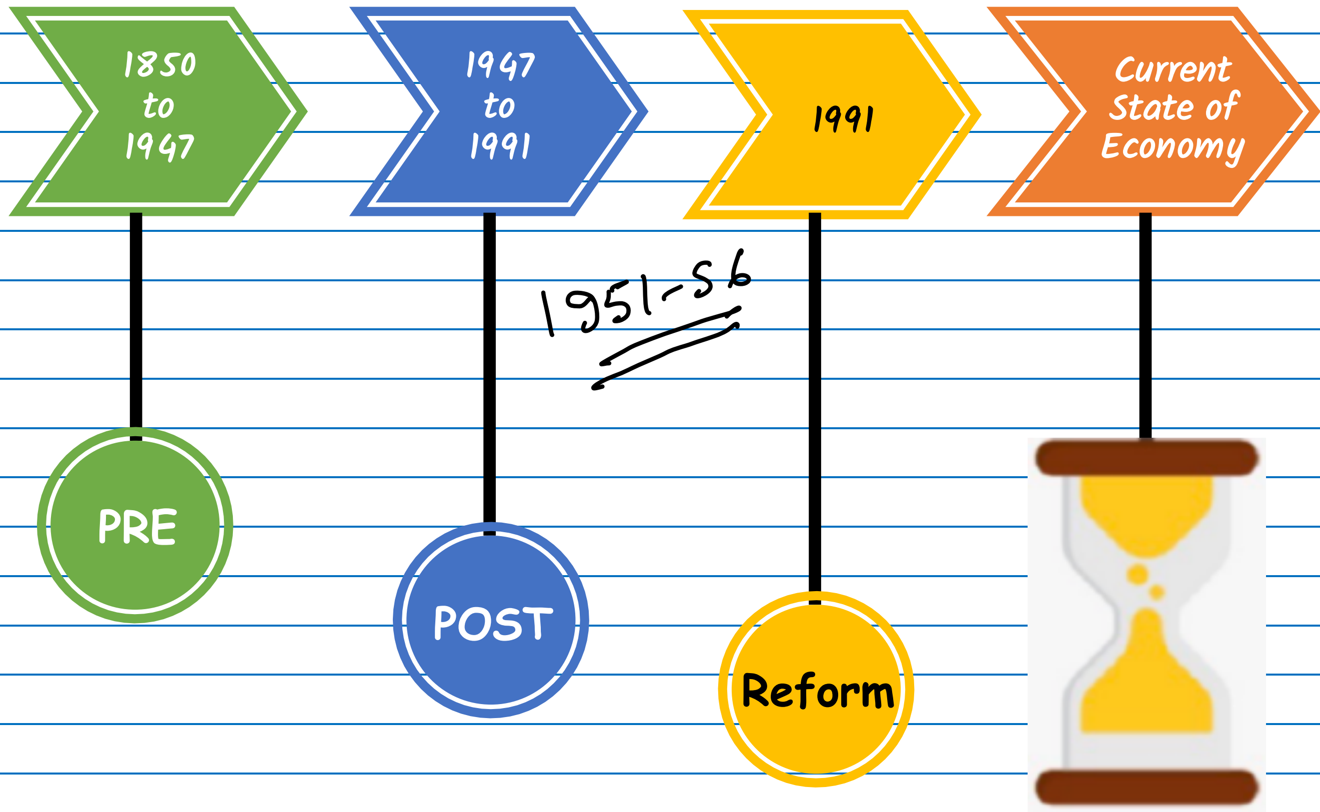
Chapter -5
Indian Economy



Pre-Independence Period

(1850 to 1947)

- Largest economy of the ancient & medieval world.
- Prosperous & Self-reliant
- Self sufficient villages
- Cities were centres of commerce, prilgrimage & Administration.
- Simple division of labour.
- Agriculture was dominant occupation & main source of livelihood.
- Highly skilled set of Artisans & Craftsmen Superior Quality of Handicrafts & Textiles.

Ancient Economy

The earliest known treatise on ancient Indian economic philosophy is '**Arthashastra**' the pioneering work attributed to **Kautilya (Chanakya) (321-296 BCE).**

Arthashastra is recognized as one of 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**, the founder of Mauryan empire, containing directives as to how to reign over the kingdom and encouraging direct action in addressing political concerns without regard for ethical considerations. **Artha** is not wealth alone; rather it encompasses **all aspects of the material well-being of individuals.**

Arthashastra is the science of **'artha' or material prosperity,** or "the means of subsistence of humanity", which is,

- **primarily,** 'wealth' and,
- **secondarily,** 'the land'

The major focus of the work is on the means of **fruitfully maintaining and using land. Kautilya emphasizes-**

- **The importance of robust agricultural initiatives** for an abundant harvest which will go toward filling the state's treasury.
- **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.

Being a multidisciplinary discourse on areas such as politics, economics, military strategy, diplomacy, function of the state, and the social organization, Kautilya's writings relate to-

- Statecraft,
- Political science,
- Economic policy and
- Military strategy

True kingship is defined as a ruler's **subordination** of

- His own desires and
- Ambitions to the good of his people

King's policies should reflect a concern for the greatest good of the greatest number of his subjects.

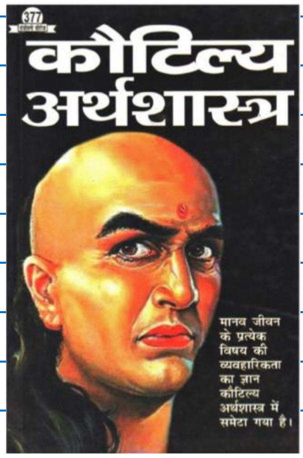
The preservation and advancement of this good was comprised of **seven vital elements, namely-**

- The king,
- Ministers,
- Farmlands,
- Fortresses,
- Treasury,
- Military and
- The Allies.

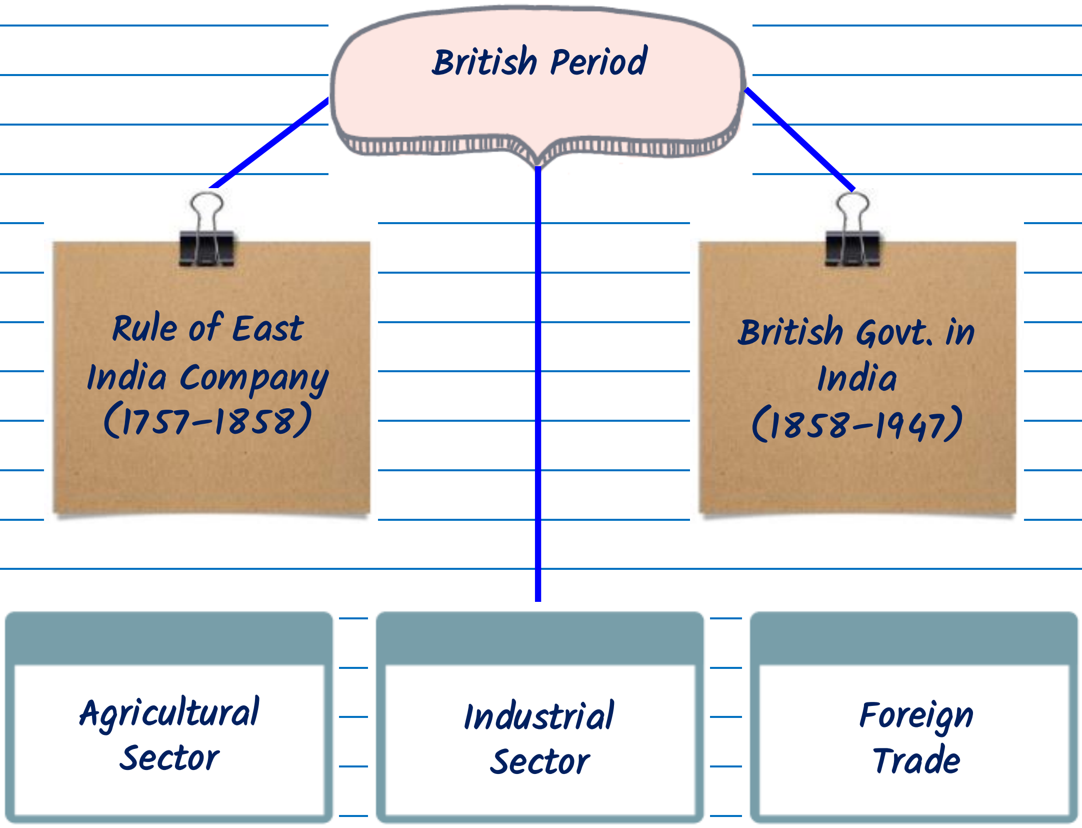
The advent of the Europeans and the British marked a shift in the economic history of India. The period of British rule can be divided into two sub periods:

- *The rule of East India Company from 1757 to 1858.*
- *British government in India from 1858 to 1947.*

Kautilya (Chankya) (321-296 BCE)
"Asthashastra"



Pioneer work of statecraft in genre of Political Philosophy.
It is science of "artha" or material prosperity
"The means of subsistence of Humanity"
Primarily Wealth ; Secondly Land



With the onset of industrial revolution in the latter half of the 18th century, the manufacturing capabilities of Britain increased manifold, and consequently there arose the need to augment **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 under the **policy of discriminatory tariffs** followed by the British. This made the exports of **finished goods relatively costlier and the imports cheaper.**

In this backdrop, the Indian goods lost their competitiveness. Consequently, the external as well as the domestic demand for indigenous products fell sharply culminating in the **destruction of Indian handicrafts and manufactures.**

The destruction of Indian manufactures, mainly due to the hostile imperial policies to **serve the British interests** and the **competition from machine-made goods,** had for reaching adverse consequences on the Indian manufacturing sector.

The problem was aggravated by **the shift in patterns of demand by domestic consumers** favouring foreign goods as many Indians wanted to affiliate themselves with western culture and ways of life.

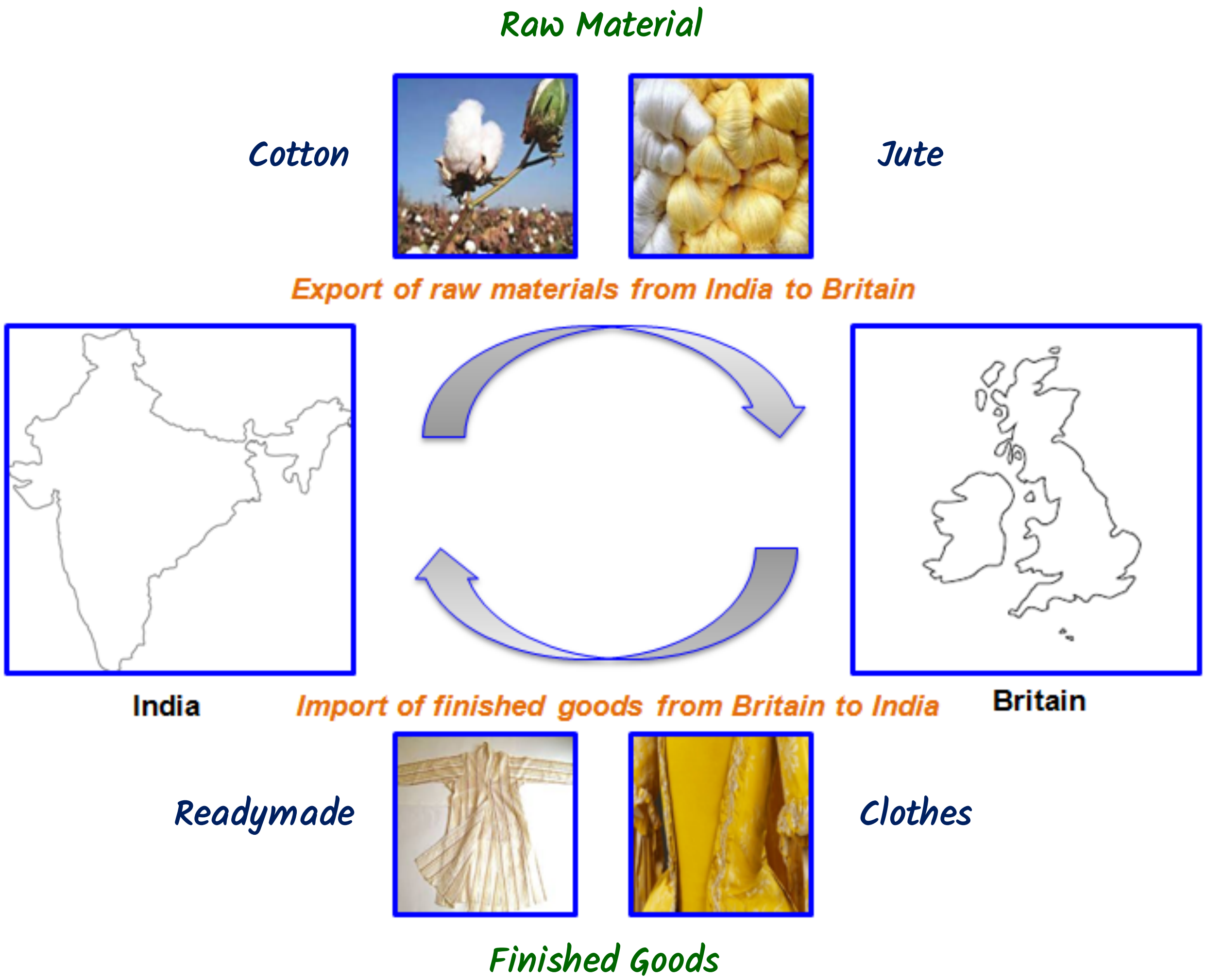
The damage done to the long established production structure had for reaching economic and social consequences as it destroyed the internal balance of the traditional village economy which was characterized by the harmonious blending of **agriculture and handicrafts.**

Agriculture Sector

- Large scale of unemployment because dependency on Agriculture for livelihood.
- Zamindari system of land tenure they create pressure of rents and other payments.
- High dependency on monsoon.
- Land sub division & fragmentation, subsistence farming, reduce agriculture productivity.
- High indebtness of farmers, growth of exploitative money lenders.
- Low level of technology, lack of irrigation facilities, min. use of fertilizers led to worst condition of farmers.
- To maintain continuous supply of cheap Raw material govt. force to grow commercial crops like indigo, tea & coffee.

All these measures led to a collapse of Indian Agriculture.

Industrial Sector



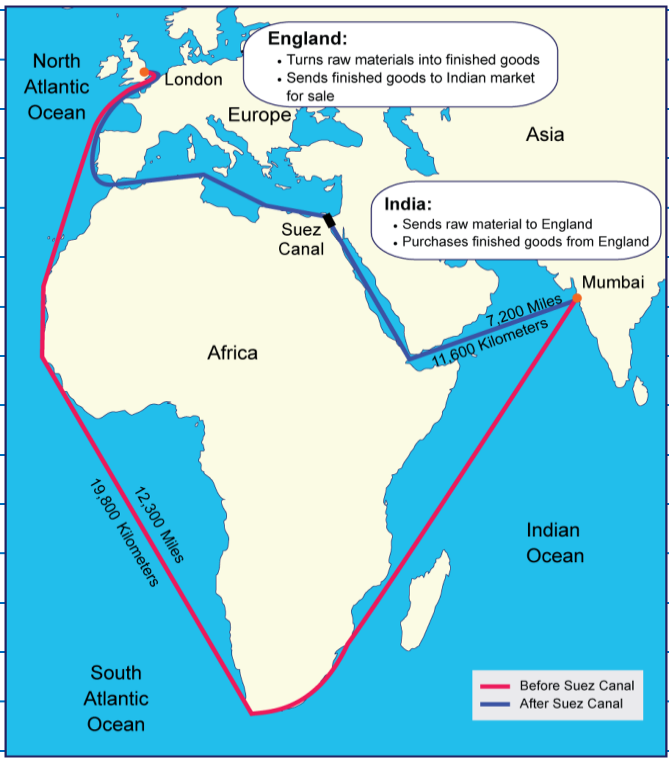
- Factory-based production did not exist in India before 1850. The 'Modern' industrial enterprises in colonial India started to grow in the **mid-19^{th} century**.
- The **cotton milling business** grew steadily throughout the second half of the 19^{th} century, and achieved high international competitiveness. The cotton mill industry in India had 9 million spindles in the 1930s, which placed **India in the fifth position** globally in terms of number of spindles.
- **Jute mills** also expended rapidly in and around **Calcutta** in response to a mounting global demand for ropes and other products, and Indian jute occupied a large share of the international market by the late 19^{th} century.
- **At the end of the 19^{th} century, the Indian jute mill industry was the largest** in the world in terms of the amount of raw jute consumed in production.
- In addition, brewing, paper-milling, leather-making, matches and rice-milling industries also developed during the century.
- 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.
- Just before the Great Depression, India was ranked as the twelfth largest industrialised country measured by the value of manufactured products.
- **The producer goods industries,** however, **did not show high levels of expansion**.
- Perhaps, the most important of the factors that led to this state of affairs was the pressure exerted by the English producers in matters of policy formulation to positively discourage the development of industries which were **likely to compete with those of the English producers**.
- **India's industrial growth was insufficient** to bring in a general transformation in its economic structure.
- The share in the net domestic product (NDP) of the manufacturing sector (excluding small scale and cottage industries) had barely reached **7% even in 1946**.
- Considering its slow progress, the share of factory employment in India was also small (i.e. 0.4% of the total population in 1900 and 1.4% in 1941).

Reasons for devastation of handicraft industries during the British rule

- **Biased tariff policy** – Indian handicrafts were ruined
- **Unfair competition** – Demand for Indian handicrafts fell drastically
- **Disappearance of princely courts** – End of state patronage to the handicrafts
- **Western lifestyle** – British good demanded by zamindars

Foreign Sector



- ✓ Exporter of RM such as cotton, jute, silk, indigo etc.
- ✓ Importer of final consumer good like silk clothes, cotton clothes & capital goods.
- ✓ In 1869 "Suez Canal" was opened to operate ships between India & Britain.

Post-Independence Period

(1947 to 1991)

At the time of Independence

Mass illiteracy just 18%

High Birth Rate & High Death Rate

Low Life Expectancy barely 32 years

Poverty

Post-Independence

- State came to dominate the post-independent Indian economic policy.
- Centralized economic planning was the core of Indian development strategy.
- Growth with Equity & Justice.
- IPR 1948 expanded role of public sector & licencing to private sector.

Two Philosophies in 1950

Nehru's Philosophy	Gandhian Philosophy
To build a socialist society with emphasis on Heavy Industries.	Village Republics with small scale and cottage Industries.

Agriculture Sector

- First 5 year plan (1951-55)
- But second plan not given priority to agriculture.
- Land Reforms & Farm cooperatives given importance.

- Not much importance given to technocratic areas like R & D, irrigation facilities etc.
- Continuous failure of monsoon, two severe & consecutive drought struck India.

- India faced serious food grain problems & depend on US for food aid under PL480.

Green Revolution

- Innovative Farm Technology
- High Yielding Seeds
- Intensive use of Water, Fertilizers & Pesticides

note to self: Nationalization of Banks

The **government nationalized 14 banks in 1969** and then followed it up with nationalizing another **6 in 1980.**

Industrial Sector

- Second five year plan (1956-60).
- "License-raj" dominated the 1960s and 1970s.
  In 1967 "Policy of Reservation" by the small scale sector was initiated.
- Stringent labour laws were in place.
- IPR 1956 having its guiding principle as "Expansion of the scope of public sector".
- Undue priority for public sector dampening of private initiatives & enterprise.
- External shocks as three wars
- Droughts 1966 & 1967
- Oil shocks 1973 & 1979

All these contributed to the decelerated Growth of Industries.

note to self:

MRTP Act.
1969

The Monopolicies & Restrictive Trade
Practices Act
Aimed at regulation of Large firms

The economic performance during the period of **1965-81** is the **worst in independent** India's history.
The decline in growth during this period is attributed mainly to decline in productivity.

Foreign Trade

- Open foreign investment trade policy till late 1950s.
- After BOP crisis in 1958, adoption of gradual tightening of trade & investment.
- "Import substitution" foreign trade policy.

note to self:

HINDU GROWTH
RATE

First 3 decades after independence
(1950–1980)
India's Av. Annual Growth Rate (OF GDP)
Which was modest 3.5%
Referred as Hindu Growth Rate.

CONCLUSION

Realization among policy makers that the prevailing strict regime is invariably counter productive
&
Not delivered Adequate incentives & openness which are necessary for Rapid Growth.

The Era of Reforms

The Early Reforms (1980–1990)	The Economic Reforms (1991)
(Early Liberalization)	(LPG)

Early Reforms

Industry

2
- Delicensing
- Broad-banding
- MRTP Act Limit Raised from 20 to 100 crores

Expansion in same line

- Multipoint Excise Duty Converted into MODVAT (VAT)
- SEBI established on 12 April, 1988 (AS Executive Body)

Trade

- OGL (Open General Licence) was expanded to 1329 capital Goods.
- Export Incentives Expanded
- Control on cement & Aluminium were abolished
- Rupee was depreciated about 30%

Taxation

- Budget 1986 introduced cutting tax Rates, Liberalising imports & reducing tariff.

note to self: Conclusion From Early Reform

Though early reforms were limited in scope & Not much clear; Provided
An idea that Market should be given priority over Govt. for Rapid Growth.

The Economic Reforms 1991

LPG

Liberalization | Privatization | Globalization

NEED OF REFORM

- Revenue Expenditure > Revenue Receipts Results Huge Fiscal Deficit
- Huge Amount of Borrowings & Burden of interest payment.
- Surge in oil prices by Gulf War in 1990, consequent Adverse BOP.
- FER touched lowest point only $ 1.2 billion.
- Import restriction results reduction in Industrial output.
- Dependency on external borrowings from IMF put stringent condition in terms of policy.
- Fragile political situation called "Crisis of Confidence".

VIDHYODAY
VIDHYA KA UDAY

Objectives

Reforms instituted in 1991 aimed to move the economy toward greater market orientation & External openness.

- Re-orientation of Economy from centrally planned & Highly controlled to "Market Friendly" or Market oriented economy.
- Macro-economic Stabilization by Substantial Reduction in Fiscal Deficit

Classification

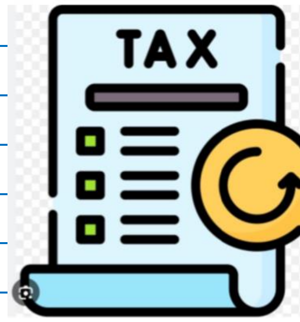
Stabilization Measures

These are short term measures to address the problems of Inflation & Adverse BOP

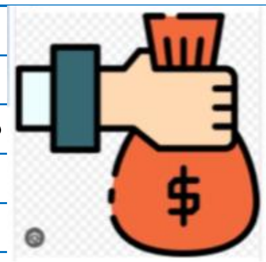
Structural Reforms

These are Long term & continuous measures aimed at Productivity & Competitiveness by removing structural rigidities.

Fiscal Reforms



- Introduction of stable & transparent tax structure.
- Better Tax Compliances.
- Thrust on curbing govt. expenditures.
- Reduction or Abolition of unnecessary subsidies.
- Disinvestment govt's equity holding in selected public sector undertakings.
- Encouraging Private Sector Participation.



note to self:
September
1994

Historic agreement between
GOI & RBI
to
bring down fiscal deficit in a
phased manner to NIL by 1997-98.

Monetary & Financial Reforms

Reforms to reducing burden of NPAs on Govt. banks,
introducing and sustaining competition & deregulating
interest rates.

- Interest rate liberalization in respect of interest on loan & deposits.
- Opening up new private sector banks, greater competition among public/private/foreign banks and removal of administrative constraints.

- Reduction in CRR & SLR in line with recommendation of Narasimhan Committee Report 1991.
- Liberalization of bank branch licensing policy & granting of freedom in respect of opening, relocating or closure of branch.
- Prudential norms in respect of classification of Assets, disclosure of income & provision for bad debts in tune with recommendation of Narasimhan Committee to ensure books of banks reflect Accurate & truthful picture of their financial position.

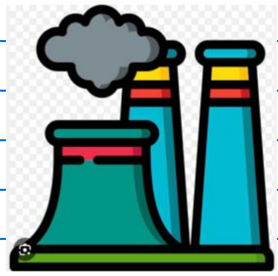
Loan ← Standard, Substandard

Capital Market Reform

भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

SEBI was set up in 1988 was given statutory recognition in 1992.
Independent Regulator of the capital market
To
create transparent environment which facilitate efficient allocation of resources.

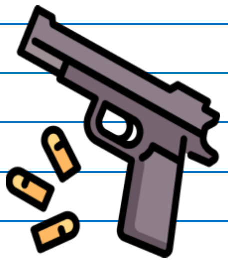
New Industrial Policy



Announced by Govt. on 24 July 1991
to
Promote growth of more efficient & competitive Industrial Economy.

- Put on end to "License Raj" by removing licensing for all industries except 18.

Subsequently reduced to 5



Arms & Ammunition

Atomic

Narcotic Drugs

Hazardous Chemical

Alcohol Cigarettes

- Public sector was limited to 8 sectors. Now only for 2 sectors.

~~Arms & Ammunition~~

Railway

&

Atomic Energy

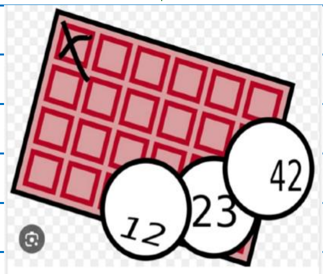
- MRTP Act was restructured & Provision related to merger, amalgamation, takeover were repealed.
- De-reserved goods produced by small scale industries for large scale industries.
- Policy ended the public sector Monopoly & many area reserved for public sector was narrowed.
- Foreign investment was liberalized concept of automatic approval was introduced for FDI upto 51% which later extended nearly all Industries Except Reserved ones.

FDI Prohibited

at present 100% allowed.


Retail Trade


Atomic Energy


Lottery Business


Betting & Gambling

- "OGL" positive list 1900 roach to negative list approach. Import licensing remained only for handful intermediate and capital goods.

Today Except Few goods all can be imported. Such as-


Edible Oil


Fertilizers


Petroleum Product

- Reduction in Tariffs

355%

In 1990-91

85%

In 1993-94

50%

In 1995-96

10%

2007-08

Except Automobile which having 100% Tariff.

- Rupee was devaluated by 18% against dollar from 1994 all current account transactions including education, travel etc. were permitted.
- Divestment of Govt. holding of Equity share of public sector enterprises provide greater Autonomy. Budget support to public sector was progressively reduced.

Trade Policy Reforms

It includes

- Quota — Dismantling of **Quantities Restriction on Import & Export**
- Reduction & Simplification of **Tariffs** — Import Duty
- Removal of **Licensing** Procedures for Imports

- Export incentives continued & export duties were removed.
- Till 1991 India had fixed Exchange Rate System.
- In July 1991 GOI devalued the Rs. Between 18 & 19%.
- In March 1992 Govt. established Dual Rate System.

Dual

- Some Imports with free exchange rates
- Other with govt. Mandate Rate.

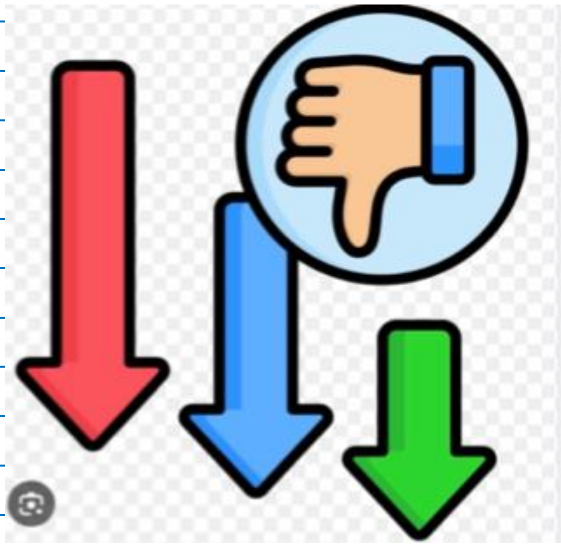
- From 1993 onwards India was followed Managed floating exchange rate system.

Achievements

- India has increasingly integrated its economy with the **global economy**.
- India has progressively moved towards **a market oriented economy**, with a size a reduction in government's market intervention and controls.
- There is an **unprecedented 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. India has one of the largest holdings of international reserves in the world.
- Robust demand for information technology and financial services has kept the **services trade surplus** high at around 3.7 percent of GDP.
- **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.**
- Reforms led to **increased competition in** sectors like banking, insurance and other financial services leading to greater customer choice and increased efficiency. It has also led to increased investment and growth of private players in these sectors.
- **Infrastructure sectors have achieved phenomenal growth.**
- **Value-added share of agriculture and allied activities has declined steadily** over the past four decades.
- India's **financial sector has also deepened considerably** due to increased financial sector liberalization.

Short Comings

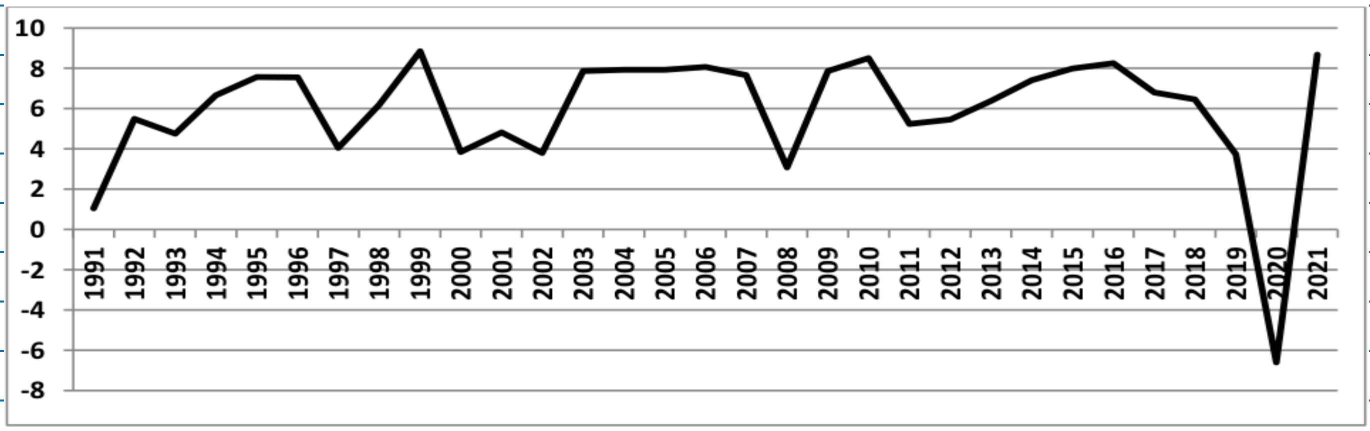


- The country is constrained by high levels of fiscal deficit, inflation and a high level of debt as a share of GDP at 86 percent of GDP in FY 21/22.
- Among the emerging market and developing economies (EMDEs), India's debt is higher than their average of 64.5% for 2022 (IMF).

GDP Growth (Annual %) – India from 1991 to 2021

Year	GDP Growth (Annual %)	Year	GDP Growth (Annual %)
1991	1.056831	2006	8.060733
1992	5.482396	2007	7.660815
1993	4.750776	2008	3.086698
1994	6.658924	2009	7.861889
1995	7.574492	2010	8.497585
1996	7.549522	2011	5.241315
1997	4.049821	2012	5.456389
1998	6.184416	2013	6.386106
1999	8.845756	2014	7.410228
2000	3.840991	2015	7.996254
2001	4.823966	2016	8.256306
2002	3.803975	2017	6.795383
2003	7.860381	2018	6.453851
2004	7.922937	2019	3.737919
2005	7.923431	2020	-6.59608
		2021	8.681229

GDP Growth (Annual %) – India from 1991 to 2021



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NITI AAYOG

On 1 Jan. 2015 Planning Commission was replaced by NITI AAYOG

A. Think Tank

NITI Aayog
National Institution for Transforming India
सत्यमेव जयते

B. Directional & Policy dynamo

Objectives

The major objectives was to "spur innovative" thinking by experts & promote 'cooperative federalism' by enhancing voice & influence of states".

- To evolve a **shared vision** of national development priorities, sectors and strategies with the active involvement of states.
- To **foster cooperative federalism** through structured support initiatives and mechanisms with the states on a continuous basis, recognizing that strong states make a strong nation.
- To **develop mechanisms to formulate credible plans** at the village level and aggregate these progressively at higher levels of government.
- To **ensure,** on areas that are specifically referred to it, 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. Poor, BPL
- 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, as well as educational and policy research institutions.
- To **create a knowledge, innovation and entrepreneurial support system** through a collaborative community of national and international experts, practitioners and other partners.
- To **offer a platform for the resolution of inter-sectorial and inter departmental issues** in order to accelerate the implementation of the development agenda.

- 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 stake-holders.
- To **actively monitor and evaluate the implementation of programmes** and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To **focus on technology up gradation** and capacity building for implementation of programmes and initiatives.
- To **undertake other activities as may be necessary in order to further the execution** of the national development agenda, and the objectives mentioned above.

Key Initiatives

Life

Replacing existing "Use & Dispose" Economy

IPI

Indian Policy Insight

Methanol Economy

Reduce India's Oil Import Bill, GHG Emission & Converting Coal & Solid Waste into Methanol

NDAP

National Data & Analytics Platform improve access to Indian Govt. Data

E-Amrit

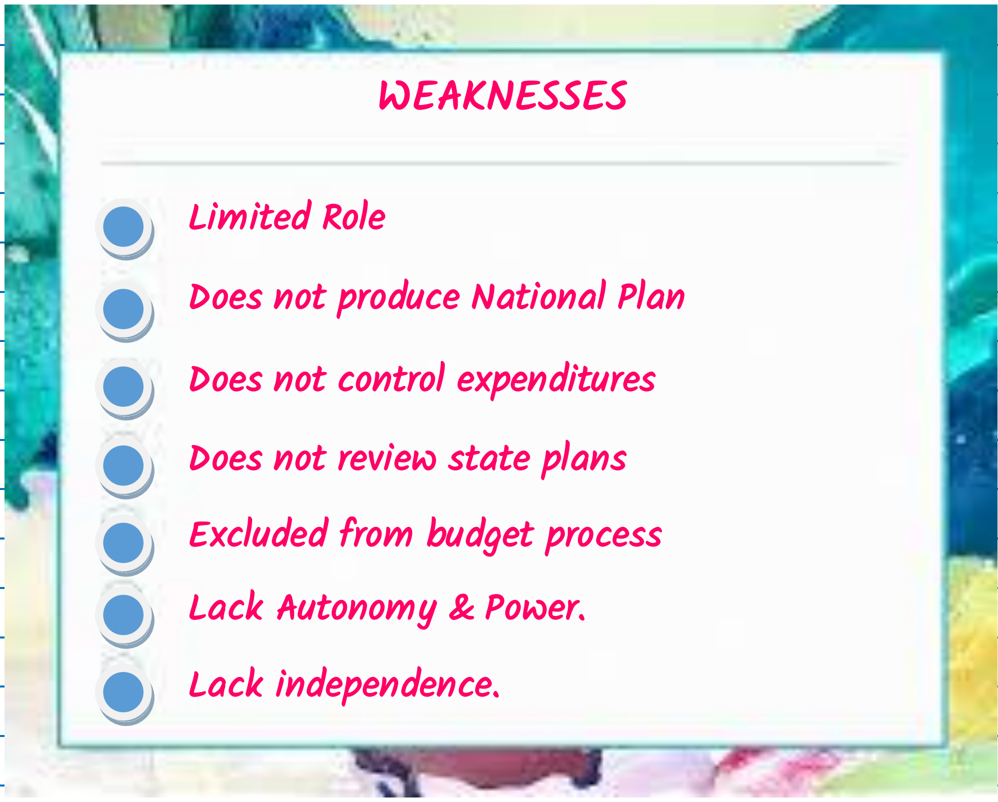
e-Vehicles

Shoonya

Improve Air Quality by ~~Deploying e-vehicles~~

TIGM

"Transforming India's Gold Market"
to
recommend measures for tapping into the potential of the sector & provide stimulus to exports and economic growth.



NITI lacks the power to perform as a
"Counterweight" to act as a
"Voice of development"

The Current State of Indian Economy

I. 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.**
- Indian **food and grocery market is the world's sixth largest,** with retail contributing 70% of the sales. 1st = service
- 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.** 1 2 3
- Although the share of **agriculture** has been **declining in overall gross value added (GVA)** of India, it continues to **grow in absolute terms.** GDP
- According to the latest estimates, **47 per cent of India's population is directly dependent on agriculture for living.** It also contributes a significant figure to the Gross Domestic Product (GDP). Gross Value Added by the agriculture and allied sector was 18.8% in 2021 – 22 (until 31 January 2022)
- The index numbers of agricultural production in 2021-22 (base: triennium ending 2007-08 = 100) for categories namely.
  - **For Food-grains,** cereals, wheat and coarse cereals was above 140; and that of rice was 138.7 and pulses was 196.2.

- For non-food grains, it was 142.9.

These figures show **sustained increase in agricultural output**. Food grains production has reached 315.7 million tonnes in 2021-22.

Private investment in agriculture has increased to 9.3% in 2020-21. (Source: Handbook of statistics on the Indian Economy, 2021-22)

As per the economic survey, 2022-23, agriculture remained robust, **recording a growth of 3.5 per cent in 2022-23**, driven by **buoyant rabi sowing and allied activities.**

Govt. Schemes for Agriculture

Agriculture Sector

PM KISAN	Income Support of Rs. 6000 P.Y.
MSP	Min. Support Price 1½ time of Cost of Production
Institutional credit	Credit for Farmers at Concessional Rate
National Mission	For Edible Oils

PMFBY	Pradhan Mantri Fasal Beema Yojna Insurance Scheme for crop loss or Damage.
MIDH	Mission for Integrated Development of Horticulture
Soil Health Card	It provide farmers information about nutrient status of their soil.
PKVY	Pramparagat Krishi Vikas Yojna Supporting & Promoting Organing Farming & Improvement of Soil Health.
AGRI Infra Fund	A medium / long term debt financing facility for investment in viable project for Post Harvest Management and Community Farming
FPOs	Farmer Producer Organisation to ensure better income for Producers through an org of their own.

PDMC

Per Drop More Crop
to
increase water use
efficiency at the farm level

MICRO Irrigation Fund

Modern Method of irrigation
through Sprinklers, foggers,
& by other emitters

AGRI Mechani-zation

Use of machines
in Agriculture.

E NAM

A Pan India electronic trading portal
which
networks the existing APMC Mandis
to
Create Unified Market
for Agri Product.

eNAM
Uttam Fasal Uttam Enaam

Kisan Rail

For improvement in
farm
produce Logistics
Transportation

Startup ECO System

For
Development of Agriculture
&
Allied Sectors

Issues Face by Agriculture

- Indian agriculture is dominated by small and medium farmers. **Small and fragmented landholdings, low farm productivity** and **subsistence farming** result in very little marketable surplus and the consequent lower income levels of the agriculturists.
- Indian agriculture is **resource intensive, cereal centric and regionally biased.** There is increasing stress on water resources and soil fertility. Unscientific and wasteful agricultural practices lead to **desertification and land degradation** in many parts of the country.
- **Inadequate agro-processing infrastructure** and failure to build competitive value chains from producers to urban centers and export markets.
- **Sluggish agricultural diversification** to higher-value commodities.
- **Inadequate adoption of environmentally sustainable** and climate resistant new farm **technology.**
- **Poor adoption of new agricultural technologies.**
- **Lopsided marketing practices and ineffective credit delivery.**
- Complexities associated with adaptation to **climate change disturbances.**
- High food **price volatility.**
- **Heavy dependence on monsoons** and loss of crops and livelihood due to vagaries of nature.
- Issues related to **marketing and warehousing** of agricultural products.
- **Inability to tap the full export potential** of primary as well as value added products.
- **Inability to effectively channelize** huge surpluses in some commodities to alternative profitable destinations.
- **Inadequate post-harvest infrastructure** and management practices.
- **Incidence of poverty and malnutrition.**

2. Secondary Sector

- The Indian industry holds a significant position in the Indian economy contributing about 30 percent of total gross value added in the country and employing over 12.1 crores of people.
- 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 share of informal sector in the economy is more than 50% of GVA.
- Rapid industrial growth of domestic industries and diversification of industrial structure are essential elements for sustainable economic growth.
- The development of a robust manufacturing sector is a key priority of the Indian Government.

The general aspects related to industries

- In India, **Manufacturing** is the most important sector and accounts for 78 percent of total production.
- The manufacturing GVA at current prices was estimated at US$ 77.47 billion in the third quarter of financial year 2021-22 and has contributed around 16.3% to the nominal GVA during the past ten years.
- In 2022-23 (until September 2022), the combined index of **eight core industries** stood at 142.8 driven by the production of coal, refinery products, fertilizers, steel, electricity and cement industries.
- In Jan 31, 2023 **the manufacturing purchasing managers' index (PMI) in India stood at 55.4.**
- 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 for industrial development in conformity with the development needs and national objectives.

Govt. Schemes to Boost Industrial Sector

GST

Introduced on 1 July, 2017 as a single domestic indirect tax law for entire country.

Reduction in Corporation Tax

Reduction of corporate tax to domestic company upto 22% without avail any exemption.

Make in India

'Vocal for Local' it launched in 2014 to facilitate investment, foster innovation build excellent infra & make India a hub for Mgf/design & innovation.

Make in India 2.0

Focusing on 15 mfg. sector & 12 service sector

Ease of Doing Business	Focus on simplification of procedures, rationalization of legal provisions, digitization of Govt. procedures & decriminalization of minor, technical or procedural defaults. (India Rank 63 in Doing Bussiness Report)
National Single Window System	One stop shop for investor related approval & services to support them.
PM Gati Shakti	To Facilitate data based decision related to integrated planning of Multimodal infrastructure; thereby reducing logistic cost. Transportation
NLP	National Logistic Policy launched in sept 2022, aim to lower the cost of logistics.
PLI	Production Linked Incentive scheme launched in March 2020 for 14 Key Sectors to enhance India's Manufacturing Capabilities & Export. It extended to white goods (AC & LED)
Industrial corridor Development Programme	Green field Ins trial areas with sustainable infrastructure & to make available "Plug and Play" Infra.

FAME INDIA	Faster Adoption & Manufacturing of Hybrid & Electric Vehicles. To Promote Manufacturing & Growth
Udyami Bharat	Empowerment of Micro Small & Medium Enterprises (MSMEs)
PM MITRA	PM Mega Integrated Textile Region & Apparel to boost FDI and Local Investment in Textile.
Global	Opening up for global investments – several radical & transformative FDI reforms such as defense, pension, e-commerce etc.
100% FDI	Under automatic route for sale of coal, coal mining activities including processing & for Insurance Intermediaries.
FIF	Foreign investment facilitation portal has been put in place of Foreign Investment Promotion Board (FIPB)
RODTEP	Remission of Duties & Taxes on Export Products 2021 to replace Merchandise Export from India (MEIS) to Boost Exports & Provide rebate all taxes which have not been refunded in any other scheme.

Fostering innovation

It include incubation, handholding, funding industry – academia partnership & mentorship & strengthening of IPR regime.

~~NLP~~

National Logistics Policy
Comprehensive Policy for Logistics Sector.

Start Up India

Facilitator for ideas & innovations in the country.
India Rank 40^{th} in Global Innovation Index (GII)

ORDER 2017

govt. स्वदेशी

Public Procurement (Preference to Make in India) Order 2017 gives preference to locally manufactured goods, works & services.

ECLGS

Emergency Credit Line Guarantee Scheme fully guaranteed emergency credit line to monitor lending institutions.

Upcoming of Government

- India is gearing up for the fourth industrial revolution or **Industry 4.0** in which manufacturing transformation needs to integrate new technologies such as cloud computing, [illegible], machine learning, and artificial intelligence (AI).
- **The National Manufacturing Policy** which aims to increase the share of manufacturing in GDP to 25 percent by 2025 is a step in this direction.
- India is an **attractive hub for foreign investments** in the manufacturing sector. Over the last few years, FDI equity inflows in the manufacturing sector have been progressively using.
- According to the Department for Promotion of Industry and Internal Trade (DPIIT), India received a total foreign direct investment **(FDI) inflow of US$ 58.77 billion** in 2021-22.

Challenges Faced by Industrial Sector

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- 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.

3. Service Sector

A remarkable feature of the post reform Indian economy is the overarching role of the services sector in generating growth of income and employment.

The broad classification of services as per the National Industrial Classification, 2008

- 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
- Administrative and support services
- Public administration, defence and compulsory social security
- Education
- Human health and social work activities
- Arts, entertainments and recreation
- Other service activities
- Activities of households as employers, undifferentiated goods and services producing activities of households for own use.
- Activities of extra territorial organizations and bodies.

General Aspects Related to Service Sector

- **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 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. Both domestic and global factors influence the growth of the services sector. BPO
- 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. KPO
- The production and consumption of **information-intensive service** activities such as computing, accounting, inventory management, quality control, personnel administration, marketing, advertising and legal services has increased manifold due to application of state of the art information technology.
- 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.
- While exports from all other sectors were adversely affected, India's services exports have **remained resilient during the Covid-19 pandemic.** The reasons are the higher demand for digital support and need for digital infrastructure modernization.
- The Indian services sector is the largest recipient of FDI inflows. FDI equity inflows into the services sector accounted for **more than 60 per cent of the total FDI** equity inflows into India.
- The World Investment Report 2022 of UNCTAD places India as **the seventh largest recipient of FDI** in the top 20 host countries in 2021.
- 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 liberalization 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.
- The FDI ceiling in **insurance companies was also raised from 49 to 74 per cent.**
- Measures undertaken by the Government, such as the launch of **The National Single-Window System** and enhancement in the FDI ceiling through the automatic route, have played a significant role in facilitating investment.