ECONOMIC DEVELOPMENT AND NITI AAYOG

Independent India's economic development was driven by socio-economic planning by government. India opted to be a planned economy. Planned economy is one in which the state owns, partly or wholly the economy and directs it. State sets the priorities for growth. Private sector has only a residuary role. High level of government regulation characterizes planned economies. It is refered to as command economy or centrally planned economy. State control of economy extends to

- all major sectors of the economy
- distribution of income
- decisions on what should be produced and how much and sold at what price

In a market economy, it is the opposite- state has a minimal role in the management of the economy- production, consumption and distribution decisions are predominantly left to the market. State plays certain role in redistribution. State is called the laissez faire state here. It is a French phrase literally meaning "Let do."

Indicative plan operates where there is a mixed economy with State and market playing significant roles to achieve targets for growth that they together set. It is operated under a planned economy but not command economy.

Indian planned growth is not a classical command economy as it operated in a democratic system. Command economies were classically set up in China and USSR, mainly for rapid economic growth and social and economic justice but have been dismantled in the last two decades as they do not create wealth sustainably and are not conducive for innovation and efficiency. Cuba and North Korea are still command economies.

History of Economic Planning in India

Bombay Plan

India being devastated economically after more than two centuries of colonial exploitation resulting in chronic poverty, eradication of poverty was the driving force for the formulation of various models of growth before Independence.

In 1944 leading businessmen and industrialists (including Sir Purshotamdas Thakurdas, JRD Tata, GD Birla and others) put forward "A Plan of Economic Development for India" -popularly known as the 'Bombay Plan'. It saw India's future progress based on further expansion of the textile and consumer industries already flourishing in cities like Bombay and Ahmedabad. It saw an important role the State in post-Independent India: to provide infrastructure, invest in basic industries like steel, and protect Indian industry from foreign competition. Its objectives were a doubling of the output of the agricultural sector and a five-fold growth in the industrial sectorover 15 years.Bombay Plan was premised on the view that that the economy could not grow without government intervention and regulation.

Sir Mokshagundam Visvesvarayya

M. Visvesvaraya (1860-1962) was an engineer by: He designed the Krishnasagar Dam and sponsored the Bhadravati Iron Works. He was an admirer of Japan's industrial progress and also studied the Soviet Five Year Plans and the initiatives of the American President Roosevelt. In 1934 he published his own suggestions for a ten-year plan for India. This was the first attempt at economic planning in India. It is proposed under the Plan to double the income of the country within ten years. He believed that left to private enterprise, industries will not make satisfactory progress. Government should take the lead; bold policies should be laid down and adhered to; an official organization should be brought into existence, and correct comprehensive reports of progress supported by adequate statistics should be published yearly. In his book titled "Planned Economy for India" (1934), he set the goal of poverty eradication through growth.

National Planning Committee (1938)

The Indian National Congress established a National Planning Committee under the chairmanship of Jawaharlal Nehru. It (1938) stated the objective of planning for development "was to ensure an adequate standard of living for the masses, in other words, to get rid of the appalling poverty of the people". It advocated heavy industries that were essential both to build other industries, and for Indian self-defence; heavy industries had to be in public ownership, for both redistributive and security purposes; redistribution of land away from the big landlords would eliminate rural poverty.

MN Roy

During the 1940's, the Indian Federation of Labour published its People's Plan by MN Roy that stressed on employment and wage goods.

SN Agarwala

He was a follower of Mahatma Gandhi and published Gandhian Plan that emphasized on decentralization; agricultural development; employment; cottage industries etc.

Mixed Economy

India is a mixed economy combining features of both capitalist market economies and socialist command economies. Thus, there is a regulated private sector (the regulations have decreased since liberalization from the late 1980's) and a public sector. The public sector generally covers areas which are deemed too important; or not profitable enough for the private sector. Thus such services as railways and postal system are carried out by the government.

Since Independence, for the first three-four decades the public sector dominated and in fact sectors like banking saw nationalization. From the time of economic reforms since 1991 greater role for the private sector defined the economy- be it by deregulation, divestment or privaisation. Thus, the state-market mix changed towards the market since 1991 but the economy is predominantly mixed.

Planning Goals

India launched five year plans for rapid growth from 1951. The long term goals that were common to all the five year plans:

- Growth
- Modernization

- self-reliance and
- social justice

Economic growth is the increase in value of the goods and services produced by an economy. Growth measures quantitative increase in goods and services. Growth is expected to spread to all sections and regions; raise resources for the Government to spend on socio-economic priorities etc. It takes a long time for growth to trickle down to all people and regions. Therefore, State plans for an expeditious process of inclusive.growth.

Growth is the precondition for all other objectives like poverty eradication, employment generation; inequality reduction; human capital building etc. However, the objectives mentioned above need not necessarily emerge from groath.

Economic development is different from growth and refers to growth that includes redistributive aspects and social justice. GDP may be only growth and not welfare and human development like education, access to basic amenities, environmental quality, freedom, or social justice. Economic growth is necessary for development but not sufficient.

Modernization is improvement in technology. It is driven by innovation and investment in R and D. Education is the foundation of modernization. The more modernized the economy, the greater the value created by it.

Self-reliance means relying on the resources of the country and not depending on other countries and the MNCs for investment and growth. India embarked on the goal partly due to the colonial experience and partly due to the need to develop its economy independently. Since India had no foregn exchange to import, it was important that we produce the goods ourselves. Invitation to MNCs re-generated the fears of colonialism returning as neo-colonialism. Nehru-Mahalanobis model of growth that closed Indian economy and relied on basic industries is the main plank for self-reliance. However, opting for the Liberalization,Privatization and Globalization model (LPG) since 1991 and later becoming a founding member of World Trade Organization (WTO) in 1995 made us depart from self-relaince as LPG offered scope for faster growthand also by then India was in a position to globalize and benefit unlike immediately after Independence.

The term self-reliance should not be confused with self-sufficiency – the former means depending on resources of the country and avoid dependence on external inflows; the latter means that the country has all the resources it needs. No country can be self-sufficient.

Social justice means inclusive and equitable growth where inequalities are not steep and benefits of growth reach all- rural-urban, man-woman; caste divide and inter-regional divides are reduced. While the above four are the long term goals of the planning process, each five year plan has specific objectives and priorities.

Financial Resources For The Five Year Plans

The resources for the Plan come from

- Central budget
- State budgets
- PSEs
- Domestic private sector and
- FDI

Gross Budgetary Support

GBS is the amount from the central Budget that goes to fund the plan investments during the plan period of three units: Centre's, assistance to states' budgets to the extent the centre can afford and also the public sector units.

History of Planning

First Plan (1951- 56) The First Plan stressed on agriculture, in view of large scale import of foodgrains and inflationary pressures on the economy. Other areas of emphasis were power and transport. The annual average growth rate during the First Plan was 3.61% as against a target of 2.1%. Renowned economist KN Raj, who died in 2010 was one of the main architects of India's first five-year plan.

Second Plan (1956-61) With agricultural targets of previous plan achieved, major stress was on the establishment of heavy industries. Rate of investment was targeted to increase from 7% to 11%. The Plan achieved a more than targeted growth rate of 4.32%. This Plan envisaged to give a big push to the economy so that it enters the take off stage. It was based on Nehru-Mahalanobis model- self-reliance and basic-industry driven growth.

Nehru-Mahalanobis Model of Economic Growth

Indian economy at the time of Independence was characterized by dependence on exports of primary commodities; negligible industrial base; underproductive agriculture etc. 1st FYP focused on agriculture for food security. But industrialization was urgently needed to modernize the economy and improve its technology.

The model adopted for the 2nd FYP plan is known as the Nehru-Mahalanobis strategy of development as it was articulated by Jawahar Lal Nehru's vision and P.C.Mahalanobis was its chief architect. The central idea underlying this strategy is well conveyed by the following statement from the plan document. 'If industrialization is to be rapid enough, the country must aim at developing basic industries and industries which make machines to make the machines needed for further development.'

The Mahalanobis model of growth is based on the predominance of the basic goods (capital goods or investment goods which are goods that are used to make further goods like machines, tools, factories, etc). It is based on the premise that it would attract all round investment, ancillarisation, build townships and result in a higher rate of growth of output- trickle down effect. That will boost employment generation, poverty alleviation, exports etc. The emphasis was on expanding the productive ability of the system, through forging strong industrial linkages, as rapidly as possible.

Other Elements of The Model Are

- Import substitution. Protective barriers against foreign competition to enable Indian companies to develop domestically produced alternatives for imported goods and to reduce India's reliance on foreign capital.
- A sizeable public sector active in vital areas of the economy including atomic energy and rail transport.
- A vibrant small-scale sector driving consumer goods production for dispersed and equitable growth and producing entrepreneurs.

In terms of the core objective of stepping up the rate of growth of industrial production, the strategy paid off. Rate of growth of overall industrial production picked up. The strategy laid the foundation for a well-diversified industrial structure within a reasonably short period and this was a major achievement. It gave the base for self-reliance.

However, the strategy is criticized for the imbalances between the growth of the heavy industry sector and other spheres like agriculture and consumer goods etc that resulted. It is further criticized as it relied on 'trickle down effect'- benefits of growth will flow to all sections in course of time. This approach to eradication of poverty is slow and incremental. It is believed that frontal attack on poverty is required. The debates about growth and redistribution-Sen-Bhagawati- debates that raged in 2013 centre around the trickle down effect largely. It should be noted trickle down effect does produce results but given our size, growth has to be in double digits for a long period sustainably for the trickle down effect to work.

Third Plan (1961-66) It tried to balance industry and agriculture. The aim of Third Plan was to establish a self sustaining economy. For the first time, India resorted to borrowing from IMF. Rupee was also devalued for the first time in 1966. India's conflict with Pakistan and repeated droughts also contributed in the failure of this Plan.

Annual Plans As the Third Plan experienced difficulties on the external front (war with China in 1962 and Pakistan in 1965); and the economic troubles mounted on the domestic front- inflation, floods, forex crisis- and there was political instability with the death of Nehru and Lal Bahadur Shastri, the Fourth Plan could not be started from 1966. There were three annual plans till 1969. This period is called plan holiday- that is when five year plans are not implemented. The Annual Plans were: 1966-67, 1967-68 and 1968-69.

Fourth Plan (1969-74) The main objective of this Plan was growth with stability. The Plan laid special emphasis on improving the condition of the under-privileged and weaker sections through provision of education and employment. Reducing the fluctuations in agricultural production was also a point of emphasis of this Plan. The Plan aimed at a target growth of 5.7% and the achievement against this was 3.21%.

Fifth Plan (1974-79) The main objective of the Plan was Growth for Social Justice. The targeted growth rate was 4.4% and we achieved 4.8%. It was cut short by the Janata Party that came to power in 1977.

Janata 6th FYP was launched in 1977 but was removed from official records by the government that came to power in 1980 and the official 6th FYP was launched. The year 1979-80 was thus a gap year when there was no FYP and is called plan holiday.

Rolling Plan

It was adopted in India in 1962, in the aftermath of Chinese attack on India, in the Defence Ministry in India. Professor Gunnar Myrdal (author of 'Asian Drama') recommended it for developing countries in his book - Indian Economic Planning in Its Broader Setting. Rolling plan becomes necessary in circumstances that are fluid. It was contemplated by the Janata government in 1977. In the rolling plan model, even as annual and multi year goals are set, they are not rigidly followed as ground level conditions may not be conducive. It is in between a normal FYP and a plan holiday (annual plans)

The main advantage of the rolling plans is that they are flexible and are able to overcome the rigidity of fixed five year plans by mending targets, projections and allocations as per the changing conditions in the country's economy. The main disadvantage of this plan is that if the targets are revised each year, it becomes very difficult to achieve them. Frequent revisions result in instability of the economy.

Sixth Plan (1980-1985) Removal of poverty was the foremost objective of Sixth Plan. Another area of emphasis was infrastructure, which was to be strengthened for development of both industry and agriculture. The achieved growth rate of 5.7% was more than the targeted one.Direct attack on poverty was the main stress of the Plan.

Seventh Plan (1985-90) This Plan stressed on rapid growth in food-grains production and increase in employment opportunities. The growth rate of 5.81% achieved in this Plan was more than the targeted one. The plan saw the beginnings of liberalization of Indian economy. The 8th Plan could not start in 1990 due to economic crisis and political instability. There were two annual plans- plan holiday.

Eighth Plan (1992-1997) This Plan was formulated keeping in view the process of economic reforms and restructuring of the economy. The main emphasis of this Plan were

- to stabilize the adverse balance of payment scenario sustainably
- improvement in trade and current account deficit
- Human development as main focus of planning.

It was indicative plan for the first time. The Plan was formulated in a way so as to manage the transition from a centrally planned economy to market led economy. The targeted annual average rate of growth of the economy during Eighth Plan was 5.6%. Against this, we achieved an average annual growth of 6.5%. The Plan was based on Rao-Manmohan Singh model of liberalization.

Rao-Man Mohan Singh Model of Growth

Economic reforms since 1991 are based on the Rao-Manmohan model - Mr. Narasimha Rao, the PM in 1991 and Finance Minister Dr. Man Mohan Singh. Its essence is contained in the New Industrial Policy 1991 and extends beyond it too. The model has the following contents:

- Reorient the role of State in economic management. State should refocus on social and infrastructural development, primarily
- Dismantle, selectively controls and permits in order to permit private sector to invest liberally
- Open up the economy and create competition for PSEs- for better productivity and profitability
- External sector liberalization in order to integrate Indian economy with the global economy to benefit from the resource inflows and competition.

Its success is seen in the more than 6.5% average annual rate of growth of economy during the 8th Plan (1992-1997). Forex reserves accumulated thus alleviating BOP pressures and the foreign flows- FDI and FII increased.

Indicative Planning

It is characterized by an economy where the private sector is given a substantial role. State would turn its role into a facilitator from that of a controller and regulator. With the launch of the economic reforms in 1991, indicative planning was inevitable. It was adopted since 8th five year plan (1992-97). It was decided that trade and industry would be increasingly freed from government control and that planning in India should become more and more indicative and supportive in nature. In other words, the remodeling of economic growth necessitated recasting the planning model from imperative and directive ('hard') to indicative (soft) planning. Since the Government did not contribute the majority of the financial resources, it had to indicate the policy direction to the corporate sector and encourage them to contribute to plan targets. Government should create the right policy climate- predictable, irreversible and transparent- to help the corporate sector contribute resources for the plan: fiscal, monetary, forex and other dimensions.

Indicative planning is to assist the private sector with information that is essential for its operations regarding priorities and plan targets. Here, the Government and the corporate sector are more or less equal partners and together are responsible for the accomplishment of planning goals. Government, unlike earlier, contributes less than 50% of the financial resources. Government provides the right type of policies and creates the right type of milieu for the private sector- including the foreign sector to contribute to the results. Indicative planning gives the Government an opportunity to give the private sector encouragement to achieve growth in areas where the country has inherent strengths. It is known to have brought Japan results in shifting towards microelectronics. In France, too indicative planning was in vogue.

Planning Commission would work on building a long-term strategic vision of the future. The concentration would be on anticipating future trends and evolving strategies for competitive international standards. Planning will largely be indicative and the public sector would be gradually withdrawn from areas where no public purpose is served by its presence. The new approach to development will be based on a re-examination and re-orientation of the role of the government". This point is particularly stressed in the development strategy of the Tenth Five Year Plan (2002-2007). Indicative planning was not contemplated at the beginning of fifties as there was hardly any corporate sector in India and Government shouldered almost the entire responsibility of socio-economic planning.

Ninth Five Year Plan (1997-2002) The salient features of the Ninth Five Year Plan are a target annual average growth rate of 6.5 per cent for the economy as a whole, and a growth rate of 3.9 per cent for agriculture sector, among others. The key strategies envisaged to realise this target rest on attaining a high investment rate of 28.2 per cent of GDP at market prices. The domestic saving rate, which determines the sustainable level of investment, is targeted at 26.1 per cent of the GDP. Care has been taken to ensure achievement of a sustainable growth path in terms of external indebtedness as well as fiscal stability. Rate of growth achieved was 5.4%. The plan oeriod saw many crises- political instability; south east Asian economic crisis; Kargil war; 2011 September terrorism in USA etc. However, the first India company was listed on the Nasdaq (Infy) followed by many others.

Tenth Five Year Plan (2002–2007) The main objectives of the tenth Five Year Plan of India were:

- Attain 8% GDP growth per year.
- Reduction of poverty rate by 5 percentage points by 2007.
- Providing gainful and high-quality employment at least to the addition to the labor force.
- Reduction in gender gaps in literacy and wage rates by at least 50% by 2007.

Eleventh Five Year Plan 'Towards Faster and More Inclusive Growth' is the central theme of the plan that sought to lower poverty by 10%, generate 70 million new jobs, and reduce unemployment to less than 5% Eleventh Five-Year Plan promised to accelerate economic growth and make it more inclusive. The chief thrust of the plan, that will run from 2007-08 to 2011-12, will be agriculture, education and infrastructure -- all areas that remain a concern in a rapidly growing economy. As many as 27 detailed national targets were set in the plan, ranging from enhancing incomes and reducing poverty, to education, literacy, health, infant mortality, maternal mortality and child development.

Twelth Five Year Plan (2012-17) aimed to achieve annual average economic growth rate of 8 per cent. During the 11th Plan (2007-12), India recorded an average economic growth rate of 7.9 per cent. This, however, is lower than the 9 per cent targeted in 11th Plan.12th Plan aimed to achieve 4 per cent agriculture sector growth during 2012-17. The growth target for manufacturing sector was pegged at 10 per cent. It aimed to bring down the poverty ratio by 10 per cent.

Growth Performance in the Five Year Plans (per cent per annum)

	Target	Actual
1. First Plan (1951-56)	2.1	3.61
2. Second Plan (1956-61)	4.5	4.32
3. Third Plan (1961-66)	5.6	2.38
4. Fourth Plan (1969-74)	5.7	3.21
5. Fifth Plan (1974-79)	4.4	4.80
6. Sixth Plan (1980-85)	5.2	5.69
7. Seventh Plan (1985-90)	5.0	5.81
8. Eighth Plan (1992-97)	5.6	6.7
9. Ninth Plan (1997-2002)	6.5	5.35
10. Tenth Plan(2002-2007)	8%	7.8%
11. Eleventh Plan(2007-12)	9%	7.9%
12. Twelfth FYP	8%	5.1% in 2012-13; 6.9% in 2013-14; 7.2% in 2014-15: 7.6% in 2015-16; 7.1% in 2016-17

Achievements of Planning

In the last about 65 years since planning began, the National Income has increased many times. Today, India is the third largest economy in Asia with about $2.25 trillion GDP after China and Japan. By 2017, For the first time in 150 years, India surpassed its erstwhile colonial master in terms of GDP and is now the fifth largest in the world after the U.S., China, Japan and Germany. By PPP measurement, India is 3rd largest in the world. India overtook Japan to become the world's third-largest economy in purchasing power terms. India's GDP PPP Per Capita is forecast to be billion 7,773.16 $ in Mar 2018 as reported by International Monetary Fund - World Economic Outlook. It records an increase from the last reported number of 7,153.25 billion $ in Mar 2017.

The PPP system allows GDP comparisons to be made by asking how much money would be needed to purchase the same goods and services in two countries and using that to calculate an implicit foreign exchange rate.

The Economist magazine's proprietary Big Mac Index, which takes the price of a McDonald burger across 120 countries to calculate the 'real' price of their currencies, is another crude way to measure PPP. India was included in the index recently. It showed that the Indian rupee was undervalued by more than 60% against the US dollar in 2016.

Social indicators improved though there is a long way to go- IMR, MMR, literacy, disease eradication etc. (Given elsewhere in the Notes) The industrial infrastructure is relatively strong – cement, steel, fertilizers, chemicals, etc Agricultural growth is also gaining momentum with food grains production at 274 mt in 2016-17.

Forex reserves are $400 b (October 2016) which is a dramatic turnaround from 1991 when we had one billion dollars.

The Government of India has set a target of 175 GW renewable power installed capacity by the end of 2022. This includes 60 GW from wind power, 100 GW from solar power, 10 GW from biomass power and 5 GW from small hydro power.India has emerged as a back office of the world and its prowess in software is growing.India occupies the sixth position among the world's 10 largest manufacturing countries,according to United Nations Industrial Development Organization (UNIDO) report in 2017.India's services sector, which stands at about $1.48 trillion is acknowledged globally.There has been considerable expansion of higher education. At the time of Independence there were 20 universities and 591 colleges, while today (2016) there are more than 700 universities and about 40,000 colleges.

India's literacy rate has increased six times since Independence — from 12 per cent to 74 per cent in 2011.

The failures of planning are equally clear

- As per the ***Rangarajan*** panel estimates, poverty stood at 38.2 per cent in 2009-10 and became worse at 29.5 per cent in 2011-12- (2014)
- Unemployment is high
- Regional imbalances are intensifying
- Malnutrition haunts about half the children in India.

Financial Planning

Here, physical targets are set in line with the available financial resources. Mobilization and setting expenditure pattern of financial resources is the focus in this type of planning.

Physical Planning

Here, the output targets are prioritized with inter-sect oral balance. Having set output targets, the finances are raised.

Economic Reforms

Since July 1991, India has been taking up economic reforms to achieve higher rates of economic growth so that socio-economic problems like unemployment, poverty, shortage of essential goods and services, regional economic imbalances and so on can be successfully solved. The force behind the reforms is

- Indian economy reached a level of growth and strength to benefit from an open market economy.
- Private sector in India had come of age and was willing and capable of playing a major role
- Indian economy needed to integrate with the world with all the advantages like capital flows; technology; higher level of exports; state of art stock markets; Indian corporates can raise finances abroad and so on.

The country under the leadership of Dr. Manmohan Singh, Union Finance minister (1991-1996 and Prime Minister 2004-14) converted the economic crisis – caused by , domestic cumulative problems of economy, political instability and gulf crisis-into an opportunity to initiate and institutionalise economic reforms to open up the economy. The deep crisis in 1991 could not be solved by superficial solutions. Therefore, structural reforms were taken up.

It was realized that by closing economy to global influences, the country was missing on technology developments and also gains from global trade and investments. India needed exports, FDI and FII for stability on the balance of payments front and higher growth rates for social development. Worldwide, countries were embracing market model of growth, for example China, with proven results. So, India could make the historic shift from centralized planning to market-based model of growth.

Initially reforms were feared and resisted as there was scepticism and fear as the experience in Latin American countries in the 1980s was not a success in economic and social terms. The fears related to

- Inflation as there will be little left for domestic consumption as exports would be the focus to earn foreign exchange
- Large scale unemployment due to capital intensity of growth process to be competitive
- Worsening of poverty as fiscal concerns will reduce social sector expenditure
- Flood of imports as customs duties will come down.
- food security will suffer as social sector expenditure will be reduced
- Pressures on labour sector due to domestic industry's compulsions to cut costs

Some fears have indeed come true- jobless growth and uncertainty in farming. But by and large, reforms have done well.

Reforms mainly targeted the following areas:

- Dismantling the licence raj so that private sector and government were on a level playing field

- Drive public sector towards sustainable profitability and global play by dereservation; disinvestment; professionalization of management etc

- Fiscal reforms for stabile economic growth.

- Banking sector is deregulated and made to conform to stringent reforms for higher competitive strength and performance globally

- move towards free float of rupee and relaxation of controls on convertibility; aggressive export promotion; FDI and FII inflows etc.

Reforms were prioritized and sequenced in such a way as to make them sustainable and render further reforms feasible. For example, first generation reforms involved essentially non-legislative government initiatives- reduce SLR and CRR for the banking sector. Disinvestment of the PSEs. Deregulation of the rupee gradually and later make exchange rate of the rupee market-driven and so on. The second generation reforms involve legislative reforms and touch a wider section of the society- labour reforms; GST, FDI expansion etc. The former prepares the economy for the latter.

Above all, reforms with human face was the goal, unlike elsewhere in the world like in South America in the 1980's. It yielded results- the social effect of the reforms in India is seen in the flagship schemes making an impact on health, education, social protection etc. The reforms gained consensus and showed positive results as can be seen below.

- Rates of growth went up
- BOP crisis has been solved in the first few years and today the country has about $ 400 b forex reserves (2017 October)
- Services sector (tertiary sector) has grown in importance and today contributes almost 60% of GDP (2017) emerging as a global player-India being the global back office.
- Resilience of the economy in the face of Great Recession
- Consumer choice has increased
- Tax-GDP ratio may have shrunk but the tax collections and base increased
- Nature of external debt has changed and the short term component is less
- Indian companies are listed on Nasdaq and New York Stock Exchange and raised billions of dollars for investment
- FIIs and FDI picked up.
- Indian corporates have acquired global majors like Jaguar and Anglo-Dutch steel maker Corus; Bharati bought Zain's African telecom operations.

While the above facts paint a positive picture of reforms, there are deficiencies as well

- poverty is a challenge and reforms with a human face is the need of the hour
- jobless growth is worrying the policy makers
- regional economic imbalances are intensifying
- While foodgrains production is at 274mt(2017), there is still pressure on food security
- farmers are feeling directionless under the WTO regime
- Globalization threatens to destabilize agriculture with cheaper imports and questionable provisions related to intellectual property rights impacting negatively on availability of medicines etc.
- Infrastructure so far received inadequate attention except telecom ,roads and ports
- PSU reforms have not made progress and disinvestment and privatization are still to see substantial movement

Second Generation Reforms

Having begun with the reforms in all the above sectors and seen the economy benefit from them, the second generation reforms were initiated by the end of 1990's. The reason for calling the latter set of reforms SGR is that they followed the initial reforms which laid the foundation for the reform process to deepen. It is a matter of sequencing in line with prioritization; economic preparation; consensus-building and so on. In fact, unless the success in material and human terms of the initial reforms was demonstrated, the next round of 'difficult' reforms would not be possible.

Second generation reforms - labour law flexibility, pension reforms based on employee contribution and the pension funds being deployed in the stock market; GST; liberalized FDI including FDI in retail etc - touch on the lives of ordinary people and need successes in other sectors- first generation reforms- to make a convincing case. Otherwise, they may not be allowed by public opinion as we have seen in the case of FDI-Multibrand retail(Walmart etc) debate.

Second generation reforms are difficult as they are directly involved with the daily lives of people like

- User charges need to be rationalized to make these utilities viable but there are bound to be protests
- Man power rationalization in banks and PSUs through VRS faced resistance.
- Labour law flexibility will make TUs agitate.
- Interst rate cut, for example, for small savings will mean less returns for the middle class etc
- Agro reforms may mean small and marginal farmers' resistance

However, unless the SGRs are carried out, investment and growth will suffer with long term adverse consequences for poverty alleviation and employment generation. As the long term benefits of the reforms are bound to show in terms of higher growth rates and more social welfare, consensus needs to be built for successful legislation and implementation of SGRs. Labour laws being reformed in 2014 under the Modi government are an example of 2nd generation reforms. Deregulation of petrol and diesel prices and introduction of dynamic pricing (2014-17); LPG subsidy reforms in 2016 etc.

12 FYP-Related

India@75

It is a path breaking initiative. It envisions how India should be in her 75th year of independence and seeks to bring together all stakeholders including the industry, government, institutions, community groups and individuals to translate the vision into a reality.Prof (Late) C.K.Prahalad has been the inspiration behind India@75. While commemorating the 60th year of India's independence, in 2007 he articulated the idea of holistic three dimensional development of India to acquire enough economic strength, technological vitality and moral leadership by 75 years of independence. CII adopted his vision in 2008.The concept was adopted by CII to bring together all stakeholders, including the industry, government, institutions, community groups and individuals to translate the vision into reality.

IBIN

- Planning Commission jointly with India@75 foundation launched in 2013, its unique initiative- India Backbone Implementation Network (IBIN) to remove bottlenecks for improving implementation of policies. "The IBIN, structurally an organisation, is essentially a process that will promote widespread capabilities in the country to systematically convert confusion to coordination, contention to collaboration, and intentions to implementation," an official statement says. IBIN aims to seed new techniques into the service delivery system; build a network of partners to create capability to manage effective stakeholder dialogues, resolve dispute and conduct policy impact analysis.

It will also build a knowledge base of tools, techniques and examples to systematically analyse situations or challenges and proactively create solutions.

IBIN is the model of a process for rapidly improving a nation's capabilities to get things done systematically and democratically s in the Total Quality Movement (TQM) in Japan. In less than two decades, Japan, that had a reputation for poor quality and low-cost products, became the international benchmark of quality in many industries and several of its public services too. The essence of the TQM movement was the deployment, at several levels in many organisations: especially the 'shopfloor' levels, but higher levels also, even to top management, of simple techniques for systems thinking, cooperative action and continuous improvement. These techniques were developed by experts in companies and universities and disseminated in the country through industry and other institutional networks, and through radio, pamphlets, competitions and other means of connecting with the public.

The 'movement' grew as a network: it was not a centrally-managed government programme. There was a principal node in the network: a non-governmental body, the Japanese Union of Scientists and Engineers (Juse), in which many persons from industry and academia, and also government participated to provide a facilitative leadership to the movement.The architecture of IBIN is along similar lines as the TQM movement of Japan. Experience of other countries, such as South Korea and, more recently, Malaysia, which have systematically improved capabilities of coordination and implementation, has also been considered while developing IBIN to fit India's conditions.

NITI Aayog

In 2015, Government of India set up the NITI Aayog or National Institution for Transforming India Aayog with modified functions in comparison to its predecessor Planning Commission. The reasons were that the nature of economy changed towards a market-dominated system and that the rights of states were to be given greater consideration for which a new structure and dynamic was required. Planning Commission is largely portrayed as overriding the sensitivities and priorities of states and thus was not respectful of federalism. Niti Aayog is a policy think-tank of Union Government of India that aims to involve the states in economic and development policy making in India. It provides strategic and technical advice to the government. Prime Minister of India heads the Aayog as its chairperson.

In Hindi, NITI means Policy, and Ayog means Commission."India is a diversified country and its states are in various phases of economic development along with their own strengths and weaknesses. In this context, a 'one size fits all' approach to economic planning is obsolete. It cannot make India competitive in today's global economy"

The NITI Aayog comprises the following:

1. Prime Minister of India as the Chairperson
2. Governing Council comprising the Chief Ministers of all the States /UTs and Lieutenant Governors of Union Territories
3. Regional Councils may be formed to address specific issues and contingencies impacting more than one state or a region. These are formed for a specified tenure. The Regional Councils will be convened by the Prime Minister and will comprise of the Chief Ministers of States and Lt. Governors of Union Territories in the region. These will be chaired by the Chairperson of the NITI Aayog or his nominee
4. Experts, specialists and practitioners with relevant domain knowledge as special invitees nominated by the Prime Minister
5. Full-time organizational framework comprises of
   - Vice-Chairperson
   - Members: four Full-time
   - Part-time members: Maximum of two from leading universities research organizations and other relevant institutions in an ex-officio capacity. Part-time members will be on a rotational basis
   - Ex Officio members: Maximum of four members of the Union Council of Ministers to be nominated by the Prime Minister
   - Chief Executive Officer: To be appointed by the Prime Minister for a fixed tenure
   - Secretariat as deemed necessary

Aim's and Objectives of NITI Ayog

NITI Aayog provides a critical directional and strategic input into the development process. It is a "think-tank" that will provide Governments at the central and state levels with relevant strategic and technical advice across the spectrum of key elements of policy such as Make in India, Digital India and Swachh Bharat.

It will foster better Inter-Ministry coordination and better Centre-State coordination. It will help evolve a shared vision of national development priorities, and foster cooperative federalism, recognizing that strong states make a strong nation.

The NITI Aayog will develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government- bottom up approach to development. It will ensure inclusive economic growth.

The NITI Aayog will create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and partners.

NITI Aayog will monitor and evaluate the implementation of programmes and focus on technology upgradation and capacity building.

Through the above, the NITI Aayog will aim to accomplish the following objectives and opportunities:

- An administration paradigm in which the Government is an "enabler" rather than a "provider of first and last resort."

- Progress from "food security" to focus on a mix of agricultural production, as well as actual returns that farmers get from their produce..
- Ensure that the economically vibrant middle-class remains engaged, and its potential is fully realized.
- Leverage India's pool of entrepreneurial, scientific and intellectual human capital.
- Incorporate the significant geo-economic and geo-political strength of the Non-Resident Indian Community.
- Use urbanization as an opportunity to create a wholesome and secure habitat through the use of modern technology.
- Use technology to reduce opacity and potential for misadventures in governance.
- Leveraging of India's demographic dividend, and realization of the potential of youth, men and women, through education, skill development, elimination of gender bias, and employment
- Elimination of poverty, and the chance for every Indian to live a life of dignity and self-respect
- Reddressal of inequalities based on gender bias, caste and economic disparities
- Integrate villages institutionally into the development process
- Policy support to more than 50 million small businesses, which are a major source of employment creation
- Safeguarding of our environmental and ecological assets

NITI Aayog vs Planning Commission

1. Planning Commission had allocative functions – recommending plan financial transfers; centrally sponsored schemes etc. Niti Aayog does not have such function
2. Planning Commission had many more members and all were full time members.
3. Planning Commission was directed by the National Development Council to flesh out the FYPs. Niti Aayog on the other hand has both the political wing composed Union Ministers and Chief Ministers as well as the think tank wing in a single body.
4. Niti Aayog has provision of regional councils that Planning Commission did not have.
5. In the NITI Aayog, State governments play a more significant role through Governing Council than they did in the Planning Commission.Planning Commission - States' role was limited to the National Development Council and annual interaction during Plan meetings

Critical Appraisal

The government's move to replace the Planning Commission with a new institution called 'NITI Aayog' is open to criticism that it is only a nomenclatural change. However, the new body also does contribute to cooperative federalism. Former Planning Commission member Arun Maira." The idea to create an institution where states' leaders will be part and parcel of the collective thinking with the Centre and other stakeholders in formulating a vision for the development of the country is right on as compared with the previous structure, where a handful of people formulated the vision and then presented it to the National Development Council (NDC). This was not entirely absorbed and adopted by the latter."

One important change introduced is to resize and restructure. From 1,250 positions, a downsizing was done to about 500 employees in the institution. There has also been a restructuring within the institution dividing the staff into two hubs—one is the Knowledge and Innovation hub, and the other is called the Team India hub. Team India hub largely interfaces with states because cooperative competitive federalism is one of our important mandates. Knowledge and Innovation hub is going has about 12-14 verticals which will deal with different sectors. It also adopted a different approach in its relationship with states. The relationship under the previous institution (Planning Commission) wasunequal, because the institution gave plan assistance to states and became the 'giver' and states became the 'recipients' of the money. This made the relationship unequal. Now, Niti tried to have a more equal relationship.

There is a very good example of the equality in the relationship (between NITI Aayog and states). In 2015, three sub- groups of chief ministers were set up for making recommendations in three important areas (centrally-sponsored schemes, skill development and Swachh Bharat). The sub-group on centrally-sponsored schemes was asked to study 66 centrally-sponsored schemes and recommend which ones to continue, which to transfer to states, and which to cut down.

NITI Aayog will monitor, coordinate and ensure implementation of the globally accepted Sustainable Development Goals. It is nominated as the nodal body that will bring the 17 development goals into action across India. The SDGs are aimed at eradicating all forms of poverty.

NITI's Achievements By 2017

Vision Document, Strategy & Action Agenda beyond 12th Five Year Plan: Replacing the Five Year Plans beyond 31st March, 2017, NITI Aayog prepared the 15-year vision document keeping in view the social goals set and/ or proposed for a period of 15 years; A 7-year strategy document spanning 2017-18 to 2023-24 to convert the longer-term vision into implementable policy and action as a part of a "National Development Agenda". The 3-year Action Agenda for 2017-18 to 2019-20 is aligned to the predictability of financial resources during the 14th Finance Commission Award period.

I. Reforms in Agriculture:

- **Model Land Leasing Law**
  Taking note of suboptimal use of land with lesser number of cultivators, NITI Aayog has formulated a Model Agricultural Land Leasing Act, 2016 to both recognize the rights of the tenant and safeguard interest of landowners. A dedicated cell for land reforms was also set up in NITI. Based on the model law, Madhya Pradesh has enacted separate land leasing law and Uttar Pradesh and Uttarakhand have modified their land leasing laws. Some States, including Odisha, Andhra Pradesh and Telangana, are already at an advance stage of formulating legislations to enact their land leasing laws for agriculture.

- **Reforms of the Agricultural Produce Marketing Committee (APMC) Act**
  NITI Aayog consulted States on critical reforms –

  i) Agricultural marketing reforms
  ii) Agricultural land leasing

  Subsequently, Model APMC Act version 2 prepared. States are being consulted to adopt APMC Act version 2.

- **Agricultural Marketing and Farmer Friendly Reforms Index**
  NITI Aayog has developed the first ever 'Agriculture Marketing and Farmer Friendly Reforms Index' to sensitise states about the need to undertake reforms in the three key areas of Agriculture Market Reforms, Land Lease Reforms and Forestry on Private Land (Felling and Transit of Trees). The index carries a score with a minimum value "0" implying no reforms and maximum value "100" implying complete reforms in the selected areas.

  As per NITI Aayog's index, Maharashtra ranks highest in implementation of various agricultural reforms. The State has implemented most of the marketing reforms and offers the best environment for undertaking agri-business among all the States and UTs. Gujarat ranks second with a score of 71.50 out of 100, closely followed by Rajasthan and Madhya Pradesh. Almost two third States have not been able to reach even the halfway mark of reforms score, in the year 2016-17. The index aims to induce a healthy competition between States and percolate best practices in implementing farmer-friendly reforms.

II. Reforming Medical Education

A committee chaired by Vice Chairman, NITI Aayog recommended scrapping of the Medical Council of Indi and suggested a new body for regulating medical education. The draft legislation for the proposed National Medical Commission has been submitted to the Government for further necessary action.

III. Digital Payments Movement

- An action plan on advocacy, awareness and co-ordination of handholding efforts among general public, micro enterprises and other stakeholders was prepared. Appropriate literature in print and multimedia was prepared on the subject for widespread dissemination. Presentations/interactions were organized by NITI Aayog for training and capacity building of various Ministries/Departments of Government of India, representatives of State/UTs, Trade and Industry Bodies as well as all other stakeholders.

- NITI Aayog also constituted a Committee of Chief Ministers on Digital Payments in November 2016 with the Chief Minister of Andhra Pradesh, Chandrababu Naidu, as the Convener to promote transparency, financial inclusion and a healthy financial ecosystem nationwide. The Committee submitted its interim report to Prime Minister in 2017.

- Niti Aayog also launched two incentive schemes to promote digital payments across all sections of society - the Lucky Grahak Yojana and the Digi Dhan Vyapar Yojana.

- Digi Dhan Melas were also held for 100 days in 100 cities.

IV. Atal Innovation Mission

The Government has set up Atal Innovation Mission (AIM) in NITI Aayog with a view to strengthen the country's innovation and entrepreneurship ecosystem by creating institutions and programs that spur innovation in schools, colleges, and entrepreneurs in general. In 2016-17, the following major schemes were rolled out:

- Atal Tinkering Labs (ATLs): To foster creativity and scientific temper in students, AIM is helping to establish 500 ATLs in schools across India, where students can design and make small prototypes to solve challenges they see around them, using rapid prototyping technologies that have emerged in recent years.

- Atal Incubation Centres (AICs): AIM will provide financial support of Rs.10 crore and capacity buidling for setting AICs across India, which will help startups expand quicker and enable innovation-entrepreneurship, in core sectors such as manufacturing, transport, energy, education, agriculture, water and sanitation, etc.

V. Indices Measuring States' Performance in Health, Education and Water Management

As part of the Prime Minister's Focus on outcomes, NITI has come out with indices to measure incremental annual outcomes in critical social sectors like health, education and water with a view to nudge the states into competing with each other for better outcomes, while at the same time sharing best practices & innovations to help each other - an example of competitive and cooperative federalism.

VI. Sub-Group of Chief Ministers on Rationalization of Centrally Sponsored Schemes

Based on the recommendations of this Sub-Group, a Cabinet note was prepared by NITI Aayog which was approved by the Cabinet on 3rd August, 2016. Among several key decision, the sub-group led to the rationalization of the existing CSSs into 28 umbrella schemes.

VII. Sub-Group of Chief Ministers on Swachh Bharat Abhiyan

Constituted by NITI Aayog on 9th March, 2015, the Sub-Group has submitted its report to the Hon'ble Prime Minister in October, 2015 and most of its recommendations have been accepted.

VIII. Sub-Group of Chief Ministers on Skill Development

Constituted on 9th March, 2015, the report of the Sub-Group of Chief Ministers on Skill Development was presented before the Hon'ble Prime Minister on 31/12/2015. The recommendation and actionable points emerging from the Report were approved by the Hon'ble Prime Minister and are in implementation by the Ministry of Skill Development.

IX. Task Force on Elimination of Poverty in India

Constituted in 2015 under the Chairmanship of Dr. Arvind Panagariya, Vice Chairman, NITI Aayog, the report of the Task Force was finalized and submitted to the Prime Minister on 11th July, 2016.The report of the Task Force primarily focusses on issues of measurement of poverty and strategies to combat poverty. It is recommended that an expert committee be set up to arrive at an informed decision on the level at which the poverty line should be set." With respect to strategies to combat poverty, the Task Force has made recommendations on faster poverty reduction through employment intensive sustained rapid growth and effective implementation of anti-poverty programs.

X. Task Force on Agriculture Development

The Task Force on Agricultural development was constituted in 2015 under the Chairmanship of Dr. Arvind Panagariya, Vice Chairman, NITI Aayog. The Task Force based on its works prepared an occasional paper entitled "Raising Agricultural Productivity and Making Farming Remunerative for Farmers" focusing on 5 critical areas of Indian Agriculture. These are (i) Raising Productivity, (ii) Remunerative Prices to Farmers, (iii) Land Leasing, Land Records & Land Titles; (iv) Second Green Revolution-Focus on Eastern States; and (v) Responding to Farmers' Distress. After taking inputs of all the

States on occasional paper and through their reports, the Task Force submitted the final report to Prime Minister in 2016. It has suggested important policy measures to bring in reforms in agriculture for the welfare of the farmers as well as enhancing their income.

National Development Agenda

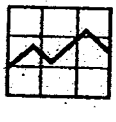
NITI Aayog's third Governing Council meet held earlier in 2017 saw the Prime Minister presenting National Development Agenda.

The National Development Agenda includes:

- Vision: A 15-year-long vision between 2017-18 to 2031-32 that combines national goals with international sustainable goals.
- Strategy: A 5-year long plan between 2017-18 to 2023-24 to convert broader vision into implementable policy.
- Action Plan: A three year short-term action plan between 2017-18 to 2019-2020 to translate policies into action by 2019.

The National Development Agenda aims at good governance and best practices in sustainable and equitable development.It offers a resolution method for inter-sector and inter-departmental issues in order to accelerate the implementation of the development agenda.

5 YEAR PLAN →
NATIONAL DEVELOPMENT AGENDA

VISION	STRATEGY	ACTION PLAN
2017-18 to 2031-32	2017-18 to 2023-24	2017-18 to 2019-20
▪ 15-year long-term Vision	▪ 7-year mid-term Strategy	▪ 3-year short-term Action Plan
▪ Combines national social goals and international Sustainable Development Goals	▪ Converts a broader vision into implementable policy	▪ Translates policy into action by 2019
▪ Expands beyond the traditional Plan mandate to include Internal security, defence, etc.		▪ Aligned to the predictability of financial resources during the 14th Finance Commission Award Period

Beginning 2017-2018

There are over 300 specific action points that had been identified, covering the whole gamut of sectors. The period of action agenda coincides with the period of the 14th Finance Commission's award.

India And The Manufacturing Sector

India's development experience with planning in the 1950's had a foundational approach to manufacturing. The Nehru-Mahalanobis model (2nd FYP) is premised on capital goods industry and self-reliance. India had the manpower. Technical institutes were set up and higher education received its due. R&D was focused upon to feed into manufacturing through better technology. Howeve, the momentum could not be sustained as we did not have the land resources necessary; R&R policy could not be implemented satisfactorily and thus land acquisition was difficult in a democracy; domestic private sector investment was scarce; we did not open upto FDI and thus competition suffered as did productivity. Lack of an outward looking policy dented on our competitiveness. By the nineties, China already was becoming an global industrial powerhouse. Since then, the following factors acted as deterrents to India's manufacturing drive.

1. Infrastructure bottlenecks – power, roads, telecom etc.
2. from the last decade, Chinese imports did not allow local manufacturing and in fact led to de-industrialisation in India whether solar cells, tyres, steel, electronic items etc.
3. reservation for the MSMEs and favourable terms to them led to the moral hazard- they developed a vested interest in not scaling up
4. labour laws were made to protect labour that was already working. They could not be retrenched and thus companies preferred capital intensity as there was no liberal "exit policy"
5. India did not spend on R&D for product development.
6. Lack of ease of doing business also hampered investment and industrial growth.
7. In the last two decades, services sector emerged as a globally strong force and it seemed that we could skip the secondary sector and focus on becoming a global back office.

Services sector –led growth in India: Certain dimensions

The services sector is the dominant sector in India's GDP. There is more FDI into services sector than manufacturing. Service exports are making up for merchandise trade deficit. However, India's economic growth path has been markedly different.

In today's developed economies, manufacturing led the growth process in early stages of development. After agriculture matured, services took over the lead role only after a fairly high level of industrial development had been reached. The same pattern was also observed in the East Asian "tiger" economies and in China.

Like many other developing countries, India's economic growth has not conformed to this classical historical pattern of agriculture to industry to services. We opted to promote services sector in preference to manufacturing as we saw global opportunity in it as also because our land resources did not allows us to go for large scale manufacturing- witness the friction in setting up the special economic zones. India differs from China in this regard as well as the fact that China is authoritarian and the government held all the land. Suiting India, the world offered historic opportunities by way of digitization and globalization.

In the 1990's certain government policies favoured services and disadvantaged manufacturing. Compared to manufacturing, services have been lightly taxed and taxing began only in 1994. Rise in per capita income also had a significant effect on the demand for better services in the country- education, health, transport, finance, advertising, telecom, insurance etc.

Inadequate attention to development of physical infrastructure constrained manufacturing more than services. And since the reforms of the early 1990s, trade and foreign investment for services have been more liberal than those for manufacturing. The digital push to economic growth made globalization inevitable and irreversible and raised prospects for service sector growth in India.

Services contribute more than manufacturing to India's "output growth, productivity growth and job growth."

Earlier there were fears that services sector could not sustain an economy but in three critical areas there is parity or even superiority established by the services sector- trade-ability, transport-ability and scal-ability. Thanks to digital technologies connecting the world seamlessly.

About the sustainability of service sector led growth in India, Ejaz Ghani, World Bank economist and a service sector evangelist for India's rapid economic growth, says: "The digital revolution, by lowering transaction costs in services and overcoming problems of asymmetric information, has made services more dynamic than in the past. The emergence of e-commerce platforms is an example of how digital revolution can lower transaction costs, increase productivity as well as make it more inclusive. For many internet-based businesses or services, fixed up-front costs can be high initially, but once the physical infrastructure is in place, each additional customer, user, or transaction incurs very little extra cost.There is mounting empirical evidence that developing countries are relying more on services and less on manufacturing as drivers of growth and job creation .Globalization of services is the tip of the iceberg. Services, which account for more than 70% of global output, are still in their infancy. The long-held view that services are non-transportable, non-tradable, and non-scalable no longer holds for a host of services that can be digitized.The globalization of services provides new opportunities for India to find niches beyond manufacturing, where it can specialize, scale up, and achieve high growth. As the services produced and traded across the world expand with globalization, the possibilities to develop based on services will continue to expand. This pace of change will be rapid in line with the digital revolution. Global internet usage has grown. But this growth is much faster in developing countries. India alone adds one million new users every month to a booming mobile phone market.

Ghani's Prescriptions: Investments in both physical and human infrastructure matter greatly for attracting new enterprises in both manufacturing and service industries. But unlike in the manufacturing sector, investments in human infrastructure, education and skills, matter much more. Given its stage of development, India needs accelerated investments in both physical and human infrastructure to support new drivers of growth and job creation.

Some policy experts have rightly argued that India is on the "brink" of a techno-institutional revolution. Take the example of mobile technology and examine its role in banking. Banking is currently concentrated in the urban areas, but cities are saturated with bank branches. On the other hand, 300 million rural people across 300 districts in India have no access to banking. Expansion of digital technology can play a big role in improving rural access to banking. Financial inclusion can be achieved through last-mile connectivity. Payments Banks since 2016 have been helping in the process. India Post Payments Bank is likely to revolutionalise financial inclusion even more. That in turn could help medium-size cities, small towns and villages to become new drivers of growth. Digital India, Jan Dhan, Skill India, Payments Banks are some examples.

Services Sector Growth And Jobs In India

Three basic groups of services can be defined: traditional services which include "wholesale and retail trade, "hotels and restaurants" and "transport and storage"; modern services which include "communication" (a category that includes telecom services), "financial services" and "real estate-renting-business services" (a category that includes software services); and social services which include "public administration and defence" and "community, social and personal services". The traditional and the social services are non-tradable while the modern services are internationally tradable. The traditional and the modern services are mostly in the private sector while the social services are mostly in the public sector.

Services stand out in many important ways. Some generalities need to be noted to begin with. Services are of three types: traditional, modern and social services. "Modern services"—banking and insurance, education, computer related services, research and development, health, communication, legal services and accounting—together account for about 16% of GDP. Modern and social services are produced in the organised sector and mainly by formal employees. Traditional services are essentially produced in the unorganised sector and mainly by self-employed workers and employ generally low-skilled workers while modern and social services employ high-skilled workers. Labour productivity in traditional services is much lower than that in modern services. In 2010, modern services accounted for less than 11 per cent of total services employment and 38 per cent of services output, while traditional services accounted for 58 per cent of services employment and 40 per cent of services output. Thus, modern services productivity is higher.

Overall, services provide better-quality employment and more high skilled workers in comparison to manufacturing. It helps in formalisation of employment with all the benefits to employees.

As can be inferred from above, there is a wide gap between what the services sector contributes to the economy and its employment.For India, the share of the services sector in GDP is 53.2%, while its share of total employment is much less, at 28.6%.

Construction sector is in the secondary sector in the classification of components of economy by the CSO in the national income calculations.

A common misperception has to be corrected. India's services-led growth has not been "jobless". It has created not only large number of jobs but also high quality, formal, highly skilled jobs. Real wages of both regular-formal and casual employees have also increased though the former have gained much more than the latter.

Manufacturing is far less job-intensive and creates low-skilled jobs unlike the services-led growth. Experts on the basis of the above evidence say that manufacturing-led growth could be used to shift labour out of agriculture and thus reduce underemployment and povertyand the rise in income inequality.

1990s, saw a combination of factors driving services sector growth domestically and globally raising hopes that it can more than substitute for the manufacturing led growth. Digital technology grew at exponential speed and services sector was the biggest beneficiary particularly for India with its higher education advantages. It automatically led to growth in financial services, telecom, retail and spread to transportation, travel, tourism, media, health services and so on as government policies favoured and the percapita incomes rose. Technology facilitated new ways of doing business via increasing computing power, data storage capacity and data transmission capacity. Telecom connectivity has grown at a rapid pace Farmers who were earlier dependent on middlemen, now have better information on pricing. The organised retail sector has brought in efficiency in the supply chain. We are now seeing the rapid growth of e-commerce and online retail stores.The automobile industry is a key contributor as the rise in sales of personal vehicles has created a multiplier effect on support services required after sales.

Transportation and logistics services grew rapidly as demand for goods grew across the country. Service sector not only creates direct output and direct employment, but also the ancillary services and employment generation. For every job created in the IT and IT enabled services sector, four jobs are created elsewhere.

India's current per capita income is about $1,800 (India in 2017) and has enormous implications for savings growth, consumption demand and the ability to be a sustainable driver for the demand in services. Travel sector is seeing growth as air and road travel grow, in turn leading to a growth in demand for tourism and hotels. It is aided by initiatives like "Paryatan Parv organized by Ministry of Tourism in collaboration with other Central Ministries and State Governments across the country in October 2017.

Similarly other sectors like media, entertainment, health care and education all benefited with increased aspirations of the retail consumer.

Technology continues to drive innovation and creation of new smart business models which are based on leveraging digitisation, mobility and social media. Given these factors, coupled with our demographic dividend and the expected jump to a higher trajectory for both growth and per capita GDP, we have the right conditions for a virtuous cycle to sustain for many years that will have a GOI wants services sector boosted and so has many incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.

India signed Comprehensive Economic Partnership Agreement (CECA) with Malaysia and Singapore and Comprehensive Economic Cooperation Agreement (CEPA) with Japan and South Korea. Both have a service component.

After the trade facilitation agreement (TFA) in goods under the World Trade Organization (WTO) came into force in 2017, India submitted the draft legal text at the multilateral body for a similar agreement in services which is expected to help in the smooth movement of professionals.The implementation of the Goods and Services Tax (GST) would create a common national market and reduce the overall tax burden on goods. It is expected to reduce costs in the long run on account of availability of GST input credit, which will result in the reduction in prices of services.

India-ASEAN free trade *agreement* (FTA) in *services* and investments *came into force* from 2015 in countries which have ratified it.