Indian Economy: Future Prospects & Challenges

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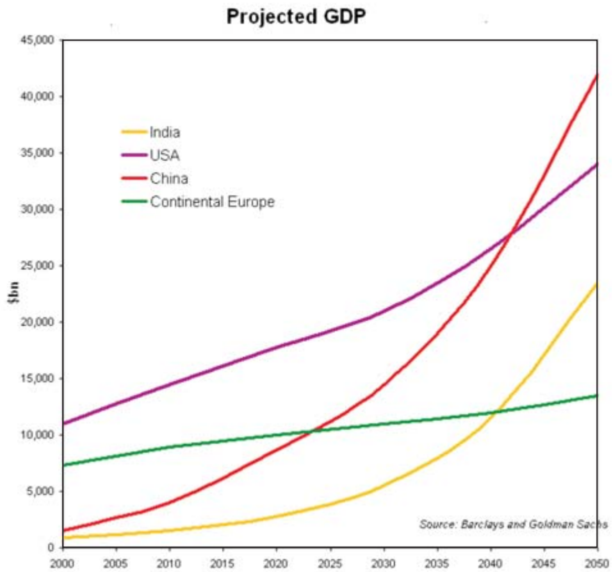
India, having a diverse economy that consists of agriculture, manufacturing industries, and a multitude of services, is currently the twelfth largest economy in the world, with a gross domestic product (GDP) of around $1 trillion. For the fiscal year 2007-2008, it recorded a GDP growth rate of 9.0%, thus becoming the second fastest emerging economy after China. At this sustained growth rate, economists forecast that India would have a more pronounced economic effect on the world stage in the near future. In 2003, Goldman Sachs predicted that India's GDP will overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035. By 2035, it could be the third largest economy of the world, behind US and China.

Chart: 1



The paper has three parts. The first part canvasses the condition of Indian economy in pre-liberalisation period. The second part represents an overview of the Indian economy in the post-liberalisation period and the third part is devoted to future prospects and challenges in Indian economy.

PART: I

After independence, the economy has been predominantly an agrarian one and majority of the country's population was employed in agriculture. India's leaders especially the first Prime Minister, Jawaharlal Nehru introduced the five-year plans, which were aimed at a strong economic growth, keeping the target of evolving a prosperous new nation. On behalf of such measures, although there was considerable growth in the 1950s, the long-term rate of growth was less positive than desired when compared to many other Asian countries. In the initial three decades, the average GDP growth hovered around 3%; but with the population growth rate at over 2%, the annual per capita income increased only marginally. During this period, industry grew at an average rate of 4.5 percent a year, compared with an annual average of 3.0 percent for agriculture. Rapid strides were made in building up centers of educational excellence, creating a strong industrial base and achieving self-sufficiency in food grains; however these were not enough for enhancing the economic well-being of the average Indian. Wars with China (1962) and Pakistan (1965 and 1971); a flood of refugees from East Pakistan in 1971; droughts in 1965, 1966, 1971 and 1972; currency devaluation in 1966; and the first world oil crisis in 1973-74; all had significantly jolted the economy. But the initiation of economic liberalization in the 1980s enhanced the growth rate to over 5% and in the 1990s, the growth rate of around 6.5% for a decade was achieved.

Despite a sometimes disappointing rate of growth, the Indian economy was transformed between 1947 and the early 1990s. The number of kilowatt-hours of electricity generated, for example, increased more than fifty fold. Steel production rose

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from 1.5 million tons a year to 14.7 million tons a year. The country produced satellites and nuclear-power plants, and its scientists and engineers produced an atomic explosive device. Life expectancy increased to fifty-nine years. Although the population increased by 485 million between 1951 and 1991, the availability of food grains per capita rose from 395 grams per day in FY 1950 to 466 grams in FY 1992.

However, considerable dualism remained in the Indian economy. There is an important distinction between the formal and informal sectors of the economy. The informal or unorganized economy is largely rural and encompasses farming, fishing, forestry, and cottage industries. It also includes petty vendors and some small-scale mechanized industry in both rural and urban areas. The bulk of the population is employed in the informal economy, which contributes more than 50 percent of GDP. The formal economy consists of large units in the modern sector for which statistical data are relatively good. The modern sector includes large-scale manufacturing and mining, major financial and commercial businesses, and such public-sector enterprises as railroads, telecommunications, utilities, and government itself.

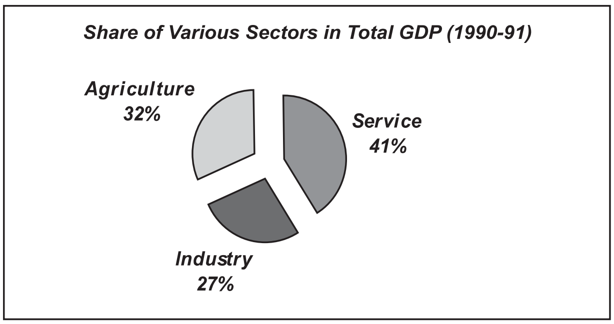
The greatest disappointment of economic development is the inability to substantially reduce India's widespread poverty. Studies have suggested that income distribution has changed only meagerly between independence and the 1990s, although it is possible that the poorer half of the population improved its position slightly. Official estimates of the proportion of the population that lives below the poverty line tend to vary sharply from year to year because adverse economic conditions, especially rises in food prices, are capable of lowering the standard of living of many families who normally live just above the subsistence level. Estimates in the late 1970s put the number of people who lived in poverty at 300 million, or nearly 50 percent of the population at the time. Poverty was reduced during the 1980s, and in FY 1989, it was estimated that about 26 percent of the population, or 220 million people, lived below the poverty line. Slower economic growth and higher inflation in 1990's reversed this trend. In FY 1991, it was estimated that 332 million people or 38 percent of the population lived below the poverty line.

By the early 1990s, economic changes led to the growth in the number of Indians with significant economic resources. About 10 million Indians were considered upper class, and roughly 300 million were part of the rapidly increasing middle class. Typical middle-class occupations included owning a small business or being a corporate executive, lawyer, physician, white-collar worker, or land-owning farmer. In the 1980s, the growth of the middle class was reflected in the increased consumption of consumer durables, such as televisions, refrigerators, motorcycles, and automobiles. In the early 1990s, domestic and foreign businesses hoped to take advantage of India's economic liberalization to increase the range of consumer products offered to this market.

Private savings financed most of India's investment, but by the mid-1980s, further growth in private savings was difficult because they were already at quite a high level. As a result, during the late 1980s, India relied increasingly on borrowing from foreign sources. This trend led to a balance of payments crisis in 1990. In order to receive new loans, the government had no choice but to agree to further measures of economic liberalization. This commitment to economic reforms was reaffirmed by the government that came to power in June 1991. At the period, India's primary sector, including agriculture, forestry, fishing, mining, and quarrying, accounted for 32.8 percent of the GDP. The size of the agricultural sector and its vulnerability to the vagaries of the monsoon cause relatively large fluctuations in the sector's contribution to GDP from one year to another. In FY 1991, the contribution to GDP of industry, including manufacturing, construction, and utilities was 27.4 percent; services, including trade, transportation, communications, real estate and finance, and public- and private-sector services contributed 39.8 percent.

The percentage share of various sectors of India's Economy in the total GDP in the year 1990-91 is as follows.

Chart:2



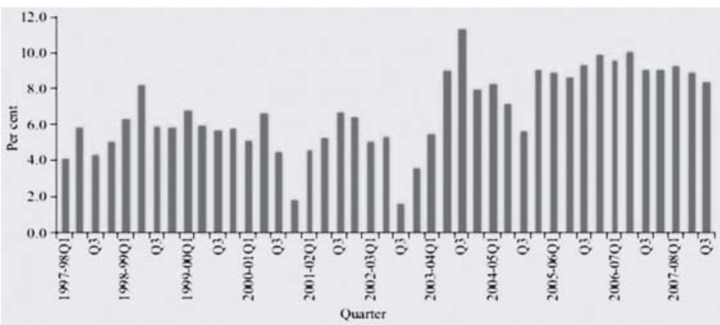
PART: II

Increased borrowing from foreign sources in the late 1980s helped fuel economic growth, but has led to pressure on the balance of payments. The problem came in all its severity in August 1990 when Iraq invaded Kuwait, and the price of oil doubled. In addition, many Indian workers resident in Persian Gulf states either lost their jobs or returned home out of fear for their safety, thus reducing the flow of remittances. The direct economic impact of the Persian Gulf conflict was exacerbated by domestic social and political developments. In the early 1990s, there was violence over two domestic issues: the reservation of a proportion of public-sector jobs for members of Scheduled Castes and the Hindu-Muslim conflict. The central government fell in November 1990 and was succeeded by a minority government. The cumulative impact of these events shook international confidence in India's economic viability, and India found it increasingly difficult to borrow at the international stage. As a result, India made various agreements with the International Monetary Fund and other organizations that included commitments to speed up liberalization. In the early 1990s, considerable progress was made in loosening government regulations, especially in the area of foreign trade. Many restrictions on private companies were lifted, and new areas were opened to private capital.

India embarked on a series of economic reforms in 1991 in reaction to a severe foreign exchange crisis. Those reforms have included liberalized foreign investment and exchange regimes, significant reductions in tariffs and other trade barriers, reform and modernization of the financial sector, and significant adjustments in government monetary and fiscal policies. Until the 1980s, India's development strategy was focused on self-reliance and import substitution. There was a general disinclination towards foreign investment or private commercial flows. India's trade has increased significantly since reforms began in 1991, largely as a result of staged tariff reductions and elimination of non-tariff barriers. As per the information from the Reserve Bank of India (RBI), exports reached US $ 159 billion during 2007-08 from US $ 128 billion during the same period in 2006-07 recording an impressive growth of 23.7%. However, imports too have increased to US $ 249 billion in 2007-08 from US $ 191 billion in 2006-07, thus leading to a trade deficit amounting to US $ 90 billion during 2007-08. This was compensated by large inflows of receipts from services exports and private transfers that led to a relatively comfortable current account deficit of 1.49% of gross domestic product (GDP) during the year.

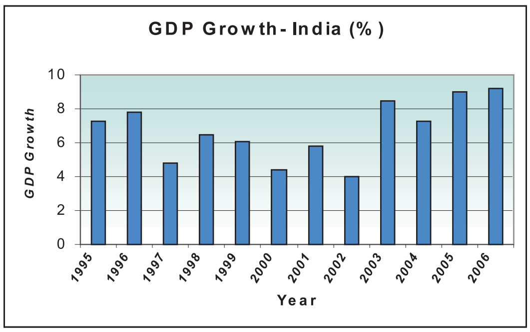
The rate of growth of the Gross Domestic Product (GDP growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another) of India has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 periods. In the last four years, the annual growth rate of the GDP was impressive at 7.5 per cent (2003-04), 8.5 per cent (2004-05), nine per cent (2005-06) and 9.2 per cent (2006-07). Prime Minister Manmohan Singh is confident of having a 10 per cent growth in the GDP in the Eleventh Five Year Plan period.

Chart:3
India's Quarterly Real GDP Growth



Source: www.rbi.org.in

Chart:4

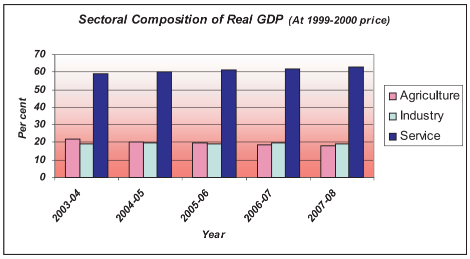


Source: OECD

Agriculture, one of the most important sector of the Indian economy, gives livelihood to almost two third of the workforce according to the economic data for the financial year 2006-07.Agriculture accounts for 18% of India's GDP although about 43% of India's geographical area is used for agricultural activities. Though the share of Indian agriculture sector in Indian GDP has steadily declined, it played a vital role in the overall socio- economic development of India.

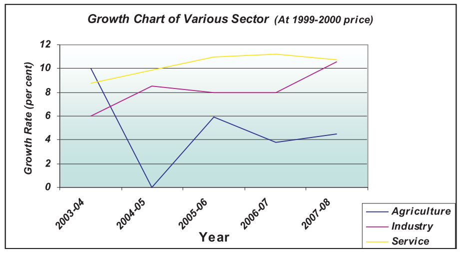
The share of service sector in India is rapidly increasing with the growth of economy although the share of agriculture is falling. The service sector accounts for more than half of India's GDP, this rise marks a structural shift in the Indian economy and takes it closer to the fundamental of developed economy as in the developed economies, the industrial and service sector contribute a major share in GDP while agriculture accounts for a relatively lower share. The share of service sector has grown from around 41% in 1990-91 to 63% in the financial year 2007-08. In contrast, the industrial sector's share in GDP has declined from around 27% in 1990-91 to 19% in the year 2007-08. The share of agriculture sector has fallen from around 32% in 1990-91 to 18% in the year 2007-08.

Chart:5



Source: Table 1

Chart:6



Source: Table 1

TABLE: 1

GROWTH RATES AND SECTORAL COMPOSITION OF REAL

GROSS DOMESTIC PRODUCT(AT 1999-2000 PRICES) (Per cent)

	Growth Rate						Share in real GDP				
Sector	**Average 2000-01-2007-08**	**2003-04**	**2004-05**	**2005-06@**	**2006-07#**	**2007-08***	**2003-04**	**2004-05**	**2005-06 @**	**2006-07#**	**2007-08***
1	2	3	4	5	6	7	8	9	10	11	12
1 Agriculture and Allied Activities	**2.9**	**10.0**	**0**	**5.9**	**3.8**	**4.5**	**21.7**	**20.2**	**19.6**	**18.5**	**17.8**
of which : Agriculture	n.a.	10.8	0	6.1	3.8	n.a.	19.9	18.5	17.9	17	n.a.
2 Industry *of which :*	**7.1**	**6.0**	**8.5**	**8.0**	**10.6**	**8.1**	**19.4**	**19.6**	**19.4**	**19.5**	**19.4**
a) Mining and quarrying	4.9	3.1	8.2	4.9	5.7	4.7	2.2	2.2	2.1	2.0	2.0
b) Manufacturing	7.8	6.6	8.7	9.0	12.0	8.8	15.0	15.1	15.1	15.4	15.4
c) Electricity, gas and water supply	4.8	4.8	7.9	4.7	6.0	6.3	2.3	2.3	2.2	2.1	2.1
3 Services *of which :*	**9.0**	**8.8**	**9.9**	**11.0**	**11.2**	**10.7**	**58.9**	**60.2**	**61.1**	**61.9**	**62.9**
a) Construction	10.6	12.0	16.1	16.5	12.0	9.8	6.1	6.6	7.1	7.2	7.3
b) Trade, hotels and restaurants	8.2	10.1	7.7	9.4	8.5 (11.8)	12	15.5	15.5	15.5	15.4 (26.8)	27.5 ^
c) Transport, storage and communications	13.7	15.3	15.6	14.6	16.6	n.a.	9.5	10.2	10.7	11.4	n.a.
d) Financing, insurance, real estate and business services	8.8	5.6	8.7	11.4	13.9	11.8	13.4	13.5	13.8	14.3	14.7
e) Community, social and personal services	5.8	5.4	6.9	7.2	6.9	7.3	14.3	14.2	14.0	13.6	13.4
4 Gross Domestic Product at factor cost	**7.3**	**8.5**	**7.5**	**9.4**	**9.6**	**9.0**	**100**	**100**	**100**	**100**	**100**

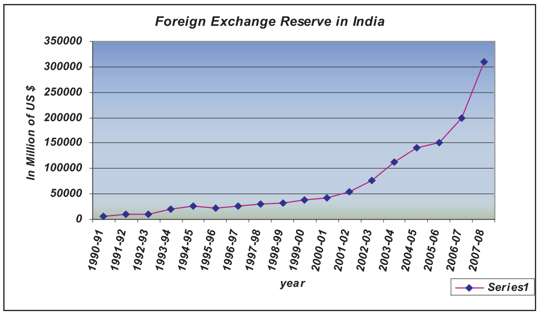
Memo : (Rupees crore)

	(at current prices)				
Sector	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
1. Agriculture and Allied Activities	532,342	552,422	615844	695423	764082
2. Industry	509,106	598,271	677946	790333	899144
3. Services	1,496,722	1,727,013	1981879	2304306	2640428
4. Gross Domestic Product at factor cost	2,538,171	2,877,706	3275670	3790063	4303654
	(at constant prices)				
1. Agriculture and Allied Activities	482,676	482,446	511013	530236	554336
2. Industry	431,724	468,451	506016	559801	605061
3. Services	1,308,358	1,437,487	1595818	1774272	1963462
4. Gross Domestic Product at factor cost	2,222,758	2,388,384	2612847	2864310	3122862

@ Provisional Estimates #: Quick Estimates *: Revised Estimates. n.a.: Not available.
^ : Growth rate and share includes growth of ‘Transport, storage and communications’ comparable with figure of preceding year in parentheses.
Source : Central Statistical Organisation.

India's foreign exchange reserves have grown significantly since 1991. The reserves, which stood at US$ 5.8 billion at end-March 1991 increased gradually to US$ 25.2 billion by end-March 1995. The growth continued in the second half of the 1990s, with the reserves touching the level of US$ 38.0 billion by end-March 2000. Subsequently, the reserves rose to US$ 113.0 billion by end-March 2004, US$ 141.5 billion by end-March 2005, US$ 151.6 billion by end-March 2006 and further to US$ 199.2 billion by end March 2007.

Chart:7

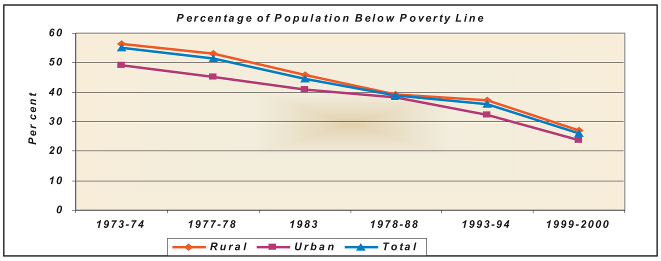


Source: Table 2

Per capita income has increased from US$ 460 in 2000-01 to almost double to US$ 797 by the end of 2006-07. In 2007-08, India's per capita income is estimated to be over US$ 825.07, according to the advance estimates of the Central Statistical Organisation (CSO). Further, India's per capita income is expected to increase to US$ 2000 by 2016-17 and US$ 4000 by 2025. This growth rate will, consequently, propel India into the middle-income category[1].

The percentage of Indians below the poverty line has fallen by half in the last 25 years (Table: 4).

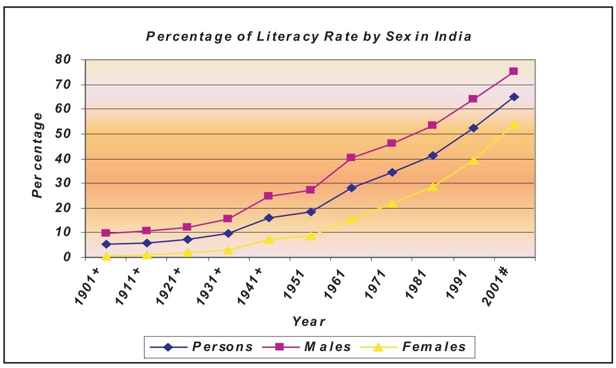
Chart:8



Source: Table 3

Since independence, the literacy rate grew from 18.33 per cent in 1951, to 28.30 per cent in 1961, 34.45 per cent in 1971, 43.57 per cent in 1981, 52.21 per cent in 1991, and 64.84per cent in 2001. During the same period, the population grew from 361 million to 1,028 million. The bar chart below shows the position of different states concerning literacy in 2001.

Chart:9



Source: Table 4

1. Indian Economy Overview last updated: April-June 2008, www.ibef.org

TABLE: 2

Foreign Exchange Reserves in India (1990-1991 to 2007-2008)											
	Foreign Currency Assets		Gold		SDRs			Reserve Tranche Position in IMF		Total	
End of	Rupees	In Millions	Rupees	In Millions	In Millions	Rupees	In Millions	Rupees	In Millions	Rupees	In Millions
	crore	of US $	crore	of US $	of SDRs	crore	of US $	crore	of US $	crore	of US $
1990-91	4388	2236	6828	3496	76	200	102	-	-	11416	5834
1991-92	14578	5631	9039	3499	66	233	90	-	-	23850	9220
1992-93	20140	6434	10549	3380	13	55	18	-	-	30744	9832
1993-94	47287	15068	12794	4078	76	339	108	-	-	60420	19254
1994-95	66006	20809	13752	4370	5	23	7	-	-	79781	25186
1995-96	58446	17044	15658	4561	56	280	82	-	-	74384	21687
1996-97	80368	22367	14557	4054	1	7	2	-	-	94932	26423
1997-98	102507	25975	13394	3391	1	4	1	-	-	115905	29367
1998-99	125412	29522	12559	2960	6	34	8	-	-	138005	32490
1999-00	152924	35058	12973	2974	3	16	4	-	-	165913	38036
2000-01	184482	39554	12711	2725	2	11	2	-	-	197204	42281
2001-02	249118	51049	14868	3047	8	50	10	-	-	264036	54106
2002-03	341476	71890	16785	3534	3	19	4	3190	672	361470	76100
2003-04	466215	107448	18216	4198	2	10	2	5688	1311	490129	112959
2004-05	593121	135571	19686	4500	3	20	5	6289	1438	619116	141514
2005-06	647327	145108	25674	5755	2	12	3	3374	756	676387	151622
2006-07	836597	191924	29573	6784	1	8	2	2044	469	868222	199179
2007-08	1196023	299230	40124	10039	11	74	18	1744	436	1237965	309723

Note (a) : Gold was valued at Rs.84.39 per 10 grams till October 16,1990. It has been valued close to international market price with effect from October 17, 1990. Conversion of SDRs into US dollars is done at exchange rates released by the International Monetary Fund (IMF).

(b) : With effect from April 1, 1999 the conversion of foreign currency assets into US dollars is done at week-end (for week-end figures) and month-end (for month-end figures) New York closing exchange rates. Prior to April 1, 1999 conversion of foreign currency assets into US dollars was done at representative exchange rates released by the IMF.

(c) : Since March 1993, foreign exchange holdings are converted into rupee at rupee-US dollar market exchange rates. Source : Reserve Bank of India.

TABLE: 3

Population below Poverty Line (As per Expert Group Methodology) in India (1973-1974, 1977-1978, 1983, 1987-1988, 1993-1994 and 1999-2000)						
Sector	1973-74	1977-78	1983	1978-88	1993-94	1999-2000
Population in Millions						
Rural	261.3	264.3	252	231.9	244	193.2
Urban	60	64.6	70.9	75.2	76.3	67
Total	321.3	328.9	322.9	307.1	320.3	260.2
Poverty Ratio (%)						
Rural	56.4	53.1	45.7	39.1	37.3	27.1
Urban	49.0	45.2	40.8	38.2	32.4	23.6
Total	54.9	51.3	44.5	38.9	36.0	26.1

Source : Rural Development Statistics 2002-03, National Institute of Rural Development.

Year: Period of fiscal year in India is April to March, e.g. year shown as 1990-91 relates to April 1990 to March 1991.

Units: (a) 1 Lakh (or Lac) = 100000.

(b) 1 Crore (or Cr.) = 10000000

TABLE: 4

Percentage of Literacy Rates by Sex in India							
Year	**Age Group**	**Persons**	**Males**	**Females**	**Rural**	**Urban**	**Male-Female Gapin Literacy Rate**
1901+	All Population	5.39	9.83	0.60	-	-	9.23
1911+	All Population	5.92	10.56	1.05	-	-	9.51
1921+	All Population	7.16	12.21	1.81	-	-	10.40
1931+	All Population	9.50	15.59	2.93	-	-	12.66
1941+	All Population	16.10	24.90	7.30	-	-	17.60
1951	5 and above	18.33	27.16	8.86	12.10	34.59	18.30
1961	5 and above	28.31	40.40	15.34	22.46	54.43	25.06
1971	5 and above	34.45	45.95	21.97	27.89	60.22	23.98
1981	7 and above	43.56 (41.42)	56.37 (53.45)	29.75 (28.46)	36.09	67.34	26.65
1991	7 and above	52.21	63.86	39.42	44.69	73.09	24.84
2001#	-	64.8	75.3	53.7	-	-	21.59

Note : + : For Undivided India.
- : Not Available.

The 1981 rates exclude Assam where the 1981 census could not be conducted. The 1991 Census rates exclude Jammu & Kashmir where the 1991 Census is yet to be conducted.

: The Literacy rates for India have been worked out by excluding the population and number of literates of areas affected by natural calamities of Gujarat and Himachal Pradesh.

Literacy rate for 1951, 1961 & 1971 relate to population aged five years and above. The rates for the years 1981, 1991 & 2001 related to the population aged seven years and above. The literacy rate for the population aged five years and above in 1981 have been shown in brackets.

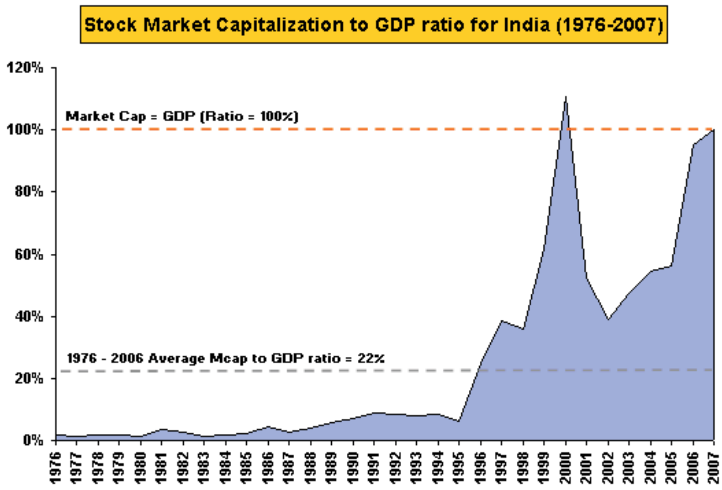
Source : Deptt. of Secondary and Higher Education, Ministry of Human Resource Development, Govt. of India .

India presently controls 45 per cent of the global outsourcing market with an estimated income of $ 50 billion.

With over 20 million shareholders, India has the third largest investor base in the world after the USA and Japan. Over 9,000 companies are listed on the stock exchanges, which are serviced by approximately 7,500 stockbrokers. The Indian capital market is significant in terms of the degree of development, volume of trading and its tremendous growth potential (Table 5).

Market capitalization is a good indicator of the health of capital markets of an economy. Leading economies of the world have huge market capitalisation in relation to their gross domestic product (GDP). This not only indicates the investor confidence (both domestic and international), but also the strength of their economies. India is among the 10 countries in the world which has a trillion-dollar GDP and market capitalisation at the same time[2].

Chart: 10



Source: World Bank

2. BSE market cap crosses $1 trillion, The Times of India, 29 May 2007.

(Table 5)

Annual Averages of Share Price Indices and Market Capitalisation in India (1979-1980 to 2007-2008, upto August 2008)					
					(Rs. in Crore)
Year	BSE Sensex (Base :	BSE National (Base :	RBI Index (Base :	Market Capitalisation	
	1978-79 = 100)	1983-84 = 100)	1980-81 = 100)	BSE	All-India
1979-80	122.32	-	-	5421	6750
1980-81	138.87	-	100.00	-	-
1981-82	207.91	-	118.90	-	-
1982-83	221.51	-	110.40	9769	11635
1983-84	238.33	100.00	125.30	10219	13381
1984-85	266.19	116.01	136.00	20378	24302
1985-86	492.23	216.99	221.70	21636	27572
1986-87	567.39	256.85	230.60	25937	35521
1987-88	454.46	232.23	207.30	45519	51379
1988-89	613.66	307.84	247.50	54560	-
1989-90	729.49	384.84	359.40	65206	70521
1990-91	1049.53	536.99	500.30	90836	110279
1991-92	1879.51	916.63	776.20	323363	354106
1992-93	2895.67	1321.04	1142.10	188146	228780
1993-94	2898.69	1373.00	1051.30	368071	400077
1994-95	3974.91	1899.53	1537.30	435481	473349
1995-96	3288.68	1525.93	1189.60	526476	572257
1996-97	3469.24	1554.64	1146.80	463915	488332
1997-98	3812.86	1650.07	1060.10	560325	589816
1998-99	3294.78	1457.07	976.40	545361	574064
1999-00	4658.63	2278.16	-	912842	-
2000-01	4269.69	2170.51	-	571553	-
2001-02	3331.95	1587.70	-	612224	-
2002-03	3206.29	1597.32	-	572198	-
2003-04	4492.19	2315.70	-	1201207	-
2004-05	5750.75	3083.25	-	1698428	-
2005-06	8278.55	4380.71	-	3022191	-
2006-07(upto March 2007)	12857.74	6465.26	-	3545041	-
2007-08*	15838.38	8363.58	-	5138015.26	-
2008-09$	**14722.13**	**7704.75**	**-**	**4778865**	**-**

Abbr. : RBI : Reserve Bank of India.
BSE : Bombay Stock Exchange.
: Not Available.

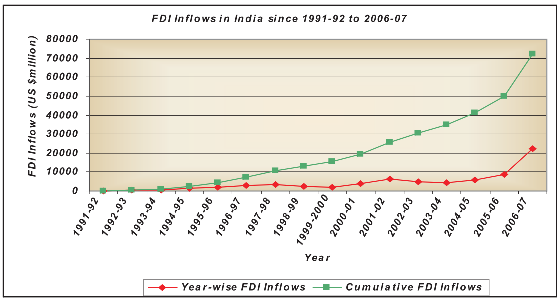
Note : 1. Market capitalisation data are as at end-December upto 1987-88 and as at end-March from 1988-89 onwards.
2. Compilation of RBI index was discontinued by the Reserve Bank of India since 1999-2000. Similarly, the compilation of data on the all-India market capitalisation was discontinued by the Stock Exchange, Mumbai BSE since 1999-2000.
* : Figures are March 2008. $: Figures are August 2008.

Source : Bombay Stock Exchange.

With the liberalisation of capital account and the initiation of structural reforms, there has been a marked shift in capital flows to India during the 1990s, reflecting the growing confidence among international investors. FDI into India which stood at a low level of US $ 129 million during 1991-92 has shown an encouraging trend and registered nearly US $ 22079 million FDI during the financial year 2006-07, which was 2.46 times more than the inflow received during the previous year[3]. According to Reserve Bank of India (RBI), "positive climate, progressive liberalisation of the FDI policy regime and simplification of procedures" are the factors which helped India attract these FDIs. The accelerated pace of mergers and acquisitions in sectors such as financial services, manufacturing, banking services, information technology and construction are also thought to have boosted FDI inflows[4].

3. www.rbi.org.in.
4. Oommen A. Ninan, "Positive climate helps attract more FDIs)", The Hindu, Online edition of India's National Newspaper, Monday, Oct 01, 2007.

Chart:11



Source: Table 6

TABLE: 6
Statement of Foreign Direct Investment (FDI) Inflows from Different Routes in India

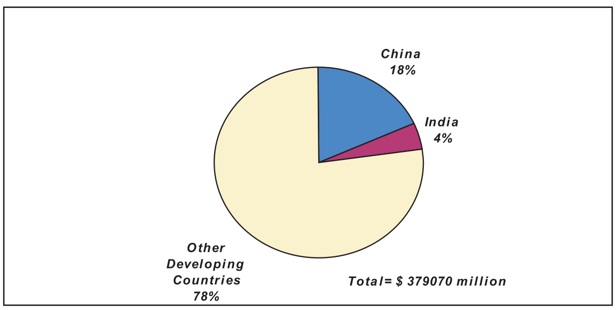
(1991-92—2006-07)
(US $ Million)

ITEM 2006	1991 -92	1992 -93	1993 -94	1994 -95	1995 -96	1996 -97	1997 -98	1998 -99	1999 -2000	2000 -01	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07
I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV	XV	XVI	XVII
DIRECT INVESTMENT (I+II+III)	129	315	586	1314	2144	2821	3557	2462	2155	4029	6130	5035	4322	6051	8961	22079
I.Equity(a+b+c +d+e)	129	315	586	1314	2144	2821	3557	2462	2155	2400	4095	2764	2229	3778	5975	16482
a. Government (SIA/FIPB)	66	222	280	701	1249	1922	2754	1821	1410	1456	2221	919	928	1062	1126	2156
b.RBI	-	42	89	171	169	135	202	179	171	454	767	739	534	1258	2233	7151
c. NRI	63	51	217	442	715	639	241	62	84	67	35	-	-	-	-	-
d.Acquisition of sharese.	-	-	-	-	11	125	360	400	490	362	881	916	735	930	2181	6278++
e.Equity capital of Unincorporated Bodies#	-	-	-	-	-	-	-	-	-	61	191	190	32	528	435	897
II. Reinvested earnings+	-	-	-	-	-	-	-	-	-	1350	1645	1833	1460	1904	2760	5091
III. Other Capital	-	-	-	-	-	-	-	-	-	279	390	438	633	369	226	506

Source: RBI Bulletin, Government of India, Mumbai, (Various Issues) (Date of Publishing: Feb. 13, 2008)
Figures for Equity capital of Unincorporated Bodies for 2006-07 are estimated.
+Date for 2006-07 is estimated as average previous two years.
++Date pertain to inter company debt transactions of FDI entities.

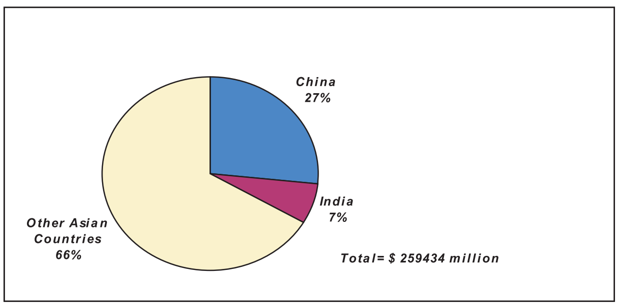
Chart 12 is presenting the FDI inflows to developing countries in 2006. Chart 13 is presenting the FDI inflows to Asian countries in 2006.

Chart:12



Source: Annex table B.1., World Investment Report, 2007, UNCTAD.

Chart - 13



Source: Annex table B.1., World Investment Report, 2007, UNCTAD.

As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year. A press report was jubilant: This is the richest year for India. The combined wealth of the Indian billionaires marked an increase of 60 per cent from $ 106 billion in 2006 to $ 170 billion in

2007. The 40 Indian billionaires have assets worth about Rs. 7.50 lakh crores whereas the cumulative investment in the 91 Public Sector Undertakings by the Central Government of India is Rs. 3.93 lakh crores only.

PART. III

In this third part of the paper, we are going to discuss the challenges and future prospects for the growth of Indian economy.

THE CHALLENGES AHEAD

The most worrying aspect of Indian economy is the deterioration of agriculture and its contribution to Indian economy has been insignificant. Agriculture has been and still remains the backbone of the Indian economy. It plays a vital role not only in providing food and nutrition to the people, but also in the supply of raw material to industries and to export trade. In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001, the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2006-07. This has resulted in lowering the per capita income of the farmers and increasing the rural indebtedness.

The agricultural growth of 3.2 per cent observed from 1980 to 1997 decelerated to two per cent subsequently. The Approach to the Eleventh Five Year Plan released in December 2006 stated that the growth rate of agricultural GDP including forestry and fishing is likely to be below two per cent in the Tenth Plan period. The reasons for the deceleration of the growth of agriculture are given in the Economic Survey 2006-07: Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continued to be a drag on the sector's performance. With more than half the population directly depending on this sector, low agricultural growth has serious implications for the inclusiveness of growth.

The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide. Replying to the Short Duration Discussion on Import of Wheat and Agrarian Distress on May 18, 2006, Agriculture Minister Sharad Pawar informed the Rajya Sabha that roughly 1, 00,000 farmers committed suicide during the period 1993-2003 mainly due to indebtedness. The farming community has been ignored in this country and especially so over the last eight to ten years. No doubt the authorities come forward to offer solariums to the dependants of the dead. But that is not enough to address the basic problem. Enhanced growth of the agricultural sector is vital for ensuring food security, poverty alleviation, price stability, overall inclusive growth and sustainability of growth of the overall economy. Recently, our Honourable Prime Minister, Dr.Manmohan Singh announced a major scheme to double the growth rate of agriculture to 4.0 per cent over the 11th Plan period. A time-bound Food Security Mission was also announced to counter rising prices of food products and to ensure visible changes in their availability over three years.

Augments in the existing infrastructure facilities particularly roads, ports and power, is essential to provide the enabling environment for industries to prosper. For years, the government neglected India's crumbling infrastructure, and the costs of that neglect are now obvious. The World Bank indicates that a lack of reliable, reasonably priced power is the single largest constraint on the country's businesses. Dangerously overloaded passenger trains, gridlocked city roads, and aging airports all show the negligence of the government towards this sector which plays an important role in growth of any economy. Many areas of India are not well serviced with poor transport links and under developed communication channels. Over 40% of the Indian fruit rots before it reaches the market, this is only one example which represents the picture of inefficiency of Indian infrastructure. With around 600,000 villages and 70% of its population in rural India, the need of the hour for the government is to develop proper rural infrastructure for the masses in India[5].

The Reserve Bank of India (RBI) had set an inflation target of 4%, but by the middle of the year (2008), it was running at 11%, the highest level seen for a decade. The rising cost of oil, food and the resources are all contributing to this. However, the flip side to this is that the pressure on the prices of oil, food and other raw materials is likely to continue, making inflation management in 2008/09 quite challenging. Another challenge is managing the fallout of continued large capital flows into other emerging economies. The demand for commodities like-crude oil, industrial raw materials, grain and other food-which have been stoking inflation numbers during the past years is likely to persist for a short while. As has been the case in recent years, there has also been considerable movement in the exchange rates between the major currencies of the world. In the year 2007, the Indian rupee was one among the emerging market currencies that appreciated the most. But presently, India has the disadvantage of having higher inflation than in East and South East Asia, which in long run should be neutralized by a corresponding devaluation. Except these two external shocks- the sub-prime crisis and the rising global commodity, prices are also kicking in.

5. Will infrastructure be a problem?, Adil S. Zainulbhai, rediffnews, January 05, 2006.

Delivery of essential public services such as education and health to large parts of our population is a major institutional challenge. Although Indian economy is benefited by a large pool of English speakers, it ranks a low fourth in South Asia in terms of adult literacy rate and youth/ child literacy. Several achievements have been recorded in the field of education since independence; there is still high level of illiteracy amongst population **(Table.5.).** The condition is worst in rural areas and amongst women. The improvements pale when we consider that every third illiterate person in the world is an Indian (Samuel and Jagadananda, Eds. 'Making Sense of Democracy: An Introduction to Social Watch India). Of approximately 200 million children in the 6-14 age-groups, only 120 million are enrolled in school. According to a report[6], "Inadequate budget allocation, dismal school infrastructure in rural areas, high dropout rates, caste-bias, gender-bias etc. are the hallmarks of our education system".

Unemployment could be a problem despite the fast growth of the economy. There is an increase in the number of people entering the Indian labour market; particularly young women. It may be difficult to provide sufficient jobs unless investment continues in manufacturing and the service sector.

The Indian economy is still highly regulated with costs and restrictions faced by business' wishing to enter certain markets. This continues to limit the entrepreneurship and their removal is important to continue to flows on inward investment. Another factor that reduces the utility and productivity of large investment in India is the extent of linkages and the so called all pervading corruption for which India got **74th rank among 180 countries in the 2006 Transparency International Corruption Perceptions Index**[7]. Rigid labour laws are also discouraging foreign investment.

According to Montek Singh Ahluwalia, "the kind of world we are moving into is essentially a world in which it will not be possible for a country to reach its full economic potential if it is not able to compete globally with others in the same position". International consultancy and research **firm A.T. Kearney has ranked India at the 71st position in its annual ranking of the world's most globalised nations, A.T. Kearney and Foreign Policy Globalisation Index 2007**. A.T. Kearney said that India's low position is despite the country's services export and the total trade rising by more than a third. India's standing as a premier off shoring destination with a booming economy often masks the fact that 70 per cent of its population lives in rural areas," the joint report by global consulting firm A. T. Kearney and US-based magazine, Foreign Policy said[8].

The structural transformation that has been adopted by the national government in recent times has reduced growth constraints and contributed greatly to the overall growth and prosperity of the country. However, there are still major issues around federal vs. state bureaucracy, corruption and tariffs that require addressing India's public debt is 58% of GDP according to the CIA World Fact book, and this represents another challenge.

PROSPECTS FOR GROWTH

India, the world's largest democracy, largest country in South Asia, seventh largest country in the world and the fourth largest economy in terms of Purchasing Power Parity, with the consistent growth/ performance and abundant skilled manpower provides enormous opportunities for growth. The Indian economy has become one of Asia's hottest destinations for investment and the tenth most industrialized country in the world. Despite several foregoing challenges, Indian economy has the potential strength which could enable it to continue to benefit from high level of economic growth in the future. Reasons for this optimism that the above challenges would be met are on account of many inherent strengths of the Indian economy such as vast pool of science and technology graduates, management personnel, and the million of people who are familiar with the English language, political stability, stable legal system, low cost manufacturing bases, solid growth of saving as proportion of GDP, sharp acceleration in per capita GDP, improved factor productivity and efficiency of capital use, vast unexploited Indian market and large rapidly growing middle class with strong desire to consume, rich natural resources which include its geographical area, climatic condition and mineral deposits, low labour cost, improved technology, stable government security market, strong sustainable external sector and money market, positive forex reserve, buoyancy in tax revenues, lower fiscal deficit, low external debt, deepening financial sector, strong export potential, deregulated financial market which allow more flexible loans, large and growing entrepreneurial class and penchant for innovation, increasing inflow of FDI close to over US $ 22079 million.

A number of studies in the recent past have highlighted the growing attractiveness of India. Some of these conclusions are listed below:

6. Inequality in India: Income, access to healthcare and education for the poor, By Richa Nigam, www. infochangeindia.org.
7. Transparency International, 2007. Web: www.transparency.org.
8. India, 2nd least globalised economy: Report, 24 Oct, 2007, the economic times).

- ➢ Indian economy is slated to become the fourth largest economy by 2050- **Goldman Sachs.**
- ➢ 2nd most attractive destination – **A.T.KEARNEY Business Confidence Index, 2005**
- ➢ Best off shoring destination **– A.T.KEARNEY Offshoring Index, 2004.**
- ➢ Among the top three investment hotspots - UNCTAD and Corporate Location Survey- April, 2004.
- ➢ India can sustain 10% growth rate-**OECD Survey, 2007.**
- ➢ India is the second most attractive location for foreign direct investment-**UNCTAD's World Investment Report, 2007.**
- ➢ In respect of business competitive index, (prepared by the World Economic Forum) India ranks 48 out of 131 countries- **The Global Competitive Report 2007-08.**
- ➢ In respect of Growth competitive index (GCI), India ranks 47 out of 125 countries.- **The Growth Competitive Index 2006-07.**

The inference from all these reports is that India is a fairly stable economy.

SUGGESTIONS

All the three objectives of economic development namely- output growth, price stability and poverty alleviation can be achieved only by growth of agriculture sector. Therefore, the government should do more for the agriculture sector, but that does not imply more subsidies to the farmer. Government should again start a sustained movement as green revolution involving leading agricultural scientists.

- The Government should eliminate those subsidies which are inappropriate and not directly targeting the poor and should withdraw those tax exemptions, which are distortionary.
- The policy of the government should be aimed at reducing macro level inefficiencies and improving micro level conditions. The priority of public policy should be creating employment and reducing poverty. The government should be an effective regulator.
- Economic growth can be distorted by the bypass of industrial sector by the service sector. The service sector growth must be in proportion with industrial growth otherwise, the growth of the service sector will not be sustainable. Growth of service sector supported by industrial sector will surely help in providing more jobs, positive trade balance, more production and realistic economic growth in a right direction.
- India needs to learn from China about how to ramp up the infrastructure, lose the red tapism and create an investor friendly environment by increasing literacy, a disciplined labour market, a stable exchange rate with infrastructure facilities and tax incentives for foreign enterprises.
- The Government should put in more efforts to impart academic and vocational skills to a broader section of the population.
- The country has to look for large FDI inflows for developing infrastructure and technological upgradation. It should invite investments for setting up Special Economic Zones (SEZs) and establishing manufacturing units therein, and should remain as an attractive investment destination in the years to come.

CONCLUSION

India's Economy has grown by more than 9% for the last three fiscal years and this has reduced poverty by 10%. During this period of stable growth, the performance of the Indian service sector has been particularly significant. The growth rate of the service sector was 11.18% in 2007 and now contributes to 53% of the GDP. Growth in the manufacturing and communication sector has also complemented the country's excellent growth momentum. The dynamics that have characterized the rapid expansion of the economy in recent years are: robust investment, substantially improved corporate performance, high rates of domestic savings, and a strong confidence among consumers and entrepreneurs. Further, to emerge as a major leader among the rapidly developing economies, India has to thwart the threat posed by some of the basic problems like, Inflation; Volatile oil markets; poor infrastructure; BoP deterioration**;** high levels of debt; large budget deficit and rigid labor laws. All these problems could be ably solved in the near future as there are a lot of positive factors and favorable conditions as far as the subcontinent is concerned. This includes the demographics, which could be made favorable with an increase in efficiency. We should track not only the addition to billionaires in India but also depletion in the number of millions of poor and unemployed. Mere growth of the GDP and others at the macro level in billions does not solve the chronic poverty and low standard of living of the people at the micro level. The growth should be sustainable with human development and decent employment potential. The welfare of a country does not percolate from the top, but should be built upon development from the bottom.

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listed abroad or needs to raise funds from foreign investors.

Keeping in view the role and functions performed by these committees, therefore, it is suggested that committees like risk management committee, nomination committee and corporate governance committee should be made mandatory for the listed companies. It can be concluded that the effort to constitute committees on a voluntary basis is minimal and only a few well-established companies constitute certain committees. Even the number of such committees is also very less. However, it may be pointed out here that certain committees are highly useful and can play a significant role in improving the corporate governance among business enterprises. Setting up of such sub-committees of directors by companies will not only help in providing expert advice but also facilitate effective decision making to meet the growing challenges and to make the best of opportunities in the years ahead.

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