

CHAPTER 10 - INDIAN ECONOMY

STATUS OF INDIAN ECONOMY: PRE INDEPENDENCE PERIOD

Features of India

- India is believed to have had the largest economy of the ancient and the medieval world.
- It was prosperous and self-reliant and is believed to have controlled between one third and one fourth of the world's wealth.
- The economy consisted of self-sufficient villages as well as cities which were centres of commerce, pilgrimage and administration.
- Race, class, and gender was the basis of the structure of the villages.
- Agriculture was the dominant occupation.
- The country had a highly skilled set of artisans and craftsmen.

Ancient Economic Philosophy of India

- The earliest known ancient Indian economic philosophy is 'Arthashastra' the pioneering work attributed to Kautilya.
- Arthashastra is the most important works on statecraft in the genre of political philosophy.
- It is believed to be a kind of handbook for King Chandragupta Maurya.
- Artha is not just wealth, it encompasses all aspects of the material well-being of individuals.
- The major focus of the work is on the means of fruitfully maintaining and using land.

- Taxes, which were charged equal for private and state-owned businesses, must be fair to all and should be easily understood by the king's subjects.
- True kingship is defined as a ruler's subordination of his own desires and ambitions to the good of his people; i.e. a king's policies should reflect a concern for the greatest good of the greatest number of his subjects.
- It comprised of seven vital elements, namely the King, Ministers, Farmlands, Fortresses, Treasury, Military and the Allies.

British Era:-

- The period of British rule can be divided into two sub periods:
 - The rule of East India Company from 1757 to 1858
 - British government in India from 1858 to 1947
- The manufacturing capabilities of Britain increased manifold and they were in the need of raw material supply as well as the need for finding markets for finished goods.
- This led to a virtual reversal of the nature of India's foreign trade from an exporter of manufactures to an exporter of raw materials.
- The Indian exports of finished goods were subjected to heavy tariffs and the imports were charged lower tariffs.
- The Indian goods lost their competitiveness and lead to destruction of Indian handicrafts and manufactures.
- The problem was aggravated by the shift in patterns of demand by domestic consumers favouring foreign goods.
- The damage to the production sector lead to
 - Large scale unemployment and over dependence on agriculture.
 - The increased pressure on land and reduced productivity.
 - The imports of cheap machine made goods from Britain and an overt shift of tastes and fashion of Indians.
 - The systems of land tenure, especially the zamindari system.
 - Zamindars got the opportunity to extract excessive rents.
 - High indebtedness of agriculturists, growth of a class of exploitative money lenders.

Stagnated Industrialization:-

- Factory-based production did not exist in India before 1850.
- The 'Modern' industrial enterprises started to grow in the mid-19th century.
- The cotton milling business grew steadily throughout the second half of the 19th century.
- The cotton mill industry in India had 9 million spindles in the 1930s, (fifth position globally).
- Jute mills also expanded rapidly in and around Calcutta in response to a mounting global demand for ropes and other products.
- At the end of the 19th century, the Indian jute mill industry was the largest in the world in terms of the amount of raw jute consumed in production.
- Heavy industries such as the iron industry were also established as early as 1814 by British capital.
- Heavy industries such as the iron industry were also established as early as 1814 by British capital.
- India's iron industry was ranked eighth in the world in terms of output in 1930.
- India was ranked as the twelfth largest industrialized country, just before depression.

INDIAN ECONOMY: POST-INDEPENDENCE (1947- 1991)

- India was overwhelmingly rural inhabited by mostly illiterate people who were exceedingly poor.
- With the literacy rate just above 18 percent and barely 32 years of life expectancy in 1951.
- Nehruvian model which supported social and economic redistribution and industrialization directed by the state came to dominate the post-Independence Indian economic policy.
- Centralized economic planning and direction were crafted to accomplish equity and distributive justice.
- The Planning Commission of India established to plan for the economic development.
- five-year plans were developed, implemented and monitored by it.

NOTE:-

- Rapid industrialization of the economy was the cornerstone of Nehru's development strategy.
- The Industrial Policy Resolution (1948) envisaged an expanded role for the public sector and licensing to the private sector.
- It granted state monopoly for strategic areas such as atomic energy, arms and ammunition and railways.
- The policies in 1950's were guided by two economic philosophies:
 - Nehru's visualization to emphasis on heavy industry, and
 - The Gandhian philosophy of small scale and cottage industry.
- The Industrial Policy Resolution of 1956 was lopsided as its guiding principle supported enormous expansion of the scope of the public sector and did dampen the private initiative and enterprise.
- A balance of payments crisis emerged in 1958 causing concerns regarding foreign exchange depletion leading to gradual tightening of trade.
- In the first three decades after independence India's average annual rate of growth was a modest 3.5 percent. (Called as Hindu Growth rate)
- During first decade and a half was on capital goods— capital-intensive projects such as dams, power plants, and heavy industrialization—rather than consumer goods.

1960's

- The first major shift in Indian economic strategy was in the mid-1960s.
- Agriculture was not given adequate priority during the second plan.
- With continuous failures of monsoon, two severe and consecutive droughts struck India in 1966 and 1967.
- India had to depend on the United States for food aid under PL 480.
- Later the new wave of change relied less on the earlier efforts at institutional change and relied more on enhancing productivity of agriculture, especially of wheat.
- A thorough restructuring of agricultural policy referred to as the 'green revolution' was initiated.

- The green revolution was materialised by innovative farm technologies, including high yielding seed varieties and intensive use of water, fertilizer and pesticides.
- Later government launched a wave of nationalization.
- The government nationalized 14 banks in 1969 and then followed it up with nationalizing another 6 in 1980.

1965 - 1981

- The economic performance during this period of 1965-81 is the worst.
- The decline in growth during this period is due to
 - The license-raj,
 - the external shocks such as three wars (in 1962, 1965, and 1971),
 - major droughts (especially 1966 and 1967), and
 - the oil shocks of 1973 and 1979
 - the EMERGENCY declared in 1975.
- The **Monopolies and Restrictive Trade Practices** (MRTP) Act, 1969 was aimed at regulation of large firms which had relatively large market power. Several restrictions were placed on them in terms of licensing, capacity addition, mergers and acquisitions.
- In 1967, the policy of reservation of many products for exclusive manufacture by the small scale sector was initiated with the objective of promotion of small scale industries.

THE ERA OF REFORMS

- The seed liberalization was sown in 1980s specially after 1985.
- These initiatives, spanning 1981 to 1989, practically referred to as 'early liberalization' were specifically aimed at changing the prevailing thrust on 'inward- oriented' trade and investment practices.
- It started bearing fruits in the form of higher growth rate during the 1980s as compared with the previous three decades.
- The average annual growth rate of GDP during the sixth plan period (1980 -1985) and the seventh plan period (1985-1990) were 5.7 and 5.8 percent respectively.
- The early reforms of 1980's broadly covered three areas, namely industry, trade and taxation.

- The prominent industrial policy initiatives during this period directed towards removing constraints on growth and creating a more dynamic industrial environment were
 - In 1985 delicensing of 25 broad categories of industries was done.
 - The facility of 'broad-banding' was accorded for industry groups to allow flexibility and rapid changes in their product mix without going in for fresh licensing.
 - To relax the hold of the licensing and capacity constraints on larger MRTP firms the asset limit was raised from 20 crore to 100 crore.
 - The multipoint excise duties were converted into a modified value-added (MODVAT).
 - Establishment of the Securities and Exchange Board of India (SEBI) on April 12, 1988.
 - The open general licence (OGL) list was steadily expanded.
 - Several export incentives were introduced and expanded
 - The exchange rate was set at a realistic level which helped expand exports.
 - Based on the real effective exchange rate (REER), the rupee was depreciated by about 30 per cent from 1985-86 to 1989-90.
 - The budget for 1986 introduced policies of cutting taxes further, liberalising imports and reducing tariffs.

THE ECONOMIC REFORMS OF 1991

- India embarked on a bold set of economic reforms in 1991 under the Narsimha Rao government.
- The causes attributed to the immediate need for such a drastic change are:
 - The government revenue expenditure consistently exceeding revenue receipts which was financed by debts.
 - The surge in oil prices triggered by the gulf war in 1990.
 - The foreign exchange reserves touched the lowest point with a reserve of only \$1.2 billion which was barely sufficient for two weeks of imports.
 - Tightening of import to keep forex for essential imports.

- India had to depend on external borrowing from the International Monetary Fund which in turn put forth stringent conditions
- The fragile political situation led to 'crisis of confidence'.

Note:-

- The reforms instituted in 1991 aimed to move the economy toward greater market orientation and external openness.
- The reforms, popularly known as liberalization, privatization and globalisation, spelt a major shift in economic philosophy and fundamental change in approach and had two major objectives:
 - reorientation of the economy from a centrally directed to 'market friendly'.
 - macroeconomic stabilization by substantial reduction in fiscal deficit.

The Fiscal Reforms

- Bringing in fiscal discipline by reducing the fiscal deficit was vital
- This was attempted by radical measures to augment revenues and to curtail government expenditure.
- Measures to this effect included:
 - Introduction of a stable and transparent tax structure,
 - Ensuring better tax compliance,
 - Thrust on curbing government expenditure
 - Reduction in subsidies and abolition of unnecessary subsidies
 - Disinvestment of part of government's equity holdings in select public sector undertakings and
 - Encouraging private sector participation.

Monetary and Financial Sector Reforms

- Drastic monetary and financial sector reforms were introduced with the objective of making the financial system more efficient and transparent.
- The focus was mostly on reducing the burden of nonperforming assets on government banks, introducing and sustaining competition, and deregulating interest rates.

- These included many measures, important among them are:
 - Interest rate liberalization and reduction in controls on banks by the Reserve Bank of India.
 - Opening of new private sector banks and facilitating greater competition among public sector, private sector and foreign banks.
 - Reduction in reserve requirements namely, statutory liquidity ratio (SLR) and cash reserve ratio (CRR) in line with the recommendations of the Narasimham Committee Report, 1991.
 - Liberalisation of bank branch licensing policy and granting of freedom to banks in respect of opening, relocating or closure of branches
 - Prudential norms of accounting in respect of classification of assets, disclosure of income and provisions for bad debt were introduced in tune with the Narasimham Committee recommendations.

Reforms in Capital Markets

- The Securities and Exchange Board of India (SEBI) which was set up in 1988 was given statutory recognition in 1992.
- SEBI has been mandated as an independent regulator of the capital market so as to create a transparent environment which would facilitate mobilization of adequate resources and their efficient allocation.

The 'New Industrial Policy'

- The 'New Industrial Policy' announced by the government on 24 July 1991 sought to substantially deregulate industry so as to promote growth of a more efficient and competitive industrial economy.
- In order to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced
 - The New Economic Policy put an end to the 'License Raj' by removing licensing restrictions for all industries except for 18 that 'related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues'.

- Public sector was limited to eight sectors based on security and strategic grounds. Subsequently only two items remained - railway transport and atomic energy.
- The Monopolies and Restrictive Trade Practices (MRTP) Act was restructured and the provisions relating to merger, amalgamation, and takeover were repealed.
- Many goods produced by small-scale industries have been de reserved enabling entry of large scale industries.
- The policy ended the public sector monopoly in many sectors The number of areas reserved for public sector was narrowed down to ensure liberal participation by the private sector.
- Foreign investment was also liberalised.
- The concept of automatic approval was introduced for foreign direct investments up to 51 percent which was later extended to nearly all industries except the reserved ones.
- FDI is prohibited only in four sectors viz.
 - retail trade,
 - atomic energy,
 - lottery business and
 - betting and gambling.
- External trade was further liberalised by substituting 'the positive list approach' of listing license-free items on the OGL list with the negative list approach.
- 1. In 1990-91, the highest tariff rate was 355%, The top tariff rate was brought down to 85% in 1993-94 and to 50% in 1995-96 and by 2007-08, it has come down to 10% with some exceptions such as automobile at 100%
- Rupee was devalued by 18% against the dollar.
- The disinvestment of government holdings of equity share capital of public sector enterprises was a very bold step.

Trade Policy Reforms

- The trade policy reforms aimed at:
 - dismantling of quantitative restrictions on imports and exports
 - focusing on outward oriented regime with reduction of tariffs, and
 - removal of licensing procedures for imports.
- A number of export incentives were continued and new ones were initiated for boosting exports.
- Export duties were removed to increase the competitive position of Indian goods.
- In July 1991 the Indian government devalued the rupee by between 18 and 19 percent.
- In March 1992 the government decided to establish a dual exchange rate regime.
- From 1993 onwards, India has followed a managed floating exchange rate system.
- India has witnessed vast changes over the last 31 years such as
 - India has progressively moved towards a market-oriented economy, with a sizeable reduction in government's market intervention and controls
 - There is growth of private sector investment and initiatives
 - A number of sectors such as auto components, telecommunications, software, pharmaceuticals, biotechnology, and professional services have achieved very high levels of international competitiveness
 - Easing of trade controls has enabled easier access to foreign technology, inputs, know-how and finance
 - Stable foreign direct investment inflows and substantial foreign portfolio investments.
 - India enjoys a solid cushion of foreign exchange reserves close to eight months of import cover.
 - Pressure on the Indian rupee is lower compared to other emerging market economies (EMEs).
 - Increased incomes, large domestic market and high levels of aggregate demand sustains the economy.

- India is better placed than most of the emerging market economies to deal with global headwinds
- Poverty has reduced substantially
- Infrastructure sectors have achieved phenomenal growth
- Value-added share of agriculture and allied activities has declined steadily over the past four decades.

NITI AAYOG: A BOLD STEP FOR TRANSFORMING INDIA

- For nearly sixty four years, the Planning Commission of India - a powerful advocate of public investment-led development - was one of the most important institutions within India's central government.
- On 1st January 2015, the apex policy-making body namely Planning Commission, was replaced by the National Institution for Transforming India (NITI) Aayog.
- The major objective of such a move was to 'spur innovative thinking by objective 'experts' and promote 'co-operative federalism' by enhancing the voice and influence of the states'.
- NITI Aayog is expected to serve as a 'Think Tank' of the government. [and] a 'directional and policy dynamo'.

Objectives of NITI

- To evolve a shared vision of national development priorities with the active involvement of states.
- To foster cooperative federalism through structured support initiatives and mechanisms with the states on a continuous basis.
- To develop mechanisms to formulate credible plans at the village level and aggregate these.
- To ensure that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long-term policy and programme frameworks and initiatives, and monitor their progress and their efficacy

- To provide advice and encourage partnerships between key stakeholders and national and international like-minded think tanks.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts.
- To offer a platform for the resolution of inter-sectoral and inter departmental issues.
- To maintain a state-of-the-art resource centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stakeholders.
- To actively monitor and evaluate the implementation of programmes and initiatives.
- To focus on technology up gradation and capacity building.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

The key initiatives of NITI Aayog are:

- 'Life' which envisions replacing the prevalent 'use-and-dispose' economy
- The National Data and Analytics Platform (NDAP) facilitates and improves access to Indian government data
- Shoonya campaign aims to improve air quality in India by accelerating the deployment of electric vehicles
- E-Amrit is a one-stop destination for all information on electric vehicles
- India Policy Insights (IPI)
- 'Methanol Economy' programme is aimed at reducing India's oil import bill, greenhouse gas (GHG) emissions, and converting coal reserves and municipal solid waste into methanol, and
- 'Transforming India's Gold Market' constituted by NITI Aayog to recommend measures for tapping into the potential of the sector and provide a stimulus to exports and economic growth

THE CURRENT STATE OF THE INDIAN ECONOMY: A BRIEF OVERVIEW

On account of dynamic nature of economic variables an attempt is made in the following sections to present the broad nature of the present day Indian economy based on the three sectors namely, primary, secondary and tertiary.

The Primary Sector

- Agriculture, with its allied sectors, is indisputably the largest source of livelihood in India.
- Till the end of 1960's, India was a food deficient nation and depended on imports.
- India has emerged as the world's largest producer of milk, pulses, jute and spices. India has the largest area planted under wheat, rice and cotton. It is the second-largest producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton, and sugar.
- India has the world's largest cattle herd (buffaloes).
- The Indian livestock sector attained a record growth of 6.6 per cent during the last decade (2010-19) emerging as a major producer of milk, egg and meat in the world.
- India grows large varieties of cash crops of which cotton, jute and sugarcane are prominent.
- Although the share of agriculture has been declining in overall gross value added (GVA) of India, it continues to grow in absolute terms.
- According to the latest estimates, 47 per cent of India's population is directly dependent on agriculture for living.
- A number of liberalization measures are adopted by the government.
- The Government of India has allowed 100% FDI in marketing of food products and in food product E-commerce under the automatic route.
- A few recent government measures are:-
 - Income support to farmers through PM KISAN
 - Fixing of Minimum Support Price (MSP) at one-and-a half times the cost of production
 - Institutional credit for agriculture sector at concessional rates
 - Launch of the National Mission for Edible Oils

- Pradhan Mantri Fasal BimaYojana (PMFBY) - a novel insurance scheme for financial support to farmers suffering crop loss/damage
- Mission for Integrated Development of Horticulture (MIDH) for the holistic growth of the horticulture sector
- Provision of Soil Health Cards
- Paramparagat Krishi Vikas Yojana (PKVY) supporting and promoting organic farming, and improvement of soil health.
- Agri Infrastructure Fund, a medium / long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets
- Promotion of Farmer Producer Organisations (FPOs) to ensure better income for the producers through an organization of their own.
- Per Drop More Crop (PDMC) scheme to increase water use efficiency at the farm level
- Setting up of Micro Irrigation Fund
- Initiatives towards agricultural mechanization
- Setting up of E-NAM -a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.
- Introduction of Kisan Rail for improvement in farm produce logistics, and
- Creation of a Start-up Eco system in agriculture and allied sectors
- Indian agriculture faces many issues such as:
 - Indian agriculture is dominated by small and medium farmers.
 - Indian agriculture is resource intensive, cereal centric and regionally biased.
 - Inadequate agro-processing infrastructure
 - Sluggish agricultural diversification to higher-value commodities
 - Poor adoption of new agricultural technologies
 - Lopsided marketing practices and ineffective credit delivery
 - High food price volatility
 - Heavy dependence on monsoons.
 - Inadequate post-harvest infrastructure etc.

The Secondary Sector

- The Indian industry holds a significant position in the Indian economy contributing about 30 percent of total gross value added.
- The industrial sector in India broadly comprises of manufacturing, heavy industries, fertilizers, pharmaceuticals, chemicals and petrochemicals, oil and natural gas, food processing, mining, defence products, textiles, retail, micro, small & medium enterprises, cottage industries and tourism.
- The development of a robust manufacturing sector is a key priority of the Indian Government.
- Manufacturing is the most important sector and accounts for 78 percent of total production.
- Specially in coal, refinery products, fertilizers, steel, electricity and cement industries the production were more.
- India's rank in the Global Innovation Index (GII) improved to 40th in 2022 from 81st in 2015.
- The Department for Promotion of Industry and Internal Trade (DPIIT) has a role in the formulation and implementation of industrial policy and strategies.
- Some of the policies are presented below did boost the industrial production in India.
 - Introduction of goods and services tax (GST) on 1 July 2017 as a single domestic indirect tax law.
 - Reduction of corporate tax to 22%
 - Make in India' is a 'Vocal for Local' initiative launched in 2014 to facilitate investment, foster innovation.
 - 'Ease of Doing Business' with key focus areas as simplification of procedures.
 - India ranks 63rd in the World Bank's annual Doing Business Report (DBR), 2020 as against 77th rank in 2019 registering a jump of 14 ranks.
 - The National Single Window System is a one-stop-shop for investor related approvals and services.
 - PM Gati Shakti National Master Plan to facilitate reducing logistics cost.

- National Logistics Policy (NLP) launched in September 2022, aims to lower the cost of logistics
- Production Linked Incentive (PLI) Scheme was initiated in March 2020 for 14 key sectors to enhance India's manufacturing capabilities and export competitiveness.
- FAME-India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) to promote manufacturing of electric and hybrid vehicle technology and to ensure sustainable growth of the same.
- Udyami Bharat' aims at the empowerment of MSMEs.
- PM Mega Integrated Textile Region and Apparel (PM MITRA): to ensure world-class industrial infrastructure in the textiles sector.
- 100 per cent FDI under automatic route is permitted for the sale of coal, and coal mining activities, including associated processing infrastructure and for insurance intermediaries.
- Foreign Investment Promotion Board (FIPB) was abolished in May 2017, and a new regime namely Foreign Investment Facilitation Portal (FIF) has been put in place.
- Initiatives towards fostering innovation include incubation, handholding, funding, industry-academia partnership and mentorship and strengthening of IPR regime.
- National Logistics Policy (NLP) is comprehensive policy framework for the Logistics Sector.
- Start-up India Programme acts as the facilitator for ideas and innovation in the country. India's rank in the Global Innovation Index (GII) has improved from 81st in 2015 to 40th in 2022.
- Public Procurement (Preference to Make in India) Order, 2017 gives preference to locally manufactured goods, works and services in public procurement thereby giving boost to industrial growth.
- The Emergency Credit Line Guarantee Scheme (ECLGS) is a fully guaranteed emergency credit line to monitor lending institutions.
- There are many challenges to the industrial sector; a few of these are enumerated below:
 - Shortage of efficient infrastructure and manpower and consequent reduced factor productivity.

- Reliance on imports, exchange rate volatility and associated time and cost overruns
- The MSME sector is relatively less favorably placed in terms of credit availability.
- Industrial locations established without reference to cost-effective points tend to experience unsustainable cost structure.
- Heavy losses, inefficiencies, lower productivity and unsustainable returns plaguing public sector industries.
- Strained labor-management relations and loss of man hours.
- Lower export competitiveness, slowing external demand and imposition of non tariff barriers by other countries.
- Global supply chain disruptions and uncertainties.
- Inflation and associated macro economic developments leading to input cost escalations and lower demand.
- Global slowdown and related negative sentiments affecting investment.
- Aggressive tightening of monetary policy and increases in cost of credit.
- High and increasing fuel prices, and
- Mounting presence of informal sector.

The Tertiary Sector

- A remarkable feature where the role of the services sector in generating growth of income and employment is very impressive.
- Unlike the usual economic development India has the unique experience of bypassing the secondary sector in the growth trajectory by a shift from agriculture to the services sector.
- Examples of Service sectors
 - Wholesale and retail trade and repair of vehicles
 - Transportation and storage
 - Accommodation and food service activities
 - Information and communication
 - Financial and insurance activities
 - Real estate activities
 - Professional, scientific and technical activities etc

- The service sector refers to the industry producing intangible goods viz. services as output.
- The services sector is the largest sector of India and accounts for 53.89% of total India's GVA.
- The Gross Value Added (GVA) at current prices for the services sector is estimated at Rs 96.54 lakh crore in 2020-21.
- The service sector is the fastest growing sector in India and has the highest labour productivity.
- The exceptionally rapid expansion of knowledge-based services such as professional and technical services has been responsible for the faster growth of the services sector.
- Services sector growth can also complement growth in the manufacturing sector.
- The start-ups which have grown remarkably over the last few years mostly belong to the services sector.
- India is among the top 10 World Trade Organization (WTO) members in service exports and imports.
- The Indian services sector is the largest recipient of FDI inflows.
- In 2021-22, India received the highest-ever FDI inflows of US\$ 84.8 billion including US\$ 7.1 billion FDI equity inflows in the services sector.
- To ensure the liberalisation of investment in various industries, the government has permitted 100 per cent foreign participation in telecommunication services through the Automatic Route including all services and infrastructure providers.