too has contributed to the slowdown in domestic economic growth through lower growth in exports. Going ahead too, the country's economic expansion would likely be subdued.

Agriculture

Although the agri-sector growth estimates comes in lower than expected at 2.5%, the high base effect cannot be ignored here. The sector grew by an impressive 7% in 2010-11, following the drought of 2009-10 that saw agri output decline by over 6%. This year too, the country has registered healthy growth in output. As per the latest 2nd advance estimates of the ministry of agriculture, the estimated production of food grains in 2011-12 would be at a record 250.42 million tones, 5.42 million tones higher than target and 5.64 million tones more than last year record production. Cotton, sugarcane, wheat and rice are estimated to register record output this year, while oilseeds, pulses and coarse cereals are likely to see some decline in output.

The higher output of the farm sector has been acting as a stabilizing factor for the nation's economy – by way of stimulating demand for non-farm goods as well providing supplies for manufactured farm products which in turn activate industrial output.

Industry

The growth in the industrial sector is expected to be subdued this year with manufacturing growth at 3.9% as against 7.6% last year, construction at 4.8% compared with the 8% growth in 2010-11 and the growth in mining and quarrying is likely to be negative 2.2% as against the 5% growth in the previous year. The only noteworthy growth in Industry is from the electricity, gas and water supply segment which is estimated to grow by 8.3% this year, 5.3% more than that in the previous year. The growth in this segment (electricity, gas and water supply) along with the services sector has been acknowledged as one of the main contributors to the country's GDP growth this year.

The high interest rate regime that has been prevailing in the country coupled with policy inaction in the area of mining and subdued investments have impacted this sector. Going into the future too, only in the scenario of affirmative policy action, improvements can be expected in this sector. As with regard to high interest rates it is largely believed that the interest rates have peaked.

Services

The services sector has been the chief driver of GDP growth this year. The sector has witnessed broad based growth with the 'trade, hotels, transport and communication', 'financing, insurance, real estate and business services' and 'community, social & personal services' estimated to clock growth rates of 11.2%, 9.1% and 5.9% this year against growth rates of 11.1%, 10.4% and 4.5% respectively last fiscal. The influence of this sector on the country economy is likely to persist in coming times too.

Expenditure and Investment

Private expenditure, measured as a percentage of market GDP, is expected to be lower than that in the previous year both at current and constant prices owing to the general weakness in India's economic health. While private expenditure measured by Private Final Consumption Expenditure (PFCE) is likely to decline from 58.7% of GDP in 2010-11 to 58.1% in the current year at constant prices, the same at current prices may decline from 56.5% to 56.4% respectively in 2010-11 and 2011-12.

The rate of investment in the economy as seen from the Gross Fixed Capital Formation has witnessed a decline in the last two fiscal. This year too it is expected to decline to 31.9% of GDP at constant prices from 32.5% of GDP in 2010-11 and from 30.4% last year to 29.3% of GDP in 2011-12 at current prices. This drop in investments is largely owing to the global economic conditions that have impacted sentiments and have prompted deferment of investment decisions.

Impact on Fiscal Deficit

It is now certain that the government would be unable to meet the fiscal deficit target set out in the FY12 budget of 4.6% of GDP. Although, the government had envisaged borrowing to the tune of Rs.4.17 trillion for the fiscal, owing to revenue and disinvestment short falls and increases in expenditure the government announced additional borrowing to the tune of Rs.90,000 crs, taking total borrowing for the year to Rs.5.07 trillion. Going by the advance estimates of GDP at market prices for 2011-12, the fiscal deficit for 2011-12 now works out to

Total Male Population in India	**696,937,375 (69.6 crore)**
Total No of Females in India	**652,670,245 (65.2 crore)**
Sex Ratio	**945 females per 1,000 males**
Age structure	
0 to 25 years	50% of India's current population
Currently, there are about 51 births in India in a minute.	

Current Population of India - India, with 1,349,607,621 (1.34 billion) people is the second most populous country in the world, while China is on the top with over 1,415,489,506 (1.41 billion) people. The figures show that India represents almost 17.85% of the world's population, which means one out of six people on this planet live in India. Although, the crown of the world's most populous country is on China's head for decades, India is all set to take the numero uno position by 2030. With the population growth rate at 1.2%, India is predicted to have more than 1.53 billion people by the end of 2030.

More than 50% of India's current population is below the age of 25 and over 65% below the age of 35. About 72.2% of the population lives in some 638,000 villages and the rest 27.8% in about 5,480 towns and urban agglomerations. The birth rate (child births per 1,000 people per year) is 22.22 births/1,000 population (2009 est.) while death rate (deaths per 1000 individuals per year) is 6.4 deaths/1,000 population. Fertility rate is 2.72 children born/woman (NFHS-3, 2008) and Infant mortality rate is 30.15 deaths/1,000 live births (2009 estimated). India has the largest illiterate population in the world. The literacy rate of India as per 2011 Population Census is 74.04%, with male literacy rate at 82.14% and female at 65.46%. Kerala has the highest literacy rate at 93.9%, Lakshadweep (92.3%) is on the second position and Mizoram (91.6%) is on third.

Every year, India adds more people than any other nation in the world, and in fact the individual population of some of its states is equal to the total population of many countries. For example, Population of Uttar Pradesh (state in India) almost equals to the population of Brazil. It, as per 2001 Population Census of India, has 190 million people and the growth rate is 16.16%. The population of the second most populous state Maharashtra, which has a growth rate of 9.42%, is equal to that of Mexico's population. Bihar, with 8.07%, is the third most populous state in India and its population is more than Germany's. West Bengal with 7.79% growth rate, Andhra Pradesh (7.41%) and Tamil Nadu (6.07%) are at fourth, fifth and sixth positions respectively. The sex ratio of India stands at 940. Kerala with 1058 females per 1000 males is the state with the highest female sex ratio. Pondicherry (1001) is second, while Chhatisgarh (990) and Tamil Nadu (986) are at third and fourth places respectively. Haryana with 861 has the lowest female sex ratio.

NATIONAL INCOME

NI Committee – 1951 “NI estimate measure the volume of commodities and services turned out during a given period counted without duplication”.

An economy produced million of goods and services to the people have to take the goods and services produced in a given period (financial year).

NI tells about the production of goods and services in the country.
Per capita income tells about what is available to individual in the country national incoe population.

METHODS OF CALCULATING NATIONAL INCOME

National income is the total money value of goods and services produced by a country in a particular period of time.

The duration of this period is usually one year. National income can be defined by taking three viewpoints, namely production viewpoint, income viewpoint, and expenditure viewpoint.

Different Methods of Estimating National Income:

1. Product Method:

In this method, national income is measured as a flow of goods and services. We calculate money value of all final goods and services produced in an economy during a year. Final goods here refer to those goods which are directly consumed and not used in further production process.

Goods which are further used in production process are called intermediate goods. In the value of final goods, value of intermediate goods is already included therefore we do not count value of intermediate goods in national income otherwise there will be double counting of value of goods.

To avoid the problem of double counting we can use the value-addition method in which not the whole value of a commodity but value-addition (i.e. value of final good value of intermediate good) at each stage of production is calculated and these are summed up to arrive at GDP.

The money value is calculated at market prices so sum-total is the GDP at market prices. GDP at market price can be converted into by methods discussed earlier.

2. Income Method:

Under this method, national income is measured as a flow of factor incomes. There are generally four factors of production labour, capital, land and entrepreneurship. Labour gets wages and salaries, capital gets interest, land gets rent and entrepreneurship gets profit as their remuneration.

Besides, there are some self-employed persons who employ their own labour and capital such as doctors, advocates, CAs, etc. Their income is called mixed income. The sum-total of all these factor incomes is called NDP at factor costs.

3. Expenditure Method:

In this method, national income is measured as a flow of expenditure. GDP is sum-total of private consumption expenditure. Government consumption expenditure, gross capital formation (Government and private) and net exports (Export-Import).
For calculating national income-, an economy is looked upon from three different angles, which are as follows:

ESTIMATE OF NATIONAL INCOME:

INTRODUCTION:

National income of India constitutes total amount of income earned by the whole nation of our country and originated both within and outside its territory during a particular year. The National Income Committee in its first report wrote, “A national income estimate measures the volume of commodities and services turned out during a given period, without duplication.”

The estimates of national income depict a clear picture about the standard of living of the community. The national income statistics diagnose the economic ills of the country and at the same time suggest remedies. The rate of savings and investment in an economy also depend on the national income of the country.

Moreover, the national income measures the flow of all commodities and services produced in an economy. Thus, the national income is not a stock but a flow. It measures the total productive power of the community during given period.

Further, the National Income Committee has rightly observed, “National income statistics enable an overall view to be taken of the whole economy and of the relative positions and inter-relations among its various parts”. Thus, the computation of national income and its analysis has been considered an important exercise on economic literature.

ESTIMATES OF NATIONAL INCOME DURING PRE-INDEPENDENCE PERIOD:

During the British period, several estimates of national income were made by Dadabhai Naoroji (1868), William Digby (1899), Findlay Shirras (1911, 1922 and 1934), Shah and Khambatta (1921), V.K.R.V. Rao (1925-29) and R.C. Desai (1931-40): Among all these pre-independence estimates of national income in India, the estimates of Naoroji, Findlay Shirras and Shaw and Khambatta have computed the value of the output raised by the agricultural sector and then added some portion of the income earned by the non-agricultural sector. But these estimates were having no scientific basis of its own.

After that Dr. V.K.R.V. Rao applied a combination of census of output and census of income methods.

The following table 2.1 reveals various estimates of national income and per capita income of India as prepared by different dignitaries before independence:

All these estimates of national income were conducted out of individual effort and were subjected to serious limitations due to some of its arbitrary assumptions.

NATIONAL INCOME AND PER CAPITA INCOME OF INDIA DURING PRE-INDEPENDENCE PERIOD

All these estimates of national income were conducted out of individual effort and were subjected to serious limitation due to some of its arbitrary assumptions. Although pre-independence estimates of national income in India suffered from various difficulties and limitations but it provided considerable light and insight about the economic conditions of the country prevailing during those period.

Estimates of National Income During the Post-Independence Period: National Income Committee's Estimates:

After independence, the Government of India appointed the National Income Committee in August, 1949 with Prof. PC. Mahalnobis as its Chairman and Prof. D.R. Gadgil and Dr. V.K.R.V. Rao as its two members so as to compile a national income estimates rationally on a scientific basis. The first report of this committee was prepared in 1951.

In its first report, the total national income of the year 1948-49 was estimated at Rs. 8,830 crore and the per capita income of the year was calculated at Rs. 265 per annum. The committee continued its estimation works for another three years and the final report was published in 1954.

NATIONAL INCOME COMMITTEE AND C.S.O. ESTIMATES:

During the post-independence period, the estimate of national income was primarily conducted by the National Income Committee. Later on, it was carried over by the Central Statistical Organisation. For the estimation of national income in India the National Income Committee applied a mixture of both 'Product Method' and the 'Income Method'. This Committee divided the entire economy into 13 sectors.

Income from the six sectors, viz., agriculture, animal husbandry, forestry, Fishery, mining and factory establishments is estimated by the output method. But the income from the remaining seven sectors consisting of small enterprises, commerce, transport and communications, banking and insurance, professions, liberal arts, domestic services, house property, public authorities and rest of the world is estimated by the income methods.

The National Income Unit of the Central Statistical Organisation (C.S.O.) is now-a-days entrusted with the measurement of national income. Here this unit of C.S.O. estimated the major part of national income from the various sectors like agriculture, forestry, animal husbandry, fishing, mining and factory establishments with the help of product method.

The unit of C.S.O. is also applying the income method for the estimation of the remaining part of national income raised from the other sectors.

Till now we have three different series in the national income estimates of India. These include Conventional Series, Revised Series and New Series.

Again the C.S.O. has prepared another new series on national income with 1993-94 as base year as against the existing series with 1980-81 as base year.

Methodology of National Income Estimation in India:

In India, the estimation of national income is being done by two methods, i.e., product method and income method.

Net Product Method:
While estimating the -gross domestic product of the country, the contribution to GDP from various sectors like agriculture, livestock, fishery, forestry and logging, mining and quarrying is estimated with the adoption of product method. In this method, it is important to estimate the gross value of product, bi-products and ancillary activities and then steps are taken to deduct the value of inputs, raw materials and services from such gross value.

In respect of other sub-sectors like animal husbandry, fishery, forestry, mining and factory establishments, the gross value of their output is obtained by multiplying the estimated output with their market price. From such gross value of output, deductions are made for cost of materials used and depreciation charges so as to obtain net value added in each sector.

In respect of secondary activities, the computations of gross domestic product are done by the production approach only for the manufacturing industrial units (both registered and unregistered). In respect of constructions activity, the estimates of the value of pucca construction are made by the commodity How approach and that of the kachcha construction is made by the expenditure method.

Net Income Method:
In India, the income from rest of the sectors, i.e., small enterprises, commerce, transport and communications, banking and insurance professions, liberal arts, domestic activities, house property, public authorities and rest of the world is estimated by the income method.

Here, the income approach is adopted to estimate the value added from these aforesaid remaining sectors. Here, the process involves the measurement of aggregate factor incomes in the shape of compensation of employees (wages and salaries) and operating surpluses in the form of rent, interest, profits and dividends.

Finally, by adding up the contribution of all different sectors to national income of the country, it is necessary to obtain net domestic product at factor cost. In order to derive the net national income at current prices, it is necessary to add the net income from abroad and net indirect taxes with the net domestic product at factor cost. This same estimate is then deflated at the prices of the base year selected to derive a series of national income at constant prices.

CLASSIFICATION OF ECONOMIC ACTIVITIES
Classification of economy for collecting data :
- Primary sector
- Secondary sector
- Transport and commerce and trade
- Finance and real estate
- Community and personal services
- Foreign sector

1. Primary Sector:
Simply speaking primary sector refers to that sector of the economy which uses natural resource to produce goods.

Natural factors play crucial role in the production process. Agriculture and allied activities like mining, fishery, forestry, diary and poultry are included in this sector.

Primary sector dominates in under-developed countries.

2. Secondary Sector:
Secondary sector is also called as manufacturing sector or industrial sector. The primary sector cannot satisfy all human requirements. We need certain industrial goods to make our lives comfortable. The sector which transforms one physical good into another is called secondary sector. The manufacturing, electricity, gas, water supply etc. are included in this sector.

3. Tertiary Sector:
The service sector of the economy is called tertiary sector. Services of various kinds like education, health, banking, insurance, trade and transport are included in this sector. In advanced countries, the contribution of tertiary sector to national income is the highest.

Sector wise Rates of Growth of GDP:
Central Statistical Organisation (CSO) divides the Indian Economy into six sectors for the purpose of estimating national income.

These are:
(a)Primary sector
(b)Secondary sector
(c) Trade, transport and communication
(d) Banking and Insurance
(e) Community and personal services
(f) Foreign Trade.

When total production in each sector of the economy is added together, v/e get Gross National Product (GNP).

To calculate Gross Domestic Product (GDP), the income of rest of the world sector (external sectors) is excluded. The following table presents the rates of growth of GDP.Rates of Growth of GDP by Industrial Origin at Factor cost

CAUSES OF SLOW GROWTH OF NATIONAL INCOME:

High Growth Rate of Population:
Rate of growth of population being an important determinant of economic growth, is also responsible for slow growth of national income in India. Whatever increase in national income has been taking place, all these are eaten away by the growing population. Thus high rate of growth of population in India is retarding the growth process and is responsible for this slow growth of national income in India.

2. Excessive Dependence on Agriculture:
Indian economy is characterized by too much dependence on agriculture and thus it is primary producing. The major share of national income that is usually coming from the agriculture which is contributing nearly 34 per cent of the total national income and engage about 66 per cent of the total working population of the country. Such excessive dependence on agriculture prevents quick rise in the level of national income as well as per capita income as the agriculture is not organized on commercial basis rather it is accepted as way of life.

Excessive dependence on agriculture and low land-man ratio, inferior soils, poor ratio of capital equipment, problems of land holding and tenures, tenancy rights etc. are also responsible for slow growth of agricultural productivity which, in turn, in also responsible for slow growth of national income.

3. Occupational Structure:
The peculiar occupational structure is also responsible for slow growth of national income in the country. At present about 66 per cent of the working force is engaged in agriculture and allied activities, 3 per cent in industry and mining and the remaining 31 per cent in the tertiary sector. Moreover, prevalence of high degree of under-employment among the agricultural labourers and also among the work force engaged in other sectors is also responsible for this slow growth of national income.

4. Low Level of Technology and its Poor Adoption:
In India low level of technology is also mostly responsible for its slow growth of national income. Moreover, whatever technology that has been developed in the country, is not properly utilized in its production processes leading to slow growth of national income in the country.

5. Poor Industrial Development:
Another important reason behind the slow growth of national income in India is the poor rate of development of its industrial sector. The industrial sector in India has failed to maintain a consistent and sustainable growth rate during the planned development period and more particularly in recent years. Moreover, the development of basic industry is also lacking in the country. All these have resulted a poor growth in the national income of the country.

6. Poor Development of infrastructural Facilities:
In India, the infrastructural facilities viz., transport, communication, power, irrigation etc. have not yet been developed satisfactory as per its requirement throughout the country. This has been resulting major hurdles in the path of development of agriculture and industrial sector of the country leading to poor growth of national income.

7. Poor Rate of Saving and Investment:
The rate of savings and investment in India is also quite poor as compared to that of developed countries of the world. In 1996-97, the rate of gross domestic savings was restricted to 26.1 per cent of GDP and that of investment was 27.3 per cent of GDP in the same year. Such low rate of saving and investment has resulted a poor growth of national income in the country.

8. Socio-Political Conditions:
Socio-political conditions prevailing in the country are also not very much conducive towards rapid development. Peculiar social institutions like caste system, joint family system, fatalism, illiteracy, unstable political scenario etc. are all responsible for slow growth of national income in the country.

In the mean time, the Government has taken various steps to attain a higher rate of growth in its national income by introducing various measures of economic reforms and structural measures. All these measures have started to create some impact on raising growth of national income of the country.

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP).

Foreign trade refers to trade with foreign countries. It means buying and selling of goods by one country with other countries. Foreign trade or international trade means the trade which is spread beyond the boundaries of a country.

Foreign trade is nothing but trade between the different countries of the world. It is also called as International trade, External trade or Inter-Regional trade. It consists of imports, exports and entrepot. The inflow of goods in a country is called import trade whereas outflow of goods from a country is called export trade. Many times goods are imported for the purpose of re-export after some processing operations. This is called entrepot trade. Foreign trade basically takes place for mutual satisfaction of wants and utilities of resources.

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

It involves exchange of goods and services between the citizens of two or more countries. For example, India's trade with UK, USA, and Japan is foreign trade.

Foreign trade can be of three kinds:

1. Import Trade:
It implies purchase of goods from a foreign country. Buying of oil by India from Kuwait is an example of import trade. India imports goods which it does not produce or which are in short supply. In import trade, goods are brought from abroad to the home country.

2. Export Trade:
It means sale of goods to a foreign country Selling of tea by India to England is an example of export trade. In export trade goods are sent from the home country for sale abroad.

3. Entrepot Trade:

It refers to purchase of goods from abroad for the purpose of sale to some other country. It involves both import and export of goods. For example, India may import oil from Iraq and export a part of it to Bhutan. Entrepot trade is also known as 'Re exports.'

Following points explain the need and importance of foreign trade to a nation.

1. Division of labour and specialisation
Foreign trade leads to division of labour and specialisation at the world level. Some countries have abundant natural resources. They should export raw materials and import finished goods from countries which are advanced in skilled manpower. This gives benefits to all the countries and thereby leading to division of labour and specialisation.

2. Optimum allocation and utilisation of resources
Due to specialisation, unproductive lines can be eliminated and wastage of resources avoided. In other words, resources are channelised for the production of only those goods which would give highest returns. Thus there is rational allocation and utilization of resources at the international level due to foreign trade.

3. Equality of prices
Prices can be stabilised by foreign trade. It helps to keep the demand and supply position stable, which in turn stabilises the prices, making allowances for transport and other marketing expenses.

4. Availability of multiple choices
Foreign trade helps in providing a better choice to the consumers. It helps in making available new varieties to consumers all over the world.

5. Ensures quality and standard goods
Foreign trade is highly competitive. To maintain and increase the demand for goods, the exporting countries have to keep up the quality of goods. Thus quality and standardised goods are produced.

6. Facilitate economic development
Imports facilitate economic development of a nation. This is because with the import of capital goods and technology, a country can generate growth in all sectors of the economy, i.e. agriculture, industry and service sector.

7. Raises standard of living of the people
8. Generate employment opportunities

9. Assitance during natural calamities
During natural calamities such as earthquakes, floods, famines, etc., the affected countries face the problem of shortage of essential goods. Foreign trade enables a country to import food grains and medicines from other countries to help the affected people.

10. Maintains balance of payment position
Every country has to maintain its balance of payment position. Since, every country has to import, which results in outflow of foreign exchange, it also deals in export for the inflow of foreign exchange.

11. Brings reputation and helps earn goodwill

A country which is involved in exports earns goodwill in the international market. For e.g. Japan has earned a lot of goodwill in foreign markets due to its exports of quality electronic goods.

12. Promotes World Peace
Foreign trade brings countries closer. It facilitates transfer of technology and other assistance from developed countries to developing countries. It brings different countries closer due to economic relations arising out of trade agreements. Thus, foreign trade creates a friendly atmosphere for avoiding wars and conflicts. It promotes world peace as such countries try to maintain friendly relations among themselves.

Reasons for International Trade/Foreign Trade

1. Uneven distribution of natural resources:
2. Expansion of market for products: Foreign trade is necessary as it helps to widen the market for goods produced.
3. Difference in taste
4. Difference in technology
5. Difference in skills
6. Difference in climatic condition
7. Desire to improve the standard of living
8. Difference in efficient use of natural resources

Barriers to International Trade/Foreign Trade

1. Difference in currency
2. Difference in culture and beliefs
3. Difference in language
4. Distance
5. Political instability
6. Problem of documentation
7. Transportation and communication
8. Government policy
9. Difference in legal system/ emigration laws
10. difference in weights and measurement

BOP:

The **balance of payments**, also known as **balance** of international **payments** and abbreviated B.O.P., of a country is the record of all economic transactions between the residents of the country and the rest of the world in a particular period (over a quarter of a year or more commonly over a year).

- The balance of payments of a country is a systematic record of all economic transactions between the residents of a country and the rest of the world. It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents and payments made by theme on account of goods imported and services received from the capital transferred to non-residents or foreigners.

- Reserve Bank of India

- BOP records all the transactions that create demand for and supply of a currency. This indicates demand-supply equation of the currency. This can drive changes in exchange rate of the currency with other currencies.
- BOP may confirm trend in economy's international trade and exchange rate of the currency. This may also indicate change or reversal in the trend.
- This may indicate policy shift of the monetary authority (RBI) of the country.
- BOP may confirm trend in economy's international trade and exchange rate of the currency. This may also indicate change or reversal in the trend.
- This may indicate policy shift of the monetary authority (RBI) of the country.

The General Rule in BOP Accounting

- a) If a transaction earns foreign currency for the nation, it is a credit and is recorded as a plus item.
- b) If a transaction involves spending of foreign currency it is a debit and is recorded as a negative item.

<u>The various components of a BOP statement</u>

- A. Current Account
- B. Capital Account
- C. IMF
- D. SDR Allocation
- E. Errors & Omissions
- F. Reserves and Monetary Gold

Current account

- BOP on current account refers to the inclusion of three balances of namely – Merchandise balance, Services balance and Unilateral Transfer balance. In other words it reflects the net flow of goods, services and unilateral transfers (gifts). The net value of the balances of visible trade and of invisible trade and of unilateral transfers defines the balance on current account.

Capital account

- The capital account records all international transactions that involve a resident of the country concerned changing either his assets with or his liabilities to a resident of another country. Transactions in the capital account reflect a change in a stock – either assets or liabilities.

The Reserve Account

- Three accounts: IMF, SDR, & Reserve and Monetary Gold are collectively called as The Reserve Account.
- The IMF account contains purchases (credits) and re-purchase (debits) from International Monetary Fund. Special Drawing Rights (SDRs) are a reserve asset created by IMF and allocated from time to time to member countries. It can be used to settle international payments between monitary authorities of two different countries.

<u>TRENDS IN INDIA'S BALANCE OF PAYMENTS</u>

- A country, like India, which is on the path of development generally, experiences a deficit balance of payments situation.
- This is because such a country requires imported machines, technology and capital equipments in order to successfully launch and carry out the programme of industrialization

FIRST PLAN

- During the first plan period, the balance of payments was affected by the Korean War boom, American recession of 1953 and favorable monsoon at home which helped to boost agricultural and industrial production.
- balance of payment during the first plan was only Rs. 42 crores.

SECOND PLAN

- An important feature of the second plan period was the heavy deficit in the balance of trade which aggregated to Rs. 2339 crores.
- The foreign exchange reserves sharply declined and the country was left with no choice but to think of ways and means to restrict imports and expand exports.

THIRD PLAN

- The balance of current account was unfavorable during the third plan .
- The serious adverse balance of payments which started with the second plan continued relentlessly during the third and annual plans.
- Heavy amount had to be paid by India in the form of interest payments on loans

<u>DEVELOPMENT SINCE 1993-2000</u>

- In the year 1993-94, India saw a remarkable turnaround from a foreign-exchange constrained control regime to a more open, market driven by liberalized economy.
- During the last three years export earnings, on average, accounted for nearly 90 per cent of the value of imports

- Exports recorded a growth of 20 per cent in dollar terms. The surplus on the invisible account doubled.
- Foreign currency reserves which were just $1205 million in 990 reached the level of $19386 million in 1994.
- The economy thus moved to a more stable and sustainable balance of payments position.

WTO - INTRODUCTION

INTRODUCTION

The establishment of the World Trade Organisation (WTO) as the successor to ,the GATT on 1 January 1995 under the Marrakesh Agreement places the global trading system on a firm constitutional footing with the evolution of international economic legislation resulted through the Uruguay Round of GATT negotiations.

A remarkable feature of the Uruguay Round was that it paved the way for further liberalisation of international trade with the fundamental shift from the negotiation approach to the institutional framework envisaged through transition from GATT to WTO Agreement.

The GATT 1947 and the WTO co-existed for the transitional period of one year in 1994. In January 1995, however, the WTO completely replaced the GATT. The membership of the WTO increased from 77 in 1995 to 127 by the end of 1996.

The **World Trade Organization** (**WTO**) is an organization that intends to supervise and liberalize international trade.

The organization officially commenced on January 1, 1995 under the Marrakech Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. he organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments[1:fol.9-10] and ratified by their parliaments Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986–1994).

Objectives:

1. To improve the standard of living of people in the member countries.
2. To ensure full employment and broad increase in effective demand.
3. To enlarge production and trade of goods.
4. To increase the trade of services.
5. To ensure optimum utilization of world resources.
6. To protect the environment.
7. To accept the concept of sustainable development.

Functions:
1. To implement rules and provisions related to trade policy review mechanism.
2. To provide a platform to member countries to decide future strategies related to trade and tariff.
3. To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.
4. To administer the rules and processes related to dispute settlement.
5. To ensure the optimum use of world resources.

6. To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.

DIFFERENCE BETWEEN GATT AND WTO

Key Difference:

The General Agreement on Tariffs and Trade (GATT) was a multilateral agreement regulating international trade. It was created in 1948 and lasted until 1993. World Trade Organization (WTO) was formed as a replacement for GATT in 1995 with the purpose of supervising and liberalizing international trade. WTO has a more permanent structure compared to GATT. WTO also monitors trade in services and trade-related aspects of intellectual property rights, in addition to trade in goods.

There are various bodies or agreements that have been made around the world in order to maintain peace and justice among the different countries. The main purpose of such bodies is to regulate talks, trade and other rules and regulations among the different countries of the World. The most popular bodies are the United Nations and the World Trade Organization. Though there are a few similarities between the GATT and the WTO, they are distinctly different from each other.

The General Agreement on Tariffs and Trade (GATT) was a multilateral agreement regulating international trade. It was created in 1948 with a purpose of "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis." It was originally placed under the ITO (International Trade Organization), which was supported by the United Nations (UN). When the ITO failed to ratify, GATT evolved into the World Trade Organization (WTO). There a few major flaws in the GATT structure such as not enough enforcing power, which led to many disputes among the members. Also, the rules and regulations that were created under GATT were temporary in nature.

World Trade Organization (WTO) was formed as a replacement for GATT in 1995 with the purpose of supervising and liberalizing international trade. The organization deals with regulation of trade between participating countries, it also provides a framework for negotiations and formalizations of trade agreements. It is also responsible for enforcing trade laws, agreements and resolving disputes. The WTO was created with the purpose of being a stronger and having a more permanent framework compared to the previous GATT. It also monitors trade in services and trade-related aspects of intellectual property rights, in addition to trade in goods. The WTO has a total of 157 member countries.

	GATT	**WTO**

Full form	General Agreement on Tariffs and Trade	World Trade Organization
Year of creation	1948	1995
Purpose	To strengthen international trade.	To govern GATT and international trade practices.
Framework	No permanent structure or framework.	Has a permanent structure with a permanent framework.
Scope	Trade in goods.	Trade in goods; trade in services and trade-related aspects of intellectual property rights.
Dispute resolution	Has a permanent appellate body to review findings and settle disputes.	Disputes are resolved faster as settlement system has a select time frame.

Conclusion
"Long live the GATT." GATT 1947 provided for the groundwork for the establishment of the WTO and remains a very integral part of it. It is said by many that the reason why WTO has been successful in achieving its objectives is because almost 50 years were spent laying down the foundation of what finally case before us in the form of an organisation called WTO.