ABSTRACT

Schumpeter says that economic life is a process of growth and change, meaning ‘development’. The process involves interplay of forces or factors of production, viz. land, labour and capital. The understanding of economic growth has improved enormously in recent years. There has been a much greater understanding of the interrelated laws governing the growth of population, the pace of capital accumulation, the rate of technological innovation in an environment characterised by relative scarcity of natural resources. The major determinants of Indian economic growth, identified in this study in terms of their influence on productivity of different sectors are physical capital formation, technological progress, human capital formation, increase in labour force, foreign investment and trade openness. There are some notable features associated with economic growth in India. One, it is found that the structural adjustments leading to foreign capital inflow and trade openness have fuelled the economic growth in India after economic reforms in 1991. Two, it is observed that exports and imports play a significant role in determining economic growth in India in the post reform period. Three, despite the ‘new growth’ there are issues like imbalances with regard to employment, manufacturing base, social indicators etc., even as India strives to enhance competitiveness, competence and global relevance.

It is in this context that the present study looks into the major issues and challenges related to the changes in the sectoral composition of economic growth in India over time. It also attempts to identify and discuss the influence of key determinants of economic growth in the pre and post reform periods in India. In this context, it is very crucial to study how different sectors influence the overall growth of a country at various points of its growth trajectory. Interestingly, the analysis shows that the services sector growth has become the highlight of India’s changing growth pattern
in the post reform era. However, agriculture and allied activities along with industrial sector play a very significant role in enhancing the growth levels in India. The results also throw light on the sustainability issues pertaining to the burgeoning service sector performance and the opportunities for the manufacturing sector in modern times. With regard to the key determinants, the analysis shows that the key determinants identified did not play a significant role in the economic growth in the pre-reform period. However, the analysis during the post-reform period reveals the existence of long-run cointegration between the determinants and the economic growth. Again, the contribution of gross domestic investment is the most significant. The study confirms the validity of endogenous growth models in terms of the role of variables in determining the level of economic growth. The external determinants, foreign investment and foreign trade also show important long-run association. It is observed that both exports and imports have a significant impact on the economic growth in the post-reform period. However the foreign direct and foreign institutional investments do not have a significant impact on economic growth in the post-reform period. However, it calls for the need of revisiting the traditional and modern growth theories in the context of economic and financial integration.

**Keywords:** Domestic investment, Economic growth, Exports, Foreign direct investment, Foreign institutional investment, Human capital, Imports, Labour force participation rate, Net exports, Openness index, Sectoral composition of growth, Technological progress.