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10. Indian Economy

The status of the Indian economy during the pre-independence period, with bullet points:

Historical Prosperity:

India had the largest economy in the ancient and medieval world.
It controlled between one third and one fourth of the world's wealth.
The economy comprised self-sufficient villages and bustling cities serving as centers of commerce, pilgrimage, and administration.
Cities offered diverse occupations and economic opportunities compared to villages.

Division of Labour:

Simple division of labour based on attributes such as race, class, and gender structured village economies.
Agriculture was the dominant occupation, supplemented by highly skilled artisans and craftsmen producing superior quality handicrafts and textiles for the global market.
Impact of European and British Arrival:

Arrival of Europeans, particularly the British, marked a significant shift in India's economic history.
British rule can be divided into the East India Company's rule (1757-1858) and direct British government (1858-1947).
Industrial revolution in Britain increased manufacturing capabilities, leading to a demand for raw materials and markets for finished goods.

Reversal in Trade Pattern:

India transitioned from being an exporter of manufactures to an exporter of raw materials to meet British industrial demands.
Discriminatory tariffs imposed by the British favored imports of cheap finished goods, making Indian exports less competitive.

Impact on Indian Manufacturing:

Heavy tariffs on Indian exports and competition from machine-made goods led to the destruction of Indian handicrafts and manufactures.
Hostile imperial policies aimed at serving British interests worsened the decline.
Shift in domestic consumer preferences towards foreign goods further weakened indigenous industries.

Economic and Social Consequences:

Destruction of traditional production structures disrupted the internal balance of village economies.
Economic consequences included large-scale unemployment, reduced agricultural productivity, and poverty.
Social consequences included increased pressure on land, exploitation by landlords, and a decline in traditional industries.

In summary, the pre-independence period of the Indian economy witnessed a shift from prosperity and self-reliance to exploitation and decline under British colonial rule, leading to significant economic and social consequences for Indian society.
the status of the Indian economy during the pre-independence period, with bullet points:

Large-scale Unemployment and Dependence on Agriculture:

Destruction of traditional industries led to widespread unemployment.
Lack of alternative sources of employment forced many to rely solely on agriculture for livelihood.

Pressure on Land and Fragmentation of Holdings:

Increased population and land pressure resulted in the subdivision and fragmentation of land holdings.
Subsistence farming became prevalent, leading to reduced agricultural productivity and poverty.

Impact of Imported Machine-made Goods:

Imports of cheap machine-made goods from Britain undercut the competitiveness of Indian products.
Shift in consumer preferences towards imported goods further hindered the survival of domestic industries.

Zamindari System and Land Tenure:

The zamindari system introduced by the British created a class of landlords whose interests were aligned with perpetuating British rule.
Zamindars exploited tenants, extracting excessive rents and other payments, exacerbating the pressure on land.

Absence of Productivity-enhancing Measures:

Absentee landlordism, high indebtedness of agriculturists, and exploitative money lenders contributed to the virtual collapse of Indian agriculture.
Low attention to productivity-enhancing measures further worsened the situation.

Stagnated Industrialization:

Factory-based production did not exist in India before 1850.
Industrial enterprises started to grow in the mid-19th century, with industries like cotton milling and jute manufacturing expanding steadily.
Despite some growth, industrialization remained limited due to British policies that discouraged competition with English producers.

Limited Industrial Growth:

India's industrial growth was insufficient to bring about significant economic transformation.
The share of manufacturing in the net domestic product was low, and factory employment remained minimal.
The pressure exerted by English producers to discourage the development of industries competing with theirs further hindered industrial expansion.
In summary, the pre-independence period of the Indian economy was characterized by economic and social challenges resulting from British colonial policies, including unemployment, land pressure, decline in traditional industries, and limited industrial growth. These factors contributed to the overall stagnation and exploitation of the Indian economy during this period.

The period of Indian economic history from 1947 to 1991, often referred to as the post-independence era, saw significant shifts in economic policies and strategies, with a focus on achieving rapid economic growth while addressing issues of poverty and inequality. Let's break down the key elements of this period and examine them in detail:

Nehruvian Model and Economic Planning:

The Nehruvian model, influenced by socialist principles, emphasized state-led economic planning and industrialization. Centralized economic planning was implemented through five-year plans crafted by the Planning Commission.
The goal was to achieve rapid economic growth alongside equitable distribution of resources and opportunities.

Industrialization Strategy:

Nehru's vision emphasized rapid industrialization as a means to modernize the economy. The Industrial Policy Resolution of 1948 expanded the role of the public sector and granted state monopoly in strategic sectors.
However, the overemphasis on the public sector led to a dampening of private initiative, which had negative consequences for industrial growth.

Foreign Investment and Trade Policies:

Initially, India followed an open foreign investment policy and relatively open trade policies. However, a balance of payments crisis in 1958 led to tighter controls on trade and investment.
Comprehensive import controls were maintained until 1966.

Economic Growth and Challenges:

Despite the emphasis on industrialization, the average annual rate of GDP growth remained modest at around 3.5% during the first three decades after independence.
The agricultural sector faced challenges, including droughts and low productivity. The government's focus on capital-intensive projects initially neglected agriculture.

Shift in Agricultural Policy - Green Revolution:

Severe droughts in the mid-1960s prompted a strategic shift towards increasing agricultural productivity. The Green Revolution was initiated, focusing on innovative farming technologies and intensive use of inputs.
The Green Revolution significantly increased food grain production and helped alleviate food shortages.
Nationalization and Interventionist Policies:

The government implemented nationalization policies, including the nationalization of banks in 1969 and 1980.
Interventionist policies, such as the Monopolies and Restrictive Trade Practices Act of 1969, aimed at equitable distribution of income but often stifled growth and innovation.

Challenges and Decline in Growth:

The period from 1965 to 1981 witnessed a decline in economic growth attributed to factors such as the license-raj, external shocks, and autarchic policies.

Government policies aimed at equitable distribution often hampered incentives for wealth creation and economic growth.

Realization and Reforms:

There was a growing realization among policymakers and industrialists that strict regulations and controls were counterproductive.
The need for incentives and openness for sustained rapid growth became apparent, leading to the eventual shift towards liberalization and economic reforms in 1991.
Overall, the post-independence period in India was characterized by ambitious development goals, state-led economic planning, and a mix of successes and challenges in achieving economic growth and equity. The period laid the groundwork for later reforms that would transform India's economy towards greater liberalization and integration into the global economy.

Early Liberalization Efforts (1981-1989):

Price Stability Efforts: Implemented through tight monetary policy, fiscal moderation, and some structural reforms.

Referred to as 'Reforms by Stealth': Denoting ad hoc and not widely publicized nature.

Resulted in Higher Growth: Average annual GDP growth rates during the sixth and seventh plan periods were 5.7% and 5.8%, respectively.

Areas Covered by Reforms:

Industry: Delicensing of industries, broad-banding for flexibility, raising asset limits for MRTP firms.
Trade: Conversion of multipoint excise duties into MODVAT tax, expansion of OGL list, introduction of export incentives.

Taxation: Cutting taxes, liberalizing imports, reducing tariffs.
Exchange Rate Management:

Realistic exchange rate setting to expand exports and reduce pressure on foreign exchange needed for imports.
Depreciation of the rupee by about 30.0% from 1985–86 to 1989–90.

Elimination of Controls:

Abolishment of price and distribution controls on cement and aluminum.
Reduction of barriers to entry, diversification, and expansion for large industrial houses.

Challenges Faced:

Structural Inadequacies: Inhibited private sector investments due to convoluted licensing policies, public sector reservations, and excessive government controls.

Inefficiency in Public Sector: Despite size and monopoly, public sector performance was unsatisfactory, yielding low returns on investment.

Barriers to Foreign Competition: MRTP Act and import controls created barriers for entry and competition.
Significance of Reforms:

Confidence Building: Instilled confidence in politicians and policymakers regarding the efficacy of policy changes for sustained economic growth.

Market Confidence: Fostered belief in the role of well-regulated competitive markets in ensuring economic growth and increasing total welfare.

Foundation for Future Reforms: Served as a necessary foundation for the more comprehensive reforms of the 1990s.

Overall, these reforms in the 1980s, though limited in scope compared to later reforms, laid the groundwork for the more extensive liberalization efforts of the 1990s, shaping India's economic trajectory towards a more market-oriented approach.

THE ECONOMIC REFORMS OF 1991

Fiscal Imbalance: The government spent more money than it earned, leading to a big gap, which it filled by borrowing a lot both from within the country and from other countries. This spending was unsustainable and caused big problems like high debts and a bad balance of payments.

Public Debt: Because the government kept borrowing money, it had to spend a lot of its income just to pay interest on those loans.

Oil Price Surge: When the cost of oil shot up because of the Gulf War in 1990, it put a lot of pressure on India's ability to pay for imports, making the balance of payments even worse.

Low Forex Reserves: India didn't have much foreign currency saved up, which is important for buying things from other countries. It only had enough to last for a very short time.

Import Restrictions: To save money, India had to limit how much it bought from other countries, but that hurt its own industries because they couldn't get the materials they needed.

Dependence on IMF: India had to borrow money from the International Monetary Fund (IMF), but the IMF made India agree to follow strict rules and fix its economy before it would lend more.
Crisis of Confidence: The situation got so bad that people lost trust in the government's ability to manage the economy, creating even more problems.

After facing these issues, India realized it needed to change its economic approach. So, in 1991, it shifted away from the old socialist ways, where the government controlled a lot, and moved towards a more market-oriented system, taking inspiration from China's success. This shift, known as liberalization, privatization, and globalization, aimed to make the economy more open and friendly to businesses.

The reform package had two main goals:

Market Orientation: To move away from strict government control and let the market play a bigger role in the economy.

Reduce Fiscal Deficit: To bring down the gap between what the government spends and what it earns.
The reforms were divided into two types:

Stabilization Measures: These were quick fixes to deal with immediate problems like inflation and the balance of payments crisis.

Structural Reforms: These were long-term changes aimed at making different parts of the economy more productive and competitive by removing obstacles.

The Fiscal Reforms
The escalating deficit levels rendered the stabilisation efforts rather complicated. Bringing in fiscal discipline by reducing the fiscal deficit was vital because the crisis was caused by excess domestic demand, surge in imports and the widening of the current account deficit (CAD) which was to be financed by drawing down on reserves. This was attempted by radical measures to augment revenues and to curtail government expenditure.

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 government’s equity holdings in select public sector undertakings and
6. Encouraging private sector participation.

In order to bring in fiscal discipline, it was essential to do away with the temptation to finance deficit thorough 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

Monetary and Financial Sector Reforms

Interest rate liberalization: The Reserve Bank of India reduced its control over the interest rates charged on loans and paid on deposits by banks. This move allowed banks more flexibility in setting interest rates based on market conditions.

Opening of new private sector banks: This measure aimed to increase competition within the banking sector by allowing new private banks to enter the market. Greater competition among public sector, private sector, and foreign banks was encouraged to enhance efficiency and service quality.

Reduction in reserve requirements (SLR and CRR): The statutory liquidity ratio (SLR) and cash reserve ratio (CRR) requirements were reduced. This change was based on the recommendations of the Narasimham Committee Report of 1991, aiming to free up more funds for banks to lend, thereby stimulating economic activity.

Liberalisation of bank branch licensing policy: Banks were granted more freedom regarding the opening, relocating, or closure of branches. This move aimed to enhance operational efficiency and allow banks to better align their branch network with market demand.

Prudential norms of accounting: Guidelines for asset classification, income disclosure, and provisions for bad debt were introduced to ensure banks' financial statements accurately reflected their

financial health. These measures were aligned with the recommendations of the Narasimham Committee to improve transparency and accountability in the banking sector.

Reforms in Capital Markets

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

The 'New Industrial Policy'

End of License Raj:

Removed licensing restrictions for most industries.
Only retained licensing for critical sectors like security, environment, and health.

Limitation of Public Sector:

Limited public sector presence to eight strategic sectors.
Eventually reduced to only railway transport and atomic energy.

Repeal of MRTP Act Provisions:

Restructured MRTP Act to eliminate pre-entry scrutiny and prior approval for large companies.

De-reservation of Goods for Small-scale Industries:

Allowed entry of large-scale industries by de-reserving goods produced by small-scale industries.

End of Public Sector Monopoly:

Reserved only eight industries for the public sector.
Allowed liberal participation of the private sector.

Liberalization of Foreign Investment:

Introduced automatic approval for foreign direct investment up to 51%.
Except for specific sectors, FDI was permitted across industries.

Liberalization of External Trade:

Moved from positive list approach to negative list approach for import licensing.
Most goods became importable, except for a few on health, environmental, and safety grounds.

Tariff Rate Reduction:

Reduced highest tariff rate from 355% in 1990-91 to 10% by 2007-08.
Some exceptions remained, like automobiles at 100%.

Rupee Devaluation and Convertibility:

Devalued rupee by 18% against the dollar.
Allowed market exchange rate for current account transactions, making rupee convertible on current account.

Disinvestment and Autonomy for Public Sector Enterprises:

Disinvestment of government holdings in public sector enterprises.
Provided greater autonomy and professional management to public sector units.

Trade Policy Reforms
These trade policy reforms implemented in India aimed to liberalize the economy by removing quantitative restrictions on imports and exports, simplifying tariffs, and eliminating import licensing procedures. Additionally, export incentives were introduced to boost exports, while export duties were removed to enhance the competitiveness of Indian goods globally. The exchange rate system underwent significant changes, transitioning from a fixed exchange rate to a dual exchange rate regime in 1992 and finally to a managed floating exchange rate system in 1993.

India has witnessed vast changes over the last 31 years of economic reforms. Changes enumerated below are only broad observations and are in no way comprehensive.

- India has increasingly integrated its economy with the global economy.
- India has progressively moved towards a market oriented economy, with a sizeable 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 vey 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 liberalisation.

However, 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 FY21/22. Among the emerging market and developing economies (EMDEs), India's debt is higher than their average of 64.5% for 2022(IMF).

NITI AAYOG: A BOLD STEP FOR TRANSFORMING INDIA

The Planning Commission of India, a prominent institution advocating for public investment-led development for over six decades, was replaced by the National Institution for Transforming India (NITI) Aayog on January 1, 2015. This change reflected the shift towards market-oriented ideologies and the diminishing role of government planning. NITI Aayog aims to foster innovative thinking, promote cooperative federalism, and serve as a think tank for the government, offering directional and policy guidance.

NITI Ayog will work towards the following objectives:

1. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of states.
2. 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.
3. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
4. To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
5. To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
6. To design strategic and long-term policy and programme frameworks and initiatives, and monitor their progress and their efficacy
7. 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.
8. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
9. To offer a platform for the resolution of inter-sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
10. 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.
11. 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.
12. To focus on technology up gradation and capacity building for implementation of programmes and initiatives.
13. To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above. *NITI Aaayog https://niti.gov.in/objectives-and-features

The key initiatives of NITI Aayog are:

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