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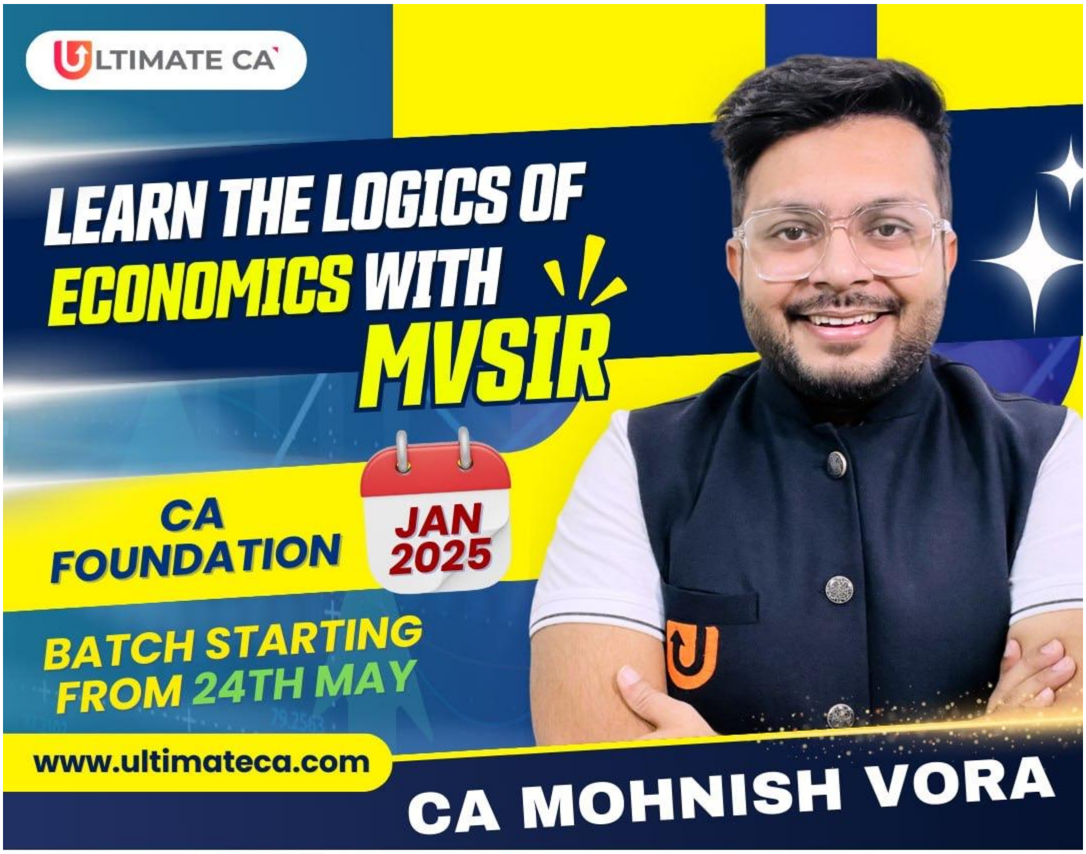

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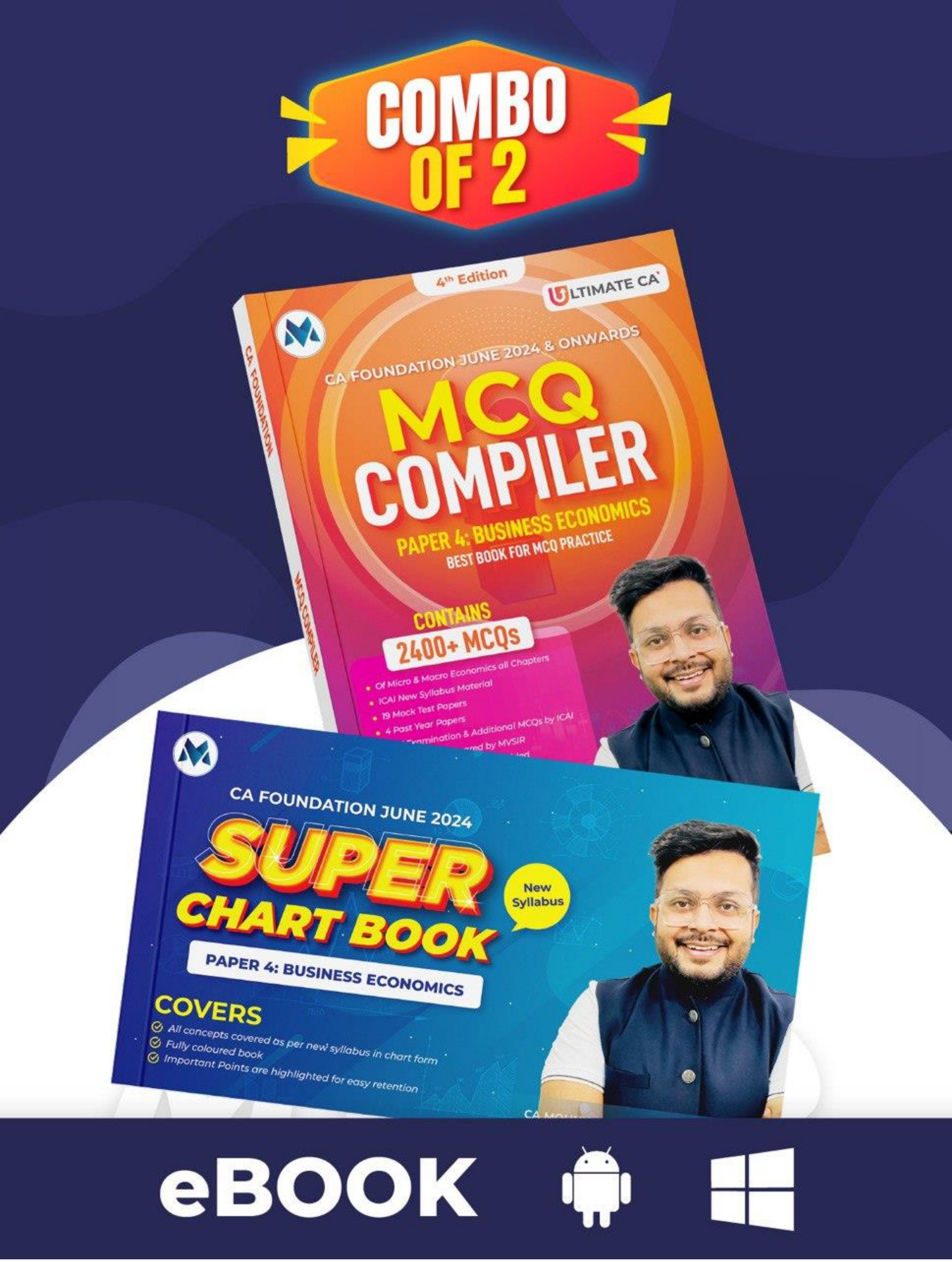
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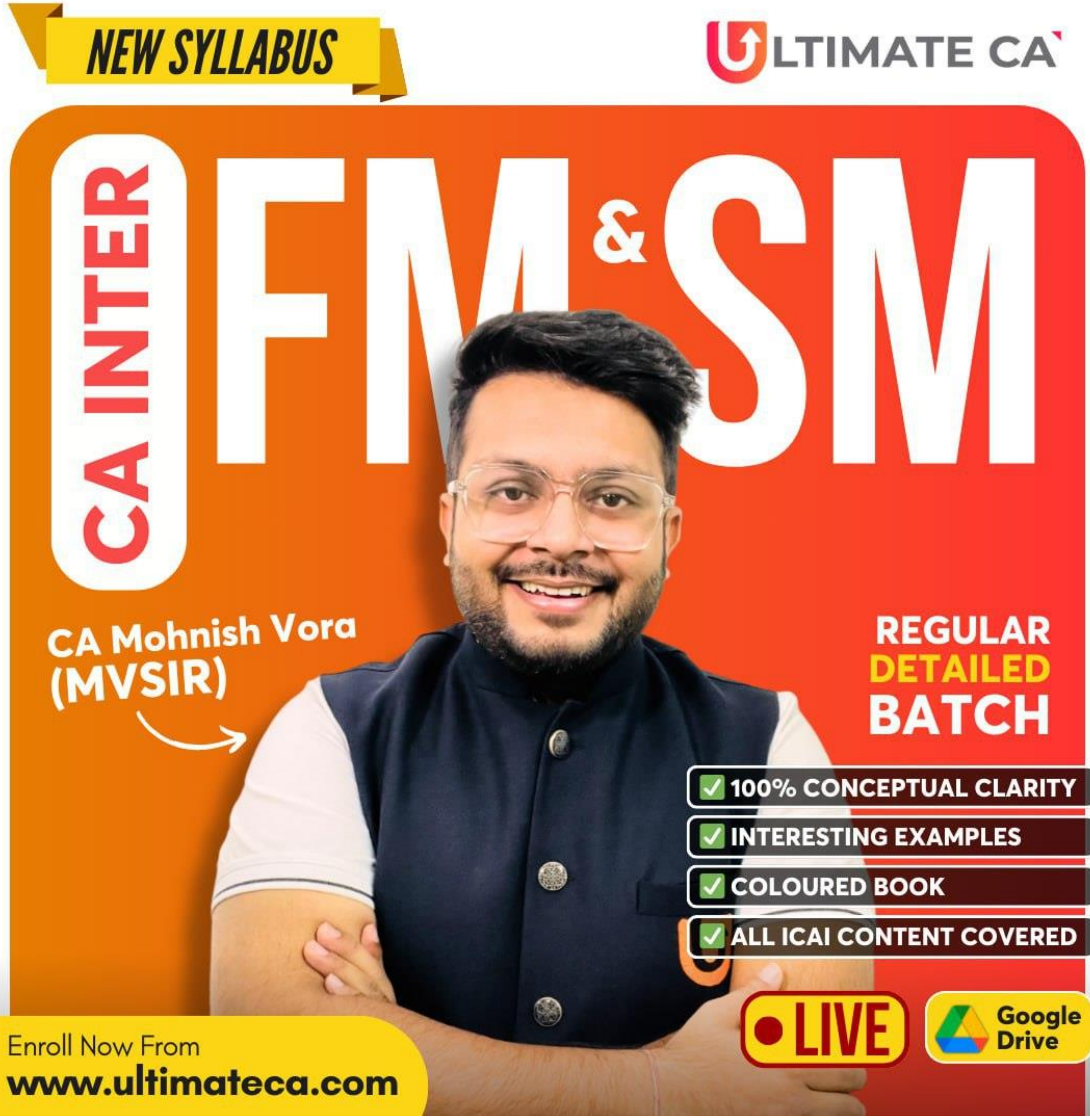

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CA Foundation – June 2024
(New Syllabus)

Business Economics

Chapter 10
Indian Economy

By CA Mohnish Vora (MVSIR)

10.1 STATUS OF INDIAN ECONOMY: PRE INDEPENDENCE PERIOD (1850 -1947)

- Between the **first & seventeenth century AD**, 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.**

- Though **agriculture** was **dominant occupation**, but main source of livelihood for majority of people, the country had a **highly skilled set of artisans and craftsmen** who produced **manufactures, handicrafts and textiles** of superior quality for worldwide market.

Ancient Economic Philosophy of India

- The **earliest known treatise on ancient Indian economic philosophy** is '**Arthashastra**' by Kautilya (Chanakya) (321–296 BCE).
- Arthashastra is recognized as one of the most important works on statecraft in the genre of **political philosophy**.
- It was a 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 emphasized on **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.

- **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**.

- The preservation and advancement of this good was comprised of seven vital elements, namely the **King, Ministers, Farmlands, Fortresses, Treasury, Military** and the **Allies**.

Period of British Rule

- 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**

- **Industrial revolution in Britain** in latter half of 18th century → there **arose need of raw material** supply & also need for **finding markets for finished goods**→ led to change in nature of India's foreign trade from **exporter of manufactures** to **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 far 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.

Stagnated Nature of Industrialisation During the Colonial Era

- The **cotton mill industry** in India had **9 million spindles** in the 1930s, which placed India in the **5th position** globally in terms of **number of spindles**.

- **Jute mills** expanded rapidly in **Calcutta** → global demand for **ropes**. At the **end of the 19th** century, **Indian jute mill industry was → largest in world** in terms of the amount of **raw jute consumed in production**.

- Heavy industries like **iron industry** were **established** in **1814** by British capital.
- India's **iron industry was ranked 8th in the world** in terms of output **in 1930**.

- **Just before the Great Depression, India** was **ranked** as the **12th largest industrialised country** measured by the value of manufactured products.

- The **producer goods industries**→ **did not show expansion** → because of pressure exerted by the English producers to discourage development of industries in India which were likely to compete with them.

- The **share in** Net Domestic Product (**NDP**) of **manufacturing sector** → **7% in 1946**.

Indian Economy: Post-independence (1947- 1991)

- **At time of independence**, India had a **literacy rate just above 18 percent** & **32 years of life expectancy in 1951.** India's poverty was in terms of income & human capital.

- **Nehruvian model** which supported social & **economic redistribution** and **industrialization** directed by the state came to **dominate the post-Independence Indian economic policy**.

- **Planning Commission of India** was established in **1950** → to plan for **economic development of nation** in line with the **socialistic strategy** → through **five-year plans** (First FYP- **1951**)

- **Rapid industrialization of economy** was **cornerstone** of **Nehru's development strategy**.
- The concept of '**planned modernization**' meant a **systematic planning to support industrialization**. (bureaucrats and technocrats)

Industrial Policy Resolution

- The **Industrial Policy Resolution (1948)** → expanded role of public sector & licensing to the private sector. It granted **state (govt.) monopoly** for strategic areas such as-
  - **atomic energy,**
  - **arms and ammunition, &**
  - **railways**.

  Also, rights to new investments in basic Industries were exclusively given to state.

- The **policies** in **1950's** were guided by two **economic philosophies**:

1. **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** → provided a framework for industrial development, but was lopsided as it supported **enormous expansion of scope of public sector**. (lead to **dampening of private sector initiatives**)

- India followed an open foreign investment policy and a **relatively open trade policy until the late 1950s**. A **balance of payments crisis** emerged in **1958** causing concerns **regarding foreign exchange depletion**. Consequently, it lead to **gradual tightening of trade** and **reduction in investment-licensing** of new investments requiring imports of capital goods. These import controls were maintained until **1966**.

- In the first **three decades after independence (1950–80)**, India's average annual rate of growth of GDP- '**Hindu growth rate**'- was **3.5 %**.

Agriculture Issues & Green Revolution

- **Strategy for agricultural development** till mid 1960s was reliance on **institutional model i.e. land reforms**, **farm cooperatives** etc. and no importance given to technocratic areas like R&D , irrigation etc.

- With continuous failures of monsoon, two severe **droughts struck India in 1966 & 1967**.

- The **agricultural sector recorded substantial negative growth** and India faced a serious food problem. **India had to depend on the United States for food** aid under PL 480.

- Restructuring of agricultural policy → '**green revolution**' was initiated soon → which was materialised by-
  - **innovative farm technologies**, **including high yielding seed varieties** &
  - **intensive use of water, fertilizer and pesticides**

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Nationalisation of Banks

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

Indian Economy - Worst Performance

- The **economic performance** during "**1965-81**" **is the worst** in **independent India's history**.
- This happened due to-
  - ✓ **decline in productivity**.
  - ✓ license-raj,
  - ✓ the autarchic policies that dominated the 1960s and 1970s,
  - ✓ external shocks such as **three wars** (in 1962, 1965, and 1971),
  - ✓ major droughts (in 1966 and 1967), and
  - ✓ oil shocks of 1973 and 1979.

Monopolies and Restrictive Trade Practices (MRTP) Act, 1969

- The 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.
- Thus, policies restricting the **possibility of expansion of big business houses kept their entry away** from nearly all but a **few highly capital intensive sectors**.

Reservation for Small Scale Sector

- In **1967**, many products were **reserved** for exclusive manufacture by the **small scale sector**

- It was thought that this policy will encourage **labour-intensive economic growth & allow redistribution of income**.

- However, this policy **excluded all big firms from labour intensive industries** and **India** was **not able to compete** in the **world market** for these products. **Stringent labour laws** also discouraged labour intensive industries.

The Era of Reforms

- The initiatives, spanning **1981 to 1989**, were referred to as '**early liberalization**' which aimed at **changing** prevailing thrust on '**inward-oriented' trade and investment practices**.
- This liberalization is often referred to as '**reforms by stealth**' to denote its **ad-hoc & not widely publicized nature**.

- The **average annual growth rate of GDP** during-
  - **sixth plan period** (1980–1985) was **5.7 %** and
  - **seventh plan period** (1985–1990) was **5.8 %**

- The **early reforms of 1980's** covered **three areas**- **industry**, **trade** and **taxation**.

- The prominent **industrial policy initiatives** during this period directed towards **removing constraints on growth** 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**.
- ✓ The **asset limit** above which firms were subject to **MRTP regulations** was **raised** from **20 crore** to **100 crore.**
- ✓ The **multipoint excise duties** was **converted** into a **modified value-added** (**MODVAT**) tax which reduced taxation on inputs.
- ✓ **Establishment** of the Securities and Exchange Board of India (**SEBI**) in **April 12, 1988**
- ✓ The **open general licence (OGL)** list was expanded & the number of capital goods items reached **1,329** in April 1990.
- ✓ Several **export incentives** were introduced and expanded
- ✓ **Exchange rate** was set at a **level** → to **expand exports** & **reduced pressure on foreign exchange** needed for imports
- ✓ **Price and distribution controls** on **cement** and **aluminum** were entirely **abolished**.
- ✓ Based on the real effective exchange rate (REER), the rupee was depreciated by about **30.0 per cent** from 1985–86 to 1989–90.
- ✓ The **budget for 1986** introduced policies of-
  - cutting taxes further,
  - **liberalising imports &**
  - **reducing tariffs**.

- Thus, **liberalization in the 1980s** served as necessary **foundation** for the more **universal and organized reforms of the 1990s.**

The Economic Reforms of 1991

- The economic reforms in 1991 under the **Narsimha Rao government**.

- The **causes** attributed to the immediate **need for such a drastic change** are:
  1) Large **fiscal deficit** (financed by **huge debt),** & adverse balance of payments.
  2) Persistent huge deficits → **swelling public debt** → govt revenues used for **interest pay**.
  3) **Surge in oil prices** (due to gulf war in 1990) & thus **strain on a balance of payments**.
  4) The **foreign exchange reserves** touched **lowest point** → only **$1.2 billion** → sufficient for only two weeks of imports.
  5) **Tightening of import restrictions** to collect forex for essential imports resulted in **reduction in industrial output**.
  6) India had to **depend on external borrowing** from **International Monetary Fund** which in turn puts stringent conditions.
  7) **Fragile political situation** along with economic crises → led to '**crisis of confidence**'.

- 1991 reforms→ known as **LPG**- **Liberalization**, **Privatization** and **Globalisation**, had **two major objectives**:
  1) **reorientation** of the economy from a centrally directed and highly controlled one to a '**market friendly' or market oriented economy**.
  2) **macroeconomic stabilization** by substantial reduction in fiscal deficit.

- The policies can be broadly classified as:
  1) **stabilization measures** → **short term** measures → for **problems of inflation** & **adverse balance of payment,** &
  2) **structural reform measures** → **long term** → aimed at **bringing in productivity** & **competitiveness** by **removing structural rigidities** in different sectors of economy.

The Economic Reforms of 1991

- Bringing in fiscal discipline by reducing the fiscal deficit was vital because-
  - ✓ **excess domestic demand**,
  - ✓ **surge in imports** and
  - ✓ **widening of the current account deficit (CAD)**

  This was attempted by measures to **increase govt revenues** & **curtail govt exp**.

- Measures to this effect included:
  1) Introduction of a **stable and transparent tax structure**,
  2) Ensuring **better tax compliance**,
  3) Thrust on **curbing government expenditure**
  4) **Reduction** in **subsidies and abolition of unnecessary subsidies**
  5) **Disinvestment** of part of **govt's equity holdings** in select PSUs &
  6) **Encouraging private sector participation**.

Monetary & Financial Sector Reforms

- The focus was mostly on-
  - **reducing the burden of NPAs** on government banks,
  - introducing and sustaining competition, and
  - **deregulating interest rates**.

- These included many measures, important among them are:

1) **Interest rate liberalization** & **reduction in controls on banks** by **RBI** in respect of interest rates.
2) **Opening of new private sector banks** & facilitating competition among public, private sector and foreign banks and removal of **administrative constraints.**
3) **Reduction in reserve requirements** namely, SLR & CRR, in line with recommendations of the **Narasimham Committee Report, 1991**.
4) **Liberalisation of bank branch licensing policy** and granting of freedom to banks in respect of **opening, relocating or closure of branches**
5) **Prudential norms of accounting** in respect of classification of assets, disclosure of income and provisions for bad debt, to ensure books of banks reflect truthful financial position.

Reforms in Capital Markets

- SEBI which was set up in 1988 was given **statutory recognition in 1992.**
- It is an **independent regulator of the capital market** → creates a **transparent environment** which would **facilitate mobilization of adequate resources** and their efficient allocation.

The 'New Industrial Policy'

- The '**New Industrial Policy**' was announced on **24 July 1991** → substantially deregulate industry to promote growth of a **more efficient and competitive industrial economy**.

- To facilitate **domestic industry**, a series of **reforms** were introduced-

1. Ended **'License Raj'** by **removing licensing restrictions** industries **except for 18,** later reduced to 5, namely-
   1) arms and ammunition,
   2) atomic substances,
   3) **narcotic drugs** and
   4) **hazardous chemicals**,
   5) distillation and brewing of alcoholic drinks and cigarettes and cigars

   as these have **severe implications on health, safety, and environment**.

2. Public sector was limited to eight sectors based on security and strategic grounds. Subsequently only two items remained – **railway transport and atomic energy**

3. **MRTP Act** was restructured and the provisions relating to merger, amalgamation, and takeover were repealed. This has eliminated the need for pre-entry scrutiny of

investment decisions and **prior approval for large companies for capacity expansion or diversification**.

4) Products reserved for **small-scale industries** → **dereserved** enabling entry of large scale ind

5) The policy **ended the public sector monopoly** in many sectors. Now industries reserved for public sector are only a part of **atomic energy generation** and **railway transport**.

6) **Foreign investment** → liberalized → concept of **automatic approval** was introduced. FDI is prohibited only in **four sectors** viz. **retail trade, atomic energy, lottery business & betting and gambling.**

7) **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**.

8) In **1990-91**, the **highest tariff rate** was **355%.** The top tariff rate was brought down to 10% in 2007-08, with some exceptions such as automobile at 100%

9) Rupee was **devalued by 18%** against the dollar.

10) **Disinvestment** of government holdings of equity in PSUs. PSUs were provided with **greater autonomy in decision making** and **opportunity for professional management**. The **budgetary support** to public sector was **progressively reduced**.

NITI AAYOG: A bold step for transforming India

- Planning Commission was abolished in 2014→ & on **1st Jan 2015** it 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', &
  - ✓ promote '**co-operative federalism**' by enhancing the voice & influence of states'.

- NITI Aayog is expected to serve as a '**Think Tank**' of the government & a 'directional and policy dynamo'.

- **The key initiatives of NITI Aayog are:**

1. **'LiFE'** which envisions **replacing** the prevalent **'use-and-dispose' economy**
2. **National Data and Analytics Platform** (NDAP) facilitates and **improves access to Indian government data**
3. **Shoonya campaign** aims to **improve air q**uality 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 → for **reducing India's oil import bill**, **greenhouse gas emissions**, & **converting coal reserves** and municipal **solid waste into methanol**, and
7. **'Transforming India's Gold Market'** → recommend measures for tapping into the potential of the sector and provide a **stimulus to exports and economic growth**.

Shortcomings of NITI Aayog

- NITI has a **limited role**→ does not produce national plans, control expenditures, or review state plans.
- It is **excluded from the budgeting process**.
- It **lacks autonomy & balance of power** within policy making apparatus of central govt.
- The termination of Planning Commission → strengthened Ministry of Finance, with its 'fixation of macroeconomic stability & natural instinct to limit expenditure'.
- It **lacks the independence** & **power** to perform as a '**counterweight**' to act as a "**voice of development**" **concerned with inequities**.

The Current State of the Indian Economy: A brief overview

I) The Primary Sector

- Agriculture, with its allied sectors, is the **largest source of livelihood** in India.

- **India** has **emerged as-**
  - ✓ **world's largest producer** of **milk**, **pulses**, **jute** and **spices**.
  - ✓ **largest area planted** under **wheat**, **rice** and **cotton**.
  - ✓ **2nd largest producer** of **fruits**, **vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton, and sugar.**
  - ✓ **world's 6th largest food and grocery** market is the
  - ✓ **world's largest cattle herd** (buffaloes).

- **47% of India's population** is **directly dependent on agriculture** for living. It contributed **18.80%** to the Gross Domestic Product (**GDP**).

- **Food grains production has reached 315.7 million tonnes in 2021-22.**
- **Private investment** in agriculture has increased to **9.3%** in 2020-21.

- Agri sector had a growth of **3.50%** in 2022-23, driven by **buoyant rabi sowing**
- **Export of agricultural** → touched an all-time peak of **Rs 3,74,611 crore** during last one year, & it **rose by 25 percent within 6 months of current financial year 2022-23** (Apr-Sep)

- **Agricultural and Processed Food Export Development Authority (APEDA)** is entrusted with the **responsibility** of **export promotion of agri-products**.

A large number of measures were undertaken by government to improve agri. sector-

1) Allowing **100% FDI** in marketing of food products and in food product E-commerce under the automatic route
2) **Income support** to farmers through **PM KISAN**
3) Fixing of **Minimum Support Price (MSP)** at **1.50 times** the **cost of production**
4) **Institutional credit** for agriculture sector at **concessional rates**
5) Launch of the **National Mission for Edible Oils**
6) **Pradhan Mantri Fasal Bima Yojana (PMFBY)** – a novel **insurance scheme** for financial support to farmers **suffering crop loss/damage**
7) **Mission for Integrated Development of Horticulture** (MIDH) for the holistic growth of the **horticulture** sector
8) Provision of **Soil Health Cards**
9) **Paramparagat Krishi Vikas Yojana** (PKVY) supporting and promoting **organic farming**, and **improvement of soil health**.
10) **Agri Infrastructure Fund**, a medium / long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets
11) Promotion of **Farmer Producer Organisations** (FPOs) to **ensure better income** for the producers through an organization of their own.
12) **Per Drop More Crop (PDMC)** scheme to **increase water use efficiency** at the farm level
13) Setting up of **Micro Irrigation Fund**
14) Initiatives towards **agricultural mechanization**
15) 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.
16) Introduction of **Kisan Rail** for **improvement** in farm produce **logistics**, and
17) Creation of a **Start-up Eco system** in agriculture and allied sectors

II) The Secondary Sector

- Secondary sector contributes **30%** 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**.
- Manufacturing sector accounts for **78% of total production**.
- 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.**

- **Department for Promotion of Industry and Internal Trade (DPIIT)** has a role in **formulation and implementation** of **industrial policy** and **strategies for industrial development.**

- **Some of the policies are presented below:**

1) **Introduction** of **GST** on **1 July 2017** as single indirect tax **replacing** many indirect taxes.
2) **Reduction of corporate tax to domestic comp.** giving an option to pay income-tax at **22%**
3) '**Make in India**' is a **'Vocal for Local'** initiative launched in 2014 to- facilitate **investment, innovation, infrastructure** in India.
4) '**Ease of Doing Business**' → simplification of procedures, rationalization of legal provisions, digitization of government processes, and decriminalization of minor defaults. India ranks **63rd** in the **World Bank's** annual **Doing Business Report** (DBR), 2020
5) **The National Single Window System** is a one-stop-shop for **investor related approvals** & provide **continuous facilitation and support to investors**.
6) **PM Gati Shakti National Master Plan** to **facilitate data-based decisions** related to integrated planning of **multi-modal infrastructure**, thereby reducing logistics cost.
7) **National Logistics Policy (NLP)**→ aims to lower cost of logistics
8) To become 'Atmanirbhar', the **Production Linked Incentive (PLI) Scheme** was initiated for **14 key sectors** to enhance India's manufacturing capabilities and export competitiveness.
9) **Industrial Corridor Development Programme: Greenfield Industrial regions** with sustainable infrastructure and to make available '**plug and play' infrastructure at the plot level.**
10) **FAME-India Scheme** (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) to **promote manufacturing of electric and hybrid vehicle technology**
11) '**Udyami Bharat**' → empowerment of Micro Small and Medium Enterprises (MSMEs).
12) **PM Mega Integrated Textile Region and Apparel** (PM MITRA): ensure **world-class industrial infrastructure** & **boost FDI** and **local investment in the textiles sector**.
13) **Opening up for global investments**: Make India a more attractive investment destination
14) **100 per cent FDI under automatic route** is permitted for the sale of **coal**, and **coal mining** activities, & insurance intermediaries.
15) **Foreign Investment Promotion Board (FIPB)** was abolished in May 2017, and replaced by **Foreign Investment Facilitation Portal** (**FIFP**). Under FIFP, process for granting FDI approvals has been simplified. FDI has **increased jumped by 39% since FIFP** came.
16) **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 goods exported
17) **Start-up India Programme** → facilitator for ideas & innovation in the country. **India's rank** in the **Global Innovation Index** (GII) → **40th in 2022**.
18) **Public Procurement (Preference to Make in India) Order, 2017** gives preference to **locally manufactured goods/serv.** in **public procurement** thereby giving boost to industrial growth.
19) **Emergency Credit Line Guarantee Scheme (ECLGS)** is a fully guaranteed emergency credit line to **monitor lending institutions**.

- India is gearing up for **4th industrial revolution** or **Industry 4.0** in which focus will be on- **cloud computing, IoT, machine learning, & artificial intelligence (AI).**
- The **National Manufacturing Policy** which aims to **increase the share of manufacturing in GDP to 25% by 2025** is a step in this direction.

III) The Tertiary Sector

- Unlike the usual economic development process of nations where **economic growth has led to a shift from- agriculture to industries**,
  India has unique experience of **bypassing the secondary sector** in the growth trajectory by a **shift from agriculture to services sector.**

The broad classification of services as per the National Industrial Classification, 2008	
1.	Wholesale and retail trade and repair of vehicles
2.	Transportation and storage
3.	Accommodation and food service activities
4.	Information and communication
5.	Financial and insurance activities
6.	Real estate activities
7.	Professional, scientific and technical activities
8.	Administrative and support services
9.	Public administration, defence and compulsory social security
10.	Education
11.	Human health and social work activities
12.	Arts, entertainments and recreation
13.	Other service activities
14.	Activities of households as employers, undifferentiated goods and services producing activities of households for own use
15.	Activities of extra territorial organizations and bodies

- The **service sector** refers to **industry producing intangible goods** viz. services as output.

- The services sector is the **largest sector of India** & accounts for **53.89% of total India's GVA**. Gross Value Added (GVA) of services sector is estimated at **₹ 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.

- The start-ups which have grown remarkably over the last few years mostly belong to the **services sector**.

- **India** is among **top 10** WTO members in **service exports and imports**.

- India's **services exports** at **US$ 27.0 billion** recorded robust growth in November 2022 due to software, business, and travel services.

- While exports from all other sectors were adversely affected, India's services exports remained **resilient during the Covid-19 pandemic**. The reasons are the **higher demand** for **digital support** and need for **digital infrastructure modernization**.

- Services sector is **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 **7th 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 liberalisation, government permitted **100% foreign participation** in **telecommunication services** through Automatic Route.

- The **FDI ceiling in insurance companies** was also raised from 49 to **74%**.

- 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.

Conclusion

- The **India Development Update (IDU) of the World Bank** published in November 2022, observes that India had to face an unusually challenging external environment-
  - Russia-Ukraine war,
  - **increased crude oil** and **commodity prices**,
  - **persistent global supply disruptions**,
  - **tighter financial conditions** and
  - **high domestic inflationary pressures**.

- Despite all these, the **real GDP of India grew by 6.3 percent in July-September** of **2022-23 driven by strong private consumption** and **investment**.

- The report observes that **India's economy** is relatively **more insulated from global spillovers** than other emerging markets

- As such, compared to other emerging economies, **India is much more resilient to withstand adversities in the global arena.**

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