



ANALYSIS OF CAPITAL FORMATION AND DOMESTIC SAVING IN INDIAN ECONOMY: A COMPARATIVE STUDY DURING PRE AND POST-WTO

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ABSTRACT: Capital formation is a measure of additions to the (physical) capital stock of a country (or economic sector) in accounting interval, or, a measure of the number by that the entire physical capital stock accumulated throughout accounting period. Saving is financial gain not spent, or postponed consumption. Ways of saving embody golf shot cash aside in, as an example, a time deposit account, a programme, an investment fund, or as cash. Globalization means to decrease the trade barriers and free flow of capital as well as technique. It increases the competitiveness on the one hand, and grows the economy faster on the other. In fact, globalization accelerates the economic growth. The WTO represents the most influential of the multilateral institutions that are accountable for global economic management. The present study intends to analyze the gross and net domestic capital formation and gross domestic capital

formation and gross domestic saving of India during pre and post-WTO and to examine the level of Net domestic capital formation and net domestic saving of India. The present study is based on secondary data collected from 1975 to 2015.

Keywords: capital formation, economic development, gross domestic saving, WTO (World Trade Organization).

INTRODUCTION: Capital formation is a concept in economic science, national accounts and money economic science. Sometimes it's conjointly utilized in company accounts. It is outlined in 3 ways: It is a specific applied math construct utilized in national accounts statistics, economics and economic science. It refers to a measure of additions to the (physical) capital stock of a country (or economic sector) in accounting interval, or, a measure of the number by that the entire physical capital stock accumulated

throughout accounting period. To reach at this measure, standard valuation principles are used. It is employed conjointly in theory, as a contemporary general term for capital accumulation, relating the entire "stock of capital" that has been shaped, or to the expansion of this total capital stock. In a way broader or vaguer sense, the term "capital formation" has in additional recent times been utilized in financial economics to talk to savings drives, setting up financial institutions commercial enterprise measures, public borrowing, development of capital markets, privatization of financial institution establishments, development of secondary markets. During this usage, it refers to any methodology for increasing the number of capital in hand or under one's management or any methodology in utilising or mobilizing capital resources for investment functions.

In economic statistics and accounts, capital formation can be valued gross, i.e., before deduction of consumption of fixed capital or depreciation or net, i.e., when deduction of "depreciation" write-offs. The gross valuation methodology views "depreciation" as a little of the new gain or wealth earned

or created by the enterprise, and therefore as a part of the formation of latest capital by the enterprise.

Saving is financial gain not spent, or postponed consumption. Ways of saving embody golf shot cash aside in, as an example, a time deposit account, a programme, an investment fund, or as cash. Saving conjointly involves reducing expenditures, like recurring cost. In terms of non-public finance, saving usually specifies low-risk preservation of cash, as during a time deposit account, versus investment, whereby risk is higher; in economic science a lot of loosely, it refers to any financial gain not used for immediate consumption

REVIEW OF LITERATURE

Amar and Nagesh (2003) analyzed the impact of World Trade Agreement on economic aspects of India. They underlined that the support to farmers in developed countries has affected greater than before in form of direct payments which is the root reason of decreasing international prices. The level of protection in developed countries has really higher than before in WTO regime. **Mathew V Kurian. (2004)** in

his chapter 'Globalization and its Socio-Economic Impact,' the researcher found that multiple views prevail on nature of globalization as well as its socio-economic impact. He has also discussed the various theoretical factors of globalization and its socio economic impact. The basic perception of the researcher is that the present day globalization is imperialist's globalization. **KalyamRaipuria (2000)** in his paper, 'Conference of economists: A Report', states that the criticism to the globalization by the economist in India is based on the deemed economic and social ill belongings in the last decade namely rise in poverty, inequalities in income and wealth, rise in fiscal deficit, and above all regional disparities leading to a go down in real wages in some states. **DierckxsensWim(2000)** in his book, 'The limits of Capitalism defined current model according to the author has led to worldwide exclusions of mob from the process of development and it has increased a variety of social complications like unemployment, social and economic inequalities and insecurities in various forms. **Malik (2004)** highlighted the

contradictions, drawbacks and dissatisfactions of globalization in general and its impact on Indian society in particular. The author further says that Gandhian facts could be more appropriate alternative to globalizations and its discontentment. **Gupta and Kaur (2004)** in their studies, 'New Indian Economy and Reforms,' have tried to depict the inadequacy in the new economic policy and its functioning. They feel that the Indian economy is able of achieving high growth rates in response to the execution of suitable economic reform policies. **Heggade and Bhavathi(2001)** argued that, there are so many issues in the second generations improvement and basically is related to use of terminology or concepts like first generation economic reforms. This article argues that, since the processes of economic reforms are not finished, it is wrong to use the term second generation reforms for a many other reforms now initiated or planned to be initiated at the state and Rural-Urban local self Government levels. They may be called as other secondary reforms for carrying on the already initiated main economic reforms during 1990s. **Pant and**

Alok suggested that there has been a radical change in the development policies due to the LPG and social sectors like education, health and medical care, housing and sanitation, drinking water etc. are largely affected by those new policies. The author comments that economic development should be in harmony with the development of social sector if the process of development is to lead to accelerate in welfare of the common man. **Nathuramka L. N. (2006)** opined that even if the objectives of WTO, like that of IMF and WB, are relatively commendable but it's over all attainment has not been much appealing so far. The investigator argues that WTO has been criticised by opponents of globalization mainly because WTO protects the interests of few developed countries and voice of poor countries and the NGOs is not heard in it. Very importantly the decisions are taken in closed door rooms by a group of wealthy countries. **Shah & Patnaik (2007)** mentioned the impact on reforms on capital flows and that originally there was a small trade. These comprise of strong heritage of law and accounting, a long tradition of

equity ownership and price discovery on uncertain /presumed markets, and unavailable history of default.

OBJECTIVES OF THE STUDY

The main objectives are:

- To analyze the gross and net domestic capital formation of India during pre and post-WTO.
- To explore Gross domestic capital formation and gross domestic saving of India during pre and post-WTO.
- To examine the level of Net domestic capital formation and net domestic saving of India during pre and post-WTO.

RESEARCH METHODOLOGY

The methodology adopted for the present study was descriptive research. Secondary data were collected from various sources central statistics office, Economic Survey, Handbook of Statistics on Indian Economy, Books and Journals. The data have been collected for the period 1975-76 to 2014-2015 by dividing the study period into two

phases: pre WTO from 1975-76 to 1994-95 and post WTO from 1995-96 to 2014-15.

DATA ANALYSIS

1. GROSS AND NET DOMESTIC CAPITAL FORMATION AT PRE-WTO

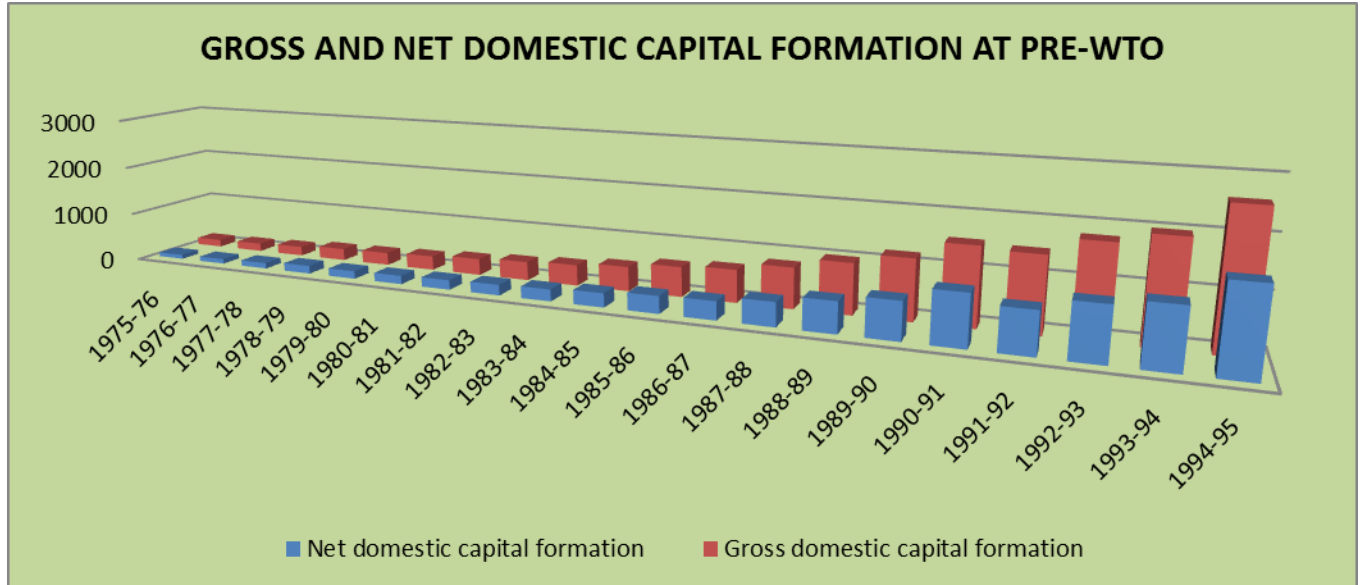
Base year- 2004-05

Table: 1.1 (In Crore)

| Financial year | Gross domestic capital formation | Net domestic capital formation |
|----------------|----------------------------------|--------------------------------|
| 1975-76 | 149.49 | 86.86 |
| 1976-77 | 162.73 | 94.65 |
| 1977-78 | 188.80 | 115.52 |
| 1978-79 | 242.38 | 161.27 |
| 1979-80 | 256.48 | 157.61 |
| 1980-81 | 286.84 | 172.62 |
| 1981-82 | 333.03 | 193.82 |
| 1982-83 | 375.22 | 214.08 |
| 1983-84 | 417.56 | 237.86 |
| 1984-85 | 490.78 | 281.02 |
| 1985-86 | 596.48 | 345.11 |
| 1986-87 | 650.48 | 367.10 |
| 1987-88 | 805.32 | 473.40 |
| 1988-89 | 997.96 | 609.46 |
| 1989-90 | 1190.09 | 737.61 |
| 1990-91 | 1526.04 | 999.54 |
| 1991-92 | 1469.07 | 822.81 |
| 1992-93 | 1784.37 | 1042.99 |
| 1993-94 | 1977.85 | 1149.29 |
| 1994-95 | 2585.61 | 1618.12 |

Source: Central Statistics Office (CSO).

Figure: 1.1



Source: Central Statistics Office (CSO).

Interpretation: the above chart reflects the gross and net domestic capital formation at Pre-WTO. In the initial years of pre-WTO, the gross and net domestic capital formation were recorded very low. Gross domestic capital formation was higher than net domestic capital formation during pre-WTO. Gross domestic capital formation and net domestic capital formation were found higher in 1994-95, reached at 2585.61 and 1618.12 respectively.

GROSS AND NET DOMESTIC CAPITAL FORMATION AT POST-WTO

Base year- 2004-05

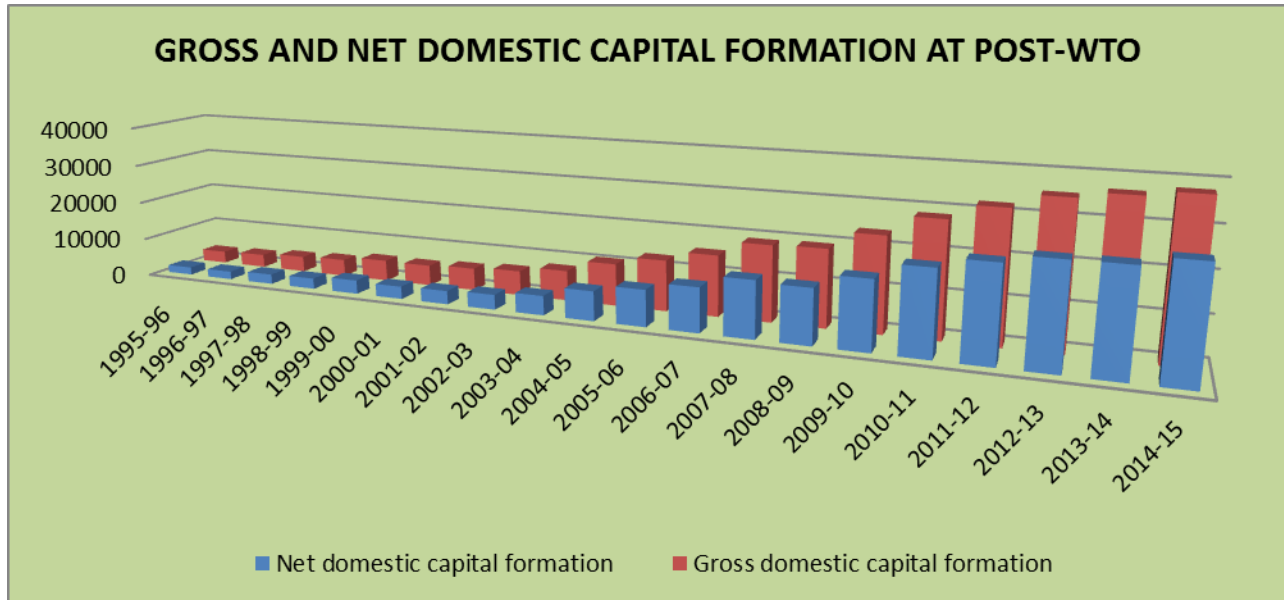
Table: 1.2

(In Crore)

| Financial years | Gross domestic capital formation | Net domestic capital formation |
|-----------------|----------------------------------|--------------------------------|
| 1995-96 | 3100.45 | 1974.59 |
| 1996-97 | 3361.25 | 2062.77 |
| 1997-98 | 4020.92 | 2548.25 |
| 1998-99 | 4365.21 | 2727.81 |
| 1999-00 | 5388.34 | 3523.62 |
| 2000-01 | 5282.99 | 3214.07 |
| 2001-02 | 5711.46 | 3422.97 |
| 2002-03 | 6277.43 | 3815.63 |
| 2003-04 | 7624.16 | 4902.62 |
| 2004-05 | 10640.41 | 7441.50 |
| 2005-06 | 12797.54 | 9160.33 |
| 2006-07 | 15314.33 | 11127.04 |
| 2007-08 | 19007.62 | 14160.67 |
| 2008-09 | 19313.80 | 13661.82 |
| 2009-10 | 23631.32 | 17033.33 |
| 2010-11 | 28414.57 | 20812.39 |
| 2011-12 | 32006.33 | 23207.37 |
| 2012-13 | 35213.99 | 25052.67 |
| 2013-14 | 36624.90 | 25138.44 |
| 2014-15 | 37823.99 | 27145.23 |

Source: Central Statistics Office (CSO).

Figure: 1.2



Source: Central Statistics Office (CSO).

Interpretation: the above chart shows the gross and net domestic capital formation at Post-WTO. Gross domestic capital formation was higher than net domestic capital formation during post-WTO. Net domestic capital formation and gross domestic capital formation was showing increasing trend in the twenty years of post-WTO. Gross domestic capital formation and net domestic capital formation were found higher in 2014-15, stood at 37823.99 and 27145.23 respectively.

COMPARISON OF NET DOMESTIC CAPITAL FORMATION AND GROSS DOMESTIC CAPITAL FORMATION:

In the initial years of pre-WTO, the gross and net domestic capital formation were recorded very low. Gross domestic capital formation and net domestic capital formation were found higher in 1994-95, reached at 2585.61 and 1618.12 respectively. Gross domestic capital formation was higher than net domestic capital formation during post-WTO. Net domestic capital formation and gross domestic capital formation was showing increasing trend in the twenty years of post-WTO. Gross domestic capital formation and net domestic capital formation

were found higher in 2014-15, stood at 37823.99 and 27145.23 respectively. In twenty years of post-WTO, gross and net domestic capital formation was higher as compared to pre-WTO years.

2. GROSS DOMESTIC CAPITAL FORMATION AND GROSS DOMESTIC SAVING AT PRE-WTO

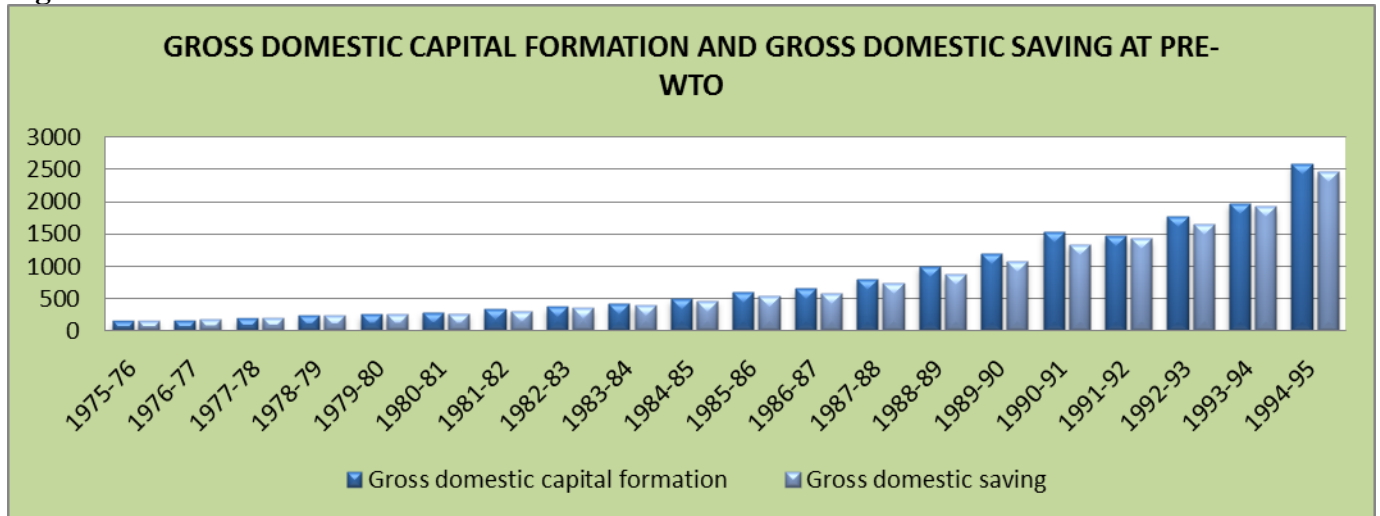
Base year: 2004-05

Table: 2.1 (In Crore)

| Financial year | Gross domestic capital formation | Gross domestic saving |
|----------------|----------------------------------|-----------------------|
| 1975-76 | 149.49 | 150.66 |
| 1976-77 | 162.73 | 175.82 |
| 1977-78 | 188.80 | 203.45 |
| 1978-79 | 242.38 | 241.10 |
| 1979-80 | 256.48 | 250.68 |
| 1980-81 | 286.84 | 265.90 |
| 1981-82 | 333.03 | 306.92 |
| 1982-83 | 375.22 | 349.56 |
| 1983-84 | 417.56 | 392.39 |
| 1984-85 | 490.78 | 457.86 |
| 1985-86 | 596.48 | 534.14 |
| 1986-87 | 650.48 | 586.93 |
| 1987-88 | 805.32 | 737.07 |
| 1988-89 | 997.96 | 874.92 |
| 1989-90 | 1190.09 | 1067.30 |
| 1990-91 | 1526.04 | 1344.08 |
| 1991-92 | 1469.07 | 1435.30 |
| 1992-93 | 1784.37 | 1646.21 |
| 1993-94 | 1977.85 | 1929.94 |
| 1994-95 | 2585.61 | 2466.68 |

Source: Central Statistics Office (CSO)

Figure: 2.1



Source: Central Statistics Office (CSO).

Interpretation: the present chart indicates the gross domestic capital formation and gross domestic saving at pre-WTO. In the initial years of pre-WTO, gross domestic capital formation and gross domestic saving were recorded very low. After 1987-88, there was continuous increasing in gross domestic capital formation and gross domestic saving. Gross domestic capital formation was higher than gross domestic saving. These were seen maximum in 1994-95, calculated at 2466.68 for gross domestic saving and 2585.61 for gross domestic capital formation.

GROSS DOMESTIC CAPITAL FORMATION AND GROSS DOMESTIC SAVING AT POST-WTO

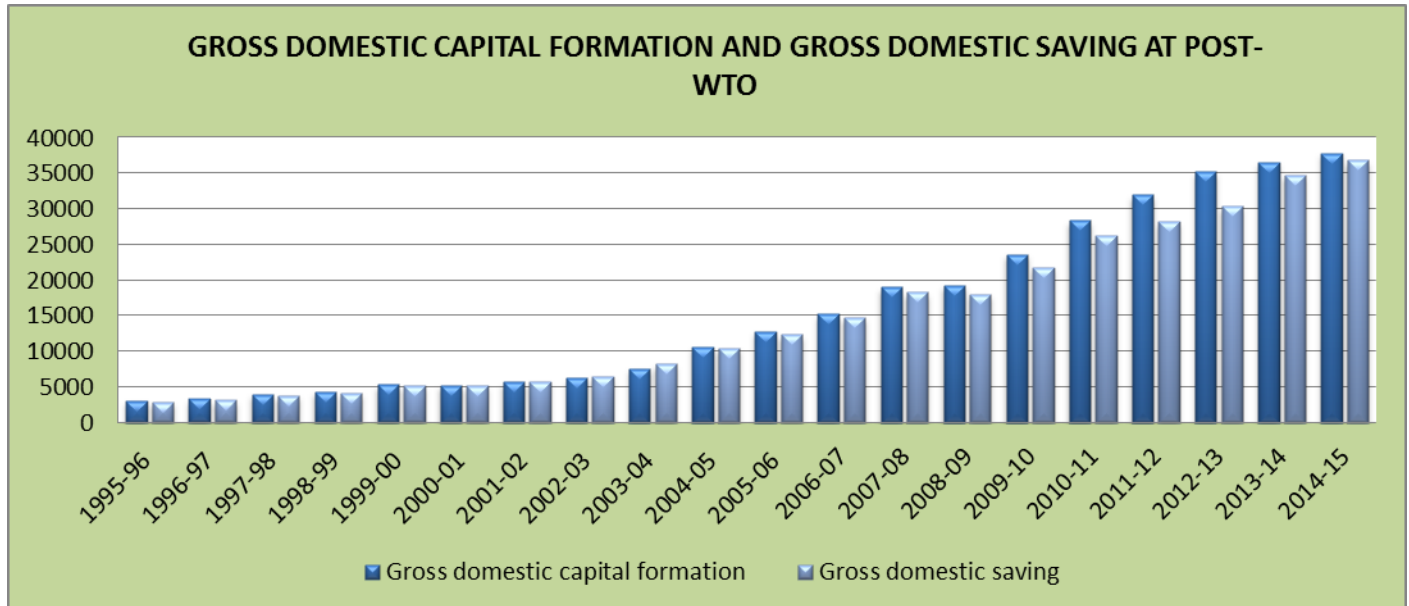
Base year: 2004-05

Table: 2.2 (In Crore)

| Financial years | Gross domestic capital formation | Gross domestic saving |
|-----------------|----------------------------------|-----------------------|
| 1995-96 | 3100.45 | 2892.65 |
| 1996-97 | 3361.25 | 3183.87 |
| 1997-98 | 4020.92 | 3797.90 |
| 1998-99 | 4365.21 | 4181.59 |
| 1999-00 | 5388.34 | 5168.46 |
| 2000-01 | 5282.99 | 5155.45 |
| 2001-02 | 5711.46 | 5853.75 |
| 2002-03 | 6277.43 | 6562.29 |
| 2003-04 | 7624.16 | 8237.75 |
| 2004-05 | 10640.41 | 10507.03 |
| 2005-06 | 12797.54 | 12351.51 |
| 2006-07 | 15314.33 | 14859.09 |
| 2007-08 | 19007.62 | 18363.32 |
| 2008-09 | 19313.80 | 18026.20 |
| 2009-10 | 23631.32 | 21823.38 |
| 2010-11 | 28414.57 | 26217.42 |
| 2011-12 | 32006.33 | 28244.59 |
| 2012-13 | 35213.99 | 30434.74 |
| 2013-14 | 36624.90 | 34759.35 |
| 2014-15 | 37823.99 | 36865.76 |

Source: Central Statistics Office (CSO).

Figure: 2.2



Source: Central Statistics Office (CSO).

Interpretation: the present chart depicts the gross domestic capital formation and gross domestic saving at post-WTO. There was continuous increasing in gross domestic capital formation and gross domestic saving. Gross domestic capital formation was higher than gross domestic saving. These were seen maximum in 2014-15, stood at 36865.76 for gross domestic saving and **37823.99** for gross domestic capital formation. In the initial years of post-WTO, gross domestic capital formation and gross domestic saving were recorded very low.

COMPARISON OF GROSS DOMESTIC CAPITAL FORMATION AND GROSS DOMESTIC SAVING DURING PRE AND POST-WTO:

In the initial years of pre-WTO, gross domestic capital formation and gross domestic saving were recorded very low. After 1987-88, there was continuous increasing in gross domestic capital formation and gross domestic saving. These were seen maximum in 1994-95, calculated at 2466.68 for gross domestic saving and 2585.61 for gross domestic capital formation.

Gross domestic capital formation was higher than gross domestic saving during post-WTO. These were seen maximum in 2014-15, stood at 36865.76 for gross domestic saving and 37823.99 for gross domestic capital formation. As compared to pre-WTO, gross domestic capital formation and gross domestic saving were higher in post-WTO era.

3. NET DOMESTIC CAPITAL FORMATION AND NET DOMESTIC SAVING AT PRE-WTO

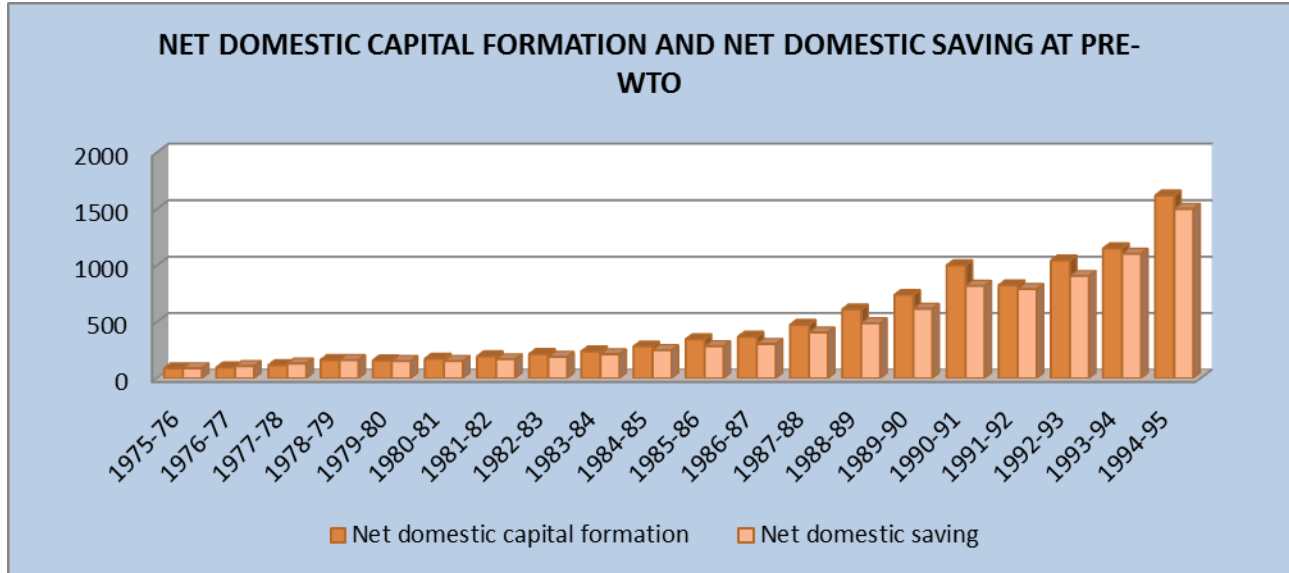
Base year: 2004-05

Table: 3.1 (In crore)

| Financial year | Net domestic capital formation | Net domestic saving |
|----------------|--------------------------------|---------------------|
| 1975-76 | 86.86 | 88.03 |
| 1976-77 | 94.65 | 107.74 |
| 1977-78 | 115.52 | 130.17 |
| 1978-79 | 161.27 | 159.99 |
| 1979-80 | 157.61 | 151.81 |
| 1980-81 | 172.62 | 151.68 |
| 1981-82 | 193.82 | 167.71 |
| 1982-83 | 214.08 | 188.42 |
| 1983-84 | 237.86 | 212.69 |
| 1984-85 | 281.02 | 248.10 |
| 1985-86 | 345.11 | 282.77 |
| 1986-87 | 367.10 | 303.55 |
| 1987-88 | 473.40 | 405.15 |
| 1988-89 | 609.46 | 486.42 |
| 1989-90 | 737.61 | 614.82 |
| 1990-91 | 999.54 | 817.58 |
| 1991-92 | 822.81 | 789.04 |
| 1992-93 | 1042.99 | 904.83 |
| 1993-94 | 1149.29 | 1101.38 |
| 1994-95 | 1618.12 | 1499.19 |

Source: Central Statistics Office (CSO).

Figure: 3.1



Source: Central Statistics Office (CSO).

Interpretation: the above chart describes the net domestic capital formation and net domestic saving during pre-WTO. There was continuously seen an increasing trend in both till 1990-91, after that these declined in 1991-92, again there was found a sharp increase in net domestic capital formation and net domestic saving. In the early years of pre-WTO, net domestic capital formation and net domestic saving were recorded very low. These were observed higher in 1994-95, reached at 1618.12 for net domestic capital formation and 1499.19 for net domestic saving.

NET DOMESTIC CAPITAL FORMATION AND NET DOMESTIC SAVING AT POST-WTO

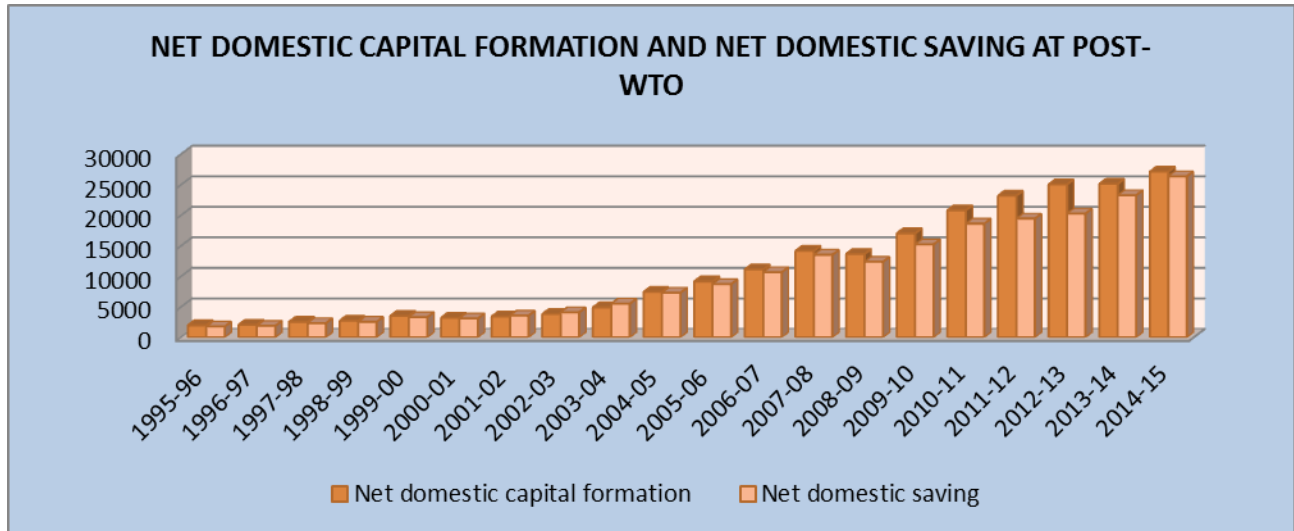
Base year: 2004-05

Table: 3.2 (In crore)

| Financial years | Net domestic capital formation | Net domestic saving |
|-----------------|--------------------------------|---------------------|
| 1995-96 | 1974.59 | 1766.79 |
| 1996-97 | 2062.77 | 1885.39 |
| 1997-98 | 2548.25 | 2325.23 |
| 1998-99 | 2727.81 | 2544.19 |
| 1999-00 | 3523.62 | 3303.74 |
| 2000-01 | 3214.07 | 3086.53 |
| 2001-02 | 3422.97 | 3565.26 |
| 2002-03 | 3815.63 | 4100.49 |
| 2003-04 | 4902.62 | 5516.21 |
| 2004-05 | 7441.50 | 7308.12 |
| 2005-06 | 9160.33 | 8714.30 |
| 2006-07 | 11127.04 | 10671.80 |
| 2007-08 | 14160.67 | 13516.37 |
| 2008-09 | 13661.82 | 12374.22 |
| 2009-10 | 17033.33 | 15225.39 |
| 2010-11 | 20812.39 | 18615.24 |
| 2011-12 | 23207.37 | 19445.63 |
| 2012-13 | 25052.67 | 20273.42 |
| 2013-14 | 25138.44 | 23272.89 |
| 2014-15 | 27145.23 | 26376.89 |

Source: Central Statistics Office (CSO).

Figure: 3.2



Source: Central Statistics Office (CSO).

Interpretation: this chart defines the net domestic capital formation and net domestic saving during post-WTO. There was continuously seen an increasing trend except in 2008-08. In the initial years of post-WTO, net domestic capital formation and net domestic saving were calculated very low. These were accounted higher in 2014-15, reached at **27145.23** for net domestic capital formation and 26376.89 for net domestic saving.

COMPARISON OF NET DOMESTIC CAPITAL FORMATION AND NET DOMESTIC SAVING DURING PRE AND POST-WTO:

During pre-WTO there was continuously seen an increasing trend in both till 1990-91, after that these declined in 1991-92, again there was found a sharp

increase in net domestic capital formation and net domestic saving. These were observed higher in 1994-95, reached at 1618.12 for net domestic capital formation and 1499.19 for net domestic saving. In the twenty years of post-WTO. There was continuously seen an increasing trend except in 2008-08. In the initial years of post-WTO,

net domestic capital formation and net domestic saving were calculated very low. These were accounted higher in 2014-15, reached at **27145.23** for net domestic capital formation and 26376.89 for net domestic saving. As compared to pre-WTO, there was a sharp increase in net domestic capital formation and net domestic saving in twenty years of post-WTO.

CONCLUSION: In this study an attempt has been made to explore the level of capital formation and domestic saving. The comparative analysis of the gross and net domestic capital formation shows positive response. Gross domestic capital formation was higher than net domestic capital formation during post-WTO. The comparative analysis of gross domestic capital formation and gross domestic saving depicts positive response. Gross domestic capital formation was higher than gross domestic saving during post-WTO. There was continuously seen an increasing trend in both till 1990-91, after that these declined in 1991-92, again there was found a sharp increase in net domestic capital formation and net domestic saving. As compared to

pre-WTO, there was a sharp increase in net domestic capital formation and net domestic saving in twenty years of post-WTO.

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