

**CA FOUNDATION
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रामबाण



SUPER REVISION SESSIONS

**Chapter - 10
INDIAN ECONOMY**

Business Economics

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Chapter 10

Indian Economy

10 Marks





Topic: Chapter Coverage



Before 1947

✓ 1757-1858

EIC

190

✓ 1858-1947

British
govt.

1850-1947

After 1947

1947-1991

✓
✓
1991
onwards

→ NITI AYog

→ P, S, T ✓



Topic: Before the Advent of British Rule India Was



- (1) Self reliant economy
- (2) Agriculture was the main source of livelihood
- (3) Famous for handicrafts (in the field of cotton, silk, metal, precious stones etc.)



Topic: Status of Indian Economy: Pre Independence Period (1850 - 1947)

- (1) India was known as **the largest economy in the ancient and medieval world** between the 1st and 17th centuries AD.
- (2) during this period was controlled by India. **Between one third and one fourth of the world's wealth**
- (3) There were **self-sufficient villages and cities**,
- (4) **Agriculture was the dominant occupation**

$$\frac{1}{3} - \frac{1}{4}$$

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:

- (1) The rule of East India Company from 1757 to 1858
- (2) British government in India from 1858 to 1947



- Factory-based production did not exist in India before 1850, and modern industrial enterprises began to grow in the mid-19th century under colonial rule.
- Cotton milling industry in India expanded steadily, achieving high international competitiveness, with **9 million spindles** in the 1930s, ranking fifth globally. ⑤
- Jute mills (mainly situated around Kolkata), responding to global demand, made India the largest producer in the world by the late 19th century. ✓
- Other industries such as brewing, paper-milling, leather-making, matches, and rice-milling also developed during the century. ✓
- Heavy industries, like the iron industry established in 1814 (by British money), ranked India eighth globally in terms of output in 1930. ✓



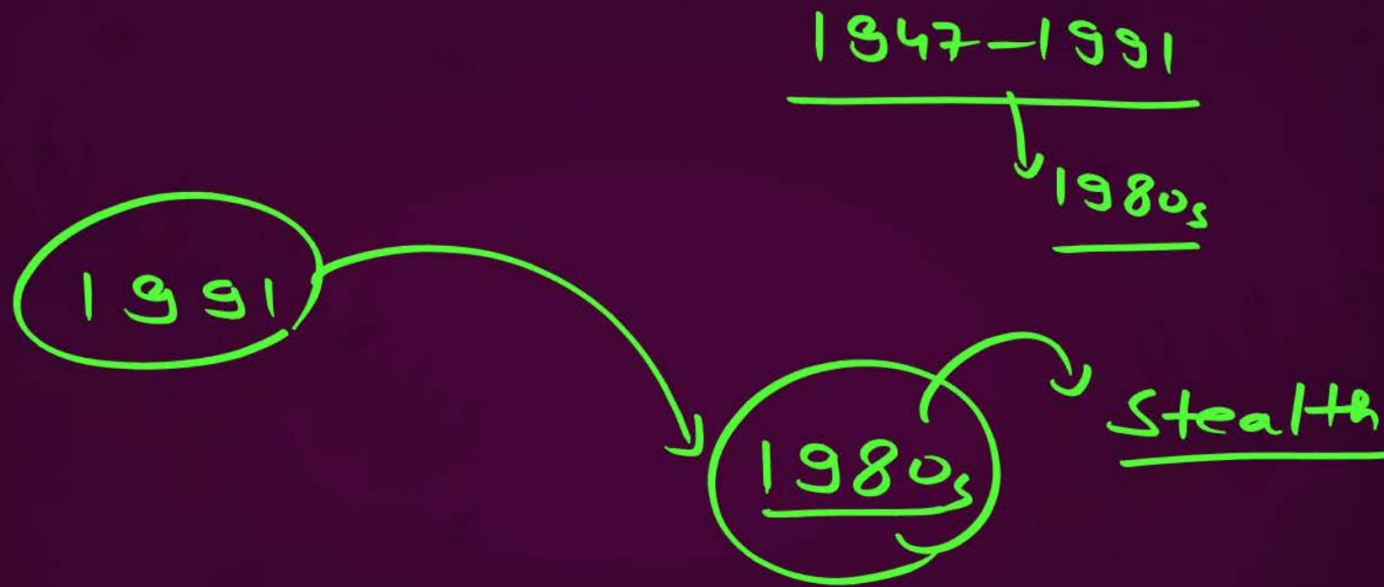


- Factory employment in India remained small, accounting for 0.4% of the total population in 1900 and 1.4% in 1941.



Topic: Post-independence (1947-1991)







Topic: Post-independence (1947-1991)

- At the time of independence, India was predominantly rural, with a largely illiterate and impoverished population.
- The society was deeply stratified, and India faced challenges not just in income but also in human capital, with a literacy rate just above 18 percent and a life expectancy of barely 32 years in 1951.
- The Nehruvian model, influenced by historical factors, dominated post-independence economic policy, focusing on social and economic redistribution, and state-led industrialization.
- Centralized economic planning and direction were core to India's development strategy, executed through the Planning Commission and five-year plans.



- The policies in 1950's were guided by two economic philosophies:
 - (1) The then prime minister Nehru's visualization to build a socialistic society with emphasis on heavy industry, and
 - (2) The Gandhian philosophy of small scale and cottage industry and village republics
- The Industrial Policy Resolution of 1956 emphasized public sector expansion, leading to a dampening of private initiative and enterprise, with long-lasting negative consequences for industrial growth.
- Until the late 1950s, India followed an open foreign investment and trade policy, but a balance of payments crisis in 1958 led to a tightening of trade and reduced investment licensing for new investments requiring imports of capital goods.

Industrial Policy

- ① IPR 1948
- ② IPR 1956 ✓

3 decades

1950-1980

↓

3.5%



- Comprehensive import controls were maintained until 1966.
- In the first three decades after independence (1950–80), India's average annual GDP growth rate, known as the 'Hindu growth rate,' was a modest 3.5 percent.
- The initial focus was on capital-intensive projects like dams, power plants, and heavy industrialization rather than consumer goods, contributing to the "Hindu growth rate."
- In the mid-1960s, India witnessed a major shift in economic strategy, marked by inadequate prioritization of agriculture during the second plan and reduced outlays.
- The existing strategy for agricultural development relied on institutional models like land reforms and farm cooperatives, with limited emphasis on technocratic areas like research and development and irrigation.



- The interventionist policies of the 1960s had irreparable consequences in the following decade.
- The economic performance from 1965 to 1981 marked the worst period in independent India's history, with growth decline attributed mainly to productivity loss. ✓ ✓ ✓
- Autarchic policies, license-raj, three wars (1962, 1965, 1971), major droughts (1966, 1967), and oil shocks (1973, 1979) contributed to two decades of decelerated growth.
- India's closed economy missed opportunities in the rapidly growing world economy.
- Government policies aimed at equitable distribution of income and wealth undermined wealth creation incentives and were largely anti-growth.

1969 → MRTP



Topic: The Era of Reforms

- (1) Seeds of liberalization and reforms were planted in the 1980s, especially after 1985.
- (2) Early 1980s saw efforts to restore price stability through tight monetary policy, fiscal moderation, and some structural reforms, referred to as 'early liberalization.'
- (3) This period aimed at changing the 'inward-oriented' trade and investment practices, often called 'reforms by stealth' due to its ad hoc and not widely publicized nature.
- (4) Despite not being a comprehensive package like the 1991 reforms, these efforts contributed to higher growth rates in the 1980s compared to the previous three decades.

- (5) The average annual GDP growth rate during the sixth plan period (1980–1985) and the seventh plan period (1985–1990) were 5.7 and 5.8 percent, respectively.
- (6) Early reforms in the 1980s focused on industry, trade, and taxation, accompanied by skillful exchange rate management.
- (7) Industrial policy initiatives included
 - (a) delicensing 25 broad categories of industries in 1985, broad-banding for industry groups to allow flexibility in their product mix, and raising the asset limit subject to MRTP regulations for larger firms.
 - (b) Conversion of multipoint excise duties into a modified value-added (MODVAT) tax reduced taxation on inputs.



1969 → 14 Comm. Bank
1980 → 6 Comm. Bank } ⇒ Nationalisation

- (c) Establishment of the Securities and Exchange Board of India (SEBI) in 1988.
- (d) Expansion of the open general license (OGL) list and introduction of export incentives.
- (e) Realistic exchange rates, expansion of OGL list, and export incentives helped boost exports and reduce foreign exchange pressure.
- (f) Abolition of price and distribution controls on cement and aluminum.
- (g) Rupee depreciation by about 30% from 1985-86 to 1989-90, based on the real effective exchange rate (REER).
- (h) The 1986 budget introduced policies to cut taxes, liberalize imports, and reduce tariffs.

The reform measures of 1991 were driven by critical economic, fiscal, and balance of payments crises, structured as a core package to address these challenges and structural rigidities. The overarching policy paradigm aimed at shifting from central direction to market orientation. These measures can be broadly classified into two categories:

(1) Stabilization Measures:

- Short-term measures to address inflation and the adverse balance of payments.
- Implemented to stabilize the immediate economic challenges.

(2) Structural Reform Measures: → L, P, G

- Long-term and continuing in nature.
- Aimed at enhancing productivity and competitiveness by eliminating structural rigidities in various sectors of the economy.



- Focused on bringing about systemic changes to foster sustainable economic growth.

This **dual approach**, combining short-term stabilization measures with long-term structural reforms, was crucial in addressing the immediate crises while laying the foundation for sustained economic development.



Topic: The Fiscal Reforms



1. Introduction of a stable and transparent tax structure.
2. Emphasis on better tax compliance to increase revenue collection.
3. Focus on curbing government expenditure
4. Reduction and abolition of unnecessary subsidies
5. Disinvestment of government equity in selected public sector undertakings.
6. Encouraging of private sector participation

In order to bring in fiscal discipline, it was essential to do away with the temptation to finance deficit through the easy path of money creation. Therefore, the government entered into a historic agreement with the Reserve Bank in September 1994 to bring down the fiscal deficit in a phased manner to nil by 1997-98.

slowly

1994

1997-98



Topic: Monetary & Financial Sector Reforms

Focus on reducing nonperforming assets burden on government banks.

These reforms included many measures like :

- (i) Interest rate liberalization and reduced controls by the Reserve Bank of India on loan and deposit rates.
- (ii) Opening new private sector banks to foster competition and removing administrative constraints that reduced efficiency.
- (iii) Reduction in reserve requirements (SLR and CRR) as per recommendations of Narasimham Committee report.



Topic: Reforms in Capital Markets

The Securities and Exchange Board of India (SEBI) which was set up in 1988 was given statutory recognition in 1992.

The 'New Industrial Policy'.

The 'New Industrial Policy' announced by the government on 24 July 1991.

In order to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced



Topic: Trade Policy Reforms



1985-1990
↓
30%

The trade policy reforms aimed at:

- dismantling of quantitative restrictions on imports and exports
- focusing on a more outward oriented regime with phased reduction and simplification of tariffs, and.
- removal of licensing procedures for imports.

To boost exports, various incentives were introduced, including the removal of export duties. In 1991, India devalued the rupee by 18-19% under a fixed exchange rate system. A dual exchange rate regime was established in March 1992, allowing importers to pay at free-market rates for some imports and at a government-mandated rate for others. By March 1993, the exchange rate was unified, and India adopted a managed floating exchange rate system.

1991

- ① financial ✓
- ② Fiscal ✓
- ③ Capital ✓
- ④ Industrial ✓
- ⑤ Trade



Topic: 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.
- The new ideologies of the neoliberal era with their centre of attention on market orientation and shrinking/decreasing roles of the government were becoming popular.
- On **1st January 2015**, the apex policy-making body namely Planning Commission, was replaced by the **National Institution for Transforming India (NITI) Aayog**.

The key initiatives of NITI Aayog are: (v.imp)

- (1) 'Life', which envisions replacing the prevalent 'use-and-dispose' economy
- (2) The National Data and Analytics Platform (NDAP) facilitates and improves access to Indian government data
- (3) 'Shoonya campaign' aims to improve air quality in India by accelerating the deployment of electric vehicles



- (4) **E-Amrit** is a one-stop destination for all information on electric vehicles
- (5) **India Policy Insights (IPI)** ✓
- (6) **'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
- (7) **'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.



Topic: The Current State of The Indian Economy: A Brief Overview



The Current State of The Indian Economy is described via - primary,
secondary and tertiary.

Factory

Services

Agri
mining



Topic: 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.**



Indian food and grocery market is the world's sixth largest, with retail contributing **70% of the sales**. 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.

- 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 such recent 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 Bima Yojana (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



Topic: The 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.



- ❑ In India, industrial production measures the output of businesses integrated in industrial sector of the economy.
- ❑ **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.

Ever since independence, many innovative schemes are undertaken by different governments from time to time to boost industrial performance.

Some of the policies are presented below:

- ❑ **Introduction** of goods and services tax **(GST)** on **1 July 2017** as a single domestic indirect tax law for the entire country **replacing** many indirect taxes in India such as the **excise duty, VAT, services tax, etc.**
- ❑ **Reduction of corporate tax to domestic companies** giving an option to pay income-tax at the rate of **22%** subject to condition that they will not avail any exemption/incentive.



- **'Make in India'** is a **'Vocal for Local'** initiative launched in 2014 to facilitate investment, foster innovation, build excellent infrastructure and make India a hub for manufacturing, design and innovation. **Make in India 2.0'** is now **focusing on 27 sectors**, which include **15 manufacturing sectors** and **12 service sectors**.
- **'Ease of Doing Business'** with key focus areas as simplification of procedures, rationalization of legal provisions, digitization of government processes, and decriminalization of minor, technical or procedural defaults. 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 in the country and aims to provide continuous facilitation and support to investors.
- ❑ **PM Gati Shakti National Master Plan** to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost.
- ❑ **National Logistics Policy (NLP)** launched in September 2022, aims to lower the cost of logistics & make it at par with other developed countries.
- ❑ Keeping in view **India's vision of becoming 'Atmanirbhar'**, the Production Linked Incentive (PLI) Scheme was initiated in March 2020 for 14 key sectors to enhance India's manufacturing capabilities and export competitiveness. PLI Scheme is now extended for white goods/heavy consumer durables (air conditioners and LED lights).



- ❑ **Industrial Corridor Development Programme:** Greenfield Industrial regions/areas/nodes with sustainable infrastructure and to make available **'plug and play' infrastructure at the plot level.**
- ❑ **FAME-India Scheme** (Faster Adoption and Manufacturing of Hybrid & 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 Micro Small and Medium Enterprises (MSMEs).
- ❑ **PM Mega Integrated Textile Region and Apparel** (PM MITRA): to ensure **world-class industrial infrastructure** which would attract cutting age technology and **boost FDI** and **local investment in the textiles sector.**

- ❑ **Opening up for global investments:** To make India a more attractive investment destination, the government has implemented several **radical** and **transformative FDI reforms** across sectors such as **defence, pension, e-commerce activities etc.**
- ❑ **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. Under the new regime, the process for granting FDI approvals has been simplified. **853 FDI proposals were disposed off in the last 5 years. FDI has increased jumped by 39% since FIF** came into being.



- ❑ **Remission of Duties and Taxes on Export Products (RODTEP) 2021** formed to replace the existing **MEIS** (Merchandise Exports from India Scheme) to boost exports. It provides for rebate of all hidden central, state, and local duties/taxes/levies on the goods exported which have not been refunded under any other existing scheme.
- ❑ 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**.

2

- ❑ **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. ✓

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, IoT, 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. ✓



Topic: The Tertiary 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. Unlike the usual economic development process of nations where **economic growth has led to a shift from agriculture to industries**, or from the **primary sector to the secondary sector**, India has the unique experience of **bypassing the secondary sector** in the growth trajectory/path by a **shift from agriculture to the services sector**.

#Q. The first wave of liberalization starts in India

1. In 1951

2. In 1980's

(B)

3. In 1990


4. In 1966

#Q. FAME-India Scheme aims to

1. Enhance faster industrialization through private participation
2. to promote manufacturing of electric and hybrid vehicle technology ✓ (B)
3. to spread India's fame among its trading partners
4. None of the above

FAME stands for Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles in
India.

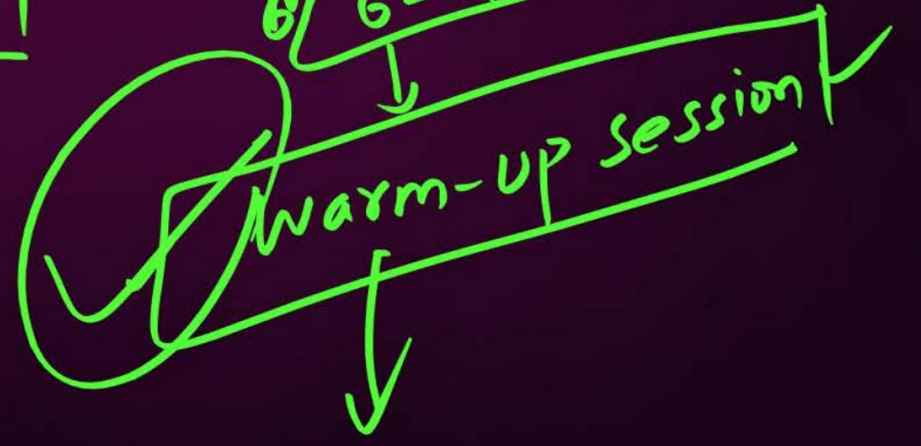
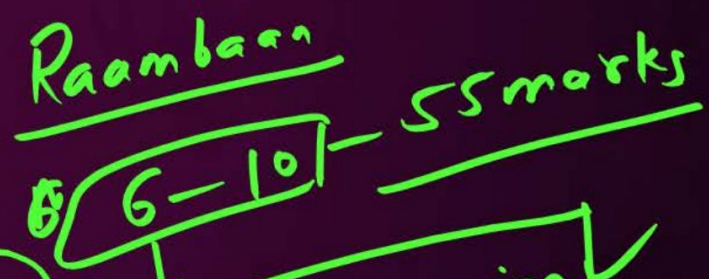
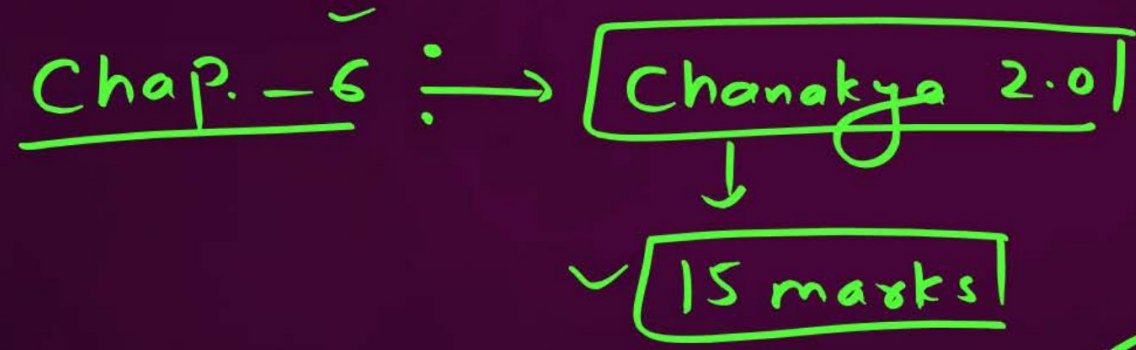
#Q. **E-NAM** is -

1. An electronic name card given to citizens of India
2. National Agriculture Market with the objective of creating a unified national market for agricultural commodities
3. a pan-India electronic trading portal which networks the existing APMC mandis
4. (2) and (3) above 

#Q. The 'Hindu growth rate' is a term used to refer to -

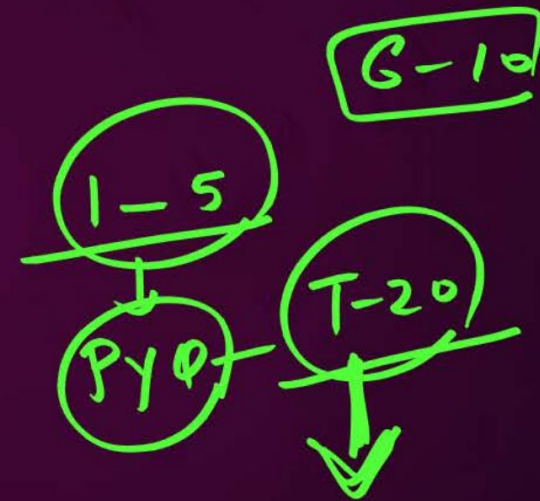
1. the high rate of growth achieved after the new economic policy of 1991
2. the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year.
3. the low growth of the economy during British period marked by an average of 3.5 percent
4. the growth rate of the country because India is referred to as 'Hindustan'

② - ③



MTP-1,2 - 10

Chanakya 2.0
ICAI → 50 MCQ





Thank
YOU