Chapter-10 **Indian Economy** (7-10 marks)

- Pre Independence Era (1850-1947)
- 1947 to 1991 (post Independence)
- 1980s Reforms
- 1990s Reforms (LPG)
- Post Reforms (1991 Onwards)
- NITI Aayog
- Current Status

I Pre Independence Era (1850-1947)

→ Indian Economy was prosperous and self-reliant.

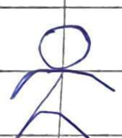
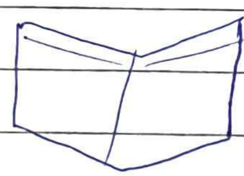
→ It Controlled between 1/3rd & 1/4th of world's Wealth.

→ Agriculture was dominant occupation.

→ Highly skilled artisans & craftsmen.

→ well known Handicraft Industry.

* Ancient philosophy of India.

 Chanakya  "Arthashastra"

→ Arthashastra is the science of 'Artha' or material well-being, which is primarily "wealth" & secondarily "the land"

→ The ancient period of British rule can be divided into:-

a) Rule of East Indial Company (1757 to 1858)

(b) British Government (1858 to 1947)

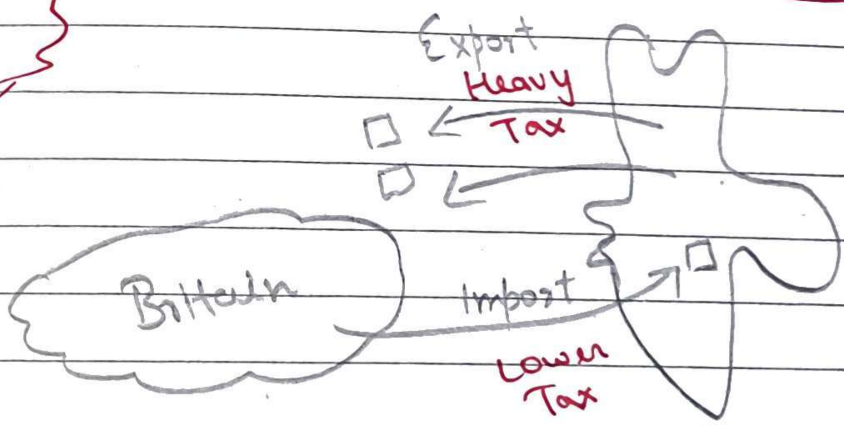
→ The Indian Exports of finished goods subject to heavy tariffs.

ज्यादा Taxes.

→ Imports from British were subject to lower tariffs.

कम Tax

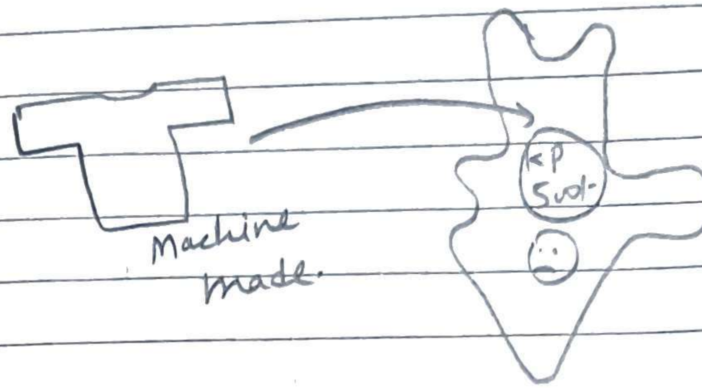
Discriminatory Tariff policy.



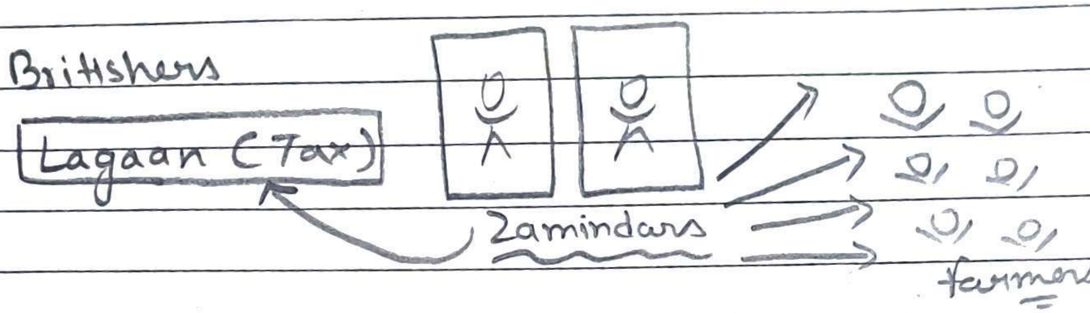
→ Large Scale Unemployment and absence of alternative Sources of Employment which forced many to depend on "AGRICUTURE".

→ Sub division & fragmentation of land holdings.

→ Imports of "cheap" machine made goods from Britain.



→ Zamindari System (land Settlement System)



→ High Indebtness of agriculturists.

→ "factory Based production" did not Exist till 1850.

→ At the End of 19th Century, the Indian Jute Mill Industry was the largest in the world. In addition, paper-milling, leather-making, rice-milling Industries also developed. Heavy Industries Such as Iron Industry were Established in 1814 by Britishers.

II Post Independence (1947-1991)

→ Literacy rate was around 10%.

→ Life Expectancy was 32 years.

→ India adopted Nehruvian model which Supported Social & Economic redistribution.

Economic growth by Equity & distributive Justice.

→ 5 years plans were developed and monitored by planning Commission.

→ 1948 :- 1st Industrial policy Resolution.

Expanded role of public Sector and licensing for private Sector.

→ The policies in 1950s were guided by two Economic philosiphies:-

(a) to build Socialistic Society with Emphasis on heavy Industries.

(b) the Gandhian philosophy of Small Scale and Cottage Industries.

→ $\boxed{1956}$: 2nd Industrial policy Resolution.

private Investments were discourage and more focus on public sector Investments.

→ India followed open foreign Investment policy & relatively open trade policy.

→ BoP Crisis Emerged in 1958 (Import > Export)

→ "Import" Controls were maintained "till 1966."

→ from $\underbrace{\text{1950–1980}}$, India's annual growth rate of GDP was 3.5%.

HINDU Growth rate.

→ 1966:- Green Revolution (HYV Seeds)

High Yielding Variety.

→ due to food shortage, India had to depend on US for food aid.

→ 1969:- 14 Banks were nationalised

1980:- 6 more banks were nationalised.

→ The performance during 1965 – 1981 is WORST

→ During 1960s & 1970s there was license Raj.

→ Major droughts were there in 1966 and 1967. and oil shaks in 1973 and 1979.

→ 1969 : The Monopolies & Restrictive Trade practices Act.

→ Stringent labour laws. (It discouraged labour Intensive Technique.)
"कठोर" (Harsh)

III Reforms (1980s)

→ The annual growth rate of GDP during 1980-85 and 1985- 1990 were 5.7% and 5.8% respectively.

→ 1980s Reforms: broadly covers three areas:-

Industry | Trade | Taxation.

→ In 1985, delicensing of 25 Industries was done.

→ The facility of Broad-Banding was accorded for Industries i.e, allow flexibility and rapid changes in their products mix without any fresh license.

→ The "multi-point Excise duty" were converted into Modified Value Added Tax (MODVAT)

→ 12 April 1988 :- Establishment of $\boxed{\text{SEBI}}$ (Securities & Exchange Board of India)

→ Several Export Incentives were Introduced.

→ The rupee was devalued by 30% from 1985-86 to 1989-90.

→ Budget for 1986 Introduced policies of Cutting Taxes, liberalising Imports and reducing tariffs.

* The Reforms in 1980s were limited in scope and thus bigger Reforms were organised in 1990s.

IV Reforms 1991 (LPG)

→ Reasons for Reforms in 1991:-

1. Huge deficits. (Total Expenditure of Govt. > Total Receipts)
2. BOP Crisis (oil prices triggered by gulf war in 1990)
3. foreign Exchange reserves touched the lowest point. :(

DOMS

(4) India had to depend on External borrowings from International Monetary fund.

(5) poor performance of public Sector Undertakings.

$\boxed{\text{Crisis of Confidence.}}$ ☹

Therefore the reforms were Initiated in 1991 and popularly known as LPG.

→ The reforms had to two major objectives:-

(i) Reorientation of the Economy from centrally directed and highly Controlled one to "market friendly" or "market oriented Economy"

(ii) Macro Economic Stabilisation by substantial reduction in $\boxed{\text{fiscal deficit}}$.

↓

Borrowings कम करनी है।

→ The policies Can broadly be Classified as:-

Stabilisation measures → SHORT TERM Measures
- Overcome BOP Crisis
- Control Inflation.

Structural Reforms → LONG TERM Measures
- Efficiency Increase
- Unemployment Decrease.

(A) Fiscal Reforms

→ There was fiscal deficit in the Economy and we had a large Current A/c deficit (CAD) Therefore fiscal Reforms were needed.

→ Introduction of stable and Transperant Tax Structure.

→ Better "tax Compliance"

कमी करना

→ Curbing Govt. Expenditure.

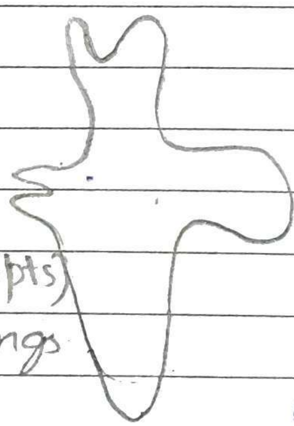
→ Reduction in Subsidies.

→ DisInvestment   PSUs → sale

→ Encouraging private Investments.

* Government Entered into a historic agreement with RBI in September 1994 to bring down fiscal deficit in phased manner to Nil by 1997-98.

Current A/c Deficit (CAD)
(Exp. > Receipts)



fiscal deficit
(Exp. > Receipts)
Borrowings

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(B) Monetary & financial Sector Reforms.

→ Interest rate liberalisation.
→ Reduction in Controls on Bank by RBI.
→ opining new private Banks.
→ Reduction in Reserve Requirements i.e, CRR, SLR Etc (Recommendation by Narsimhan Committee)
→ Liberalising of Bank Branch licensing policy.
→ Prudencial norms of accounting were Introduced (classifation of Assets)

→ $\geq$ 6M ✓
→ $\leq$ 6M ✓

(C) Capital Market Reforms

→ The Securities & Exchange board of India (SEBI) was set up in 1988 and given Statutory recognition in 1992

(D) New Industrial Policy.

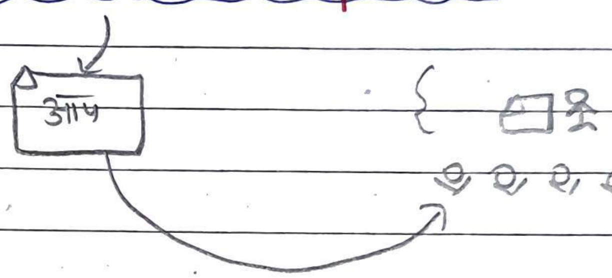
→ New Industrial policy was announced on 24 July 1991

→ put an End on License Raj - Removing License for all Industries Except for 18 Industries. Subsequently reduced to 5

- Arms & Ammunition
- Atomic Substances
- Narcotic drugs (Chemicals)
- Alcoholic drinks
- Cigarettes & Cigar.

→ Public Sector was limited to 8 sectors only. Subsequently only 2
- → Railways
- → Atomic Energy.

→ MRTP Act was restructured
- → Restriction in Concentration of Economic Power in few hands.
- → Controls of monopolies.
- → "prohibit" Restrictive trade practices.



→ Many Goods produced by Small-Scale Industries were De reserved.

→ This policy Ended the public Sector monopoly in many sectors.

→ foreign Investments was also liberalised (Concept of Automatic Approval was Introduced for foreign direct Investment upto 51%.

→ External trade was also liberalised.

→ Rupee was devalued by 18% against dollar.

(e) Trade Policy Reforms.

→ Dismantling of "Quantitative restrictions" on Import & Exports.
limits हटाई

→ focus on Outward Oriented regime.
~~Inward looking Trade policy.~~

→ Removal of licensing procedures for Imports.

* In 1991, the Indian Govt. Devalued rupee by around 18% . In 1992, the govt. decided to Establish a dual Exchange rate regime.

→ fixed Exchange rate (✓)
(+)
→ fluctuating Exchange rate (✓)

* In 1993 onwards, India adopted managed floating Exchange Rate regime.

** CRUGS of all above Reforms:-

- India has progressively moved towards market Oriented Economy.
- Growth of Private Sector Investment.

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- Ease of Trade ☺

- Robust demand for Information Technology & financial Services has kept the services trade surplus high.
  (Receipts > outflows)

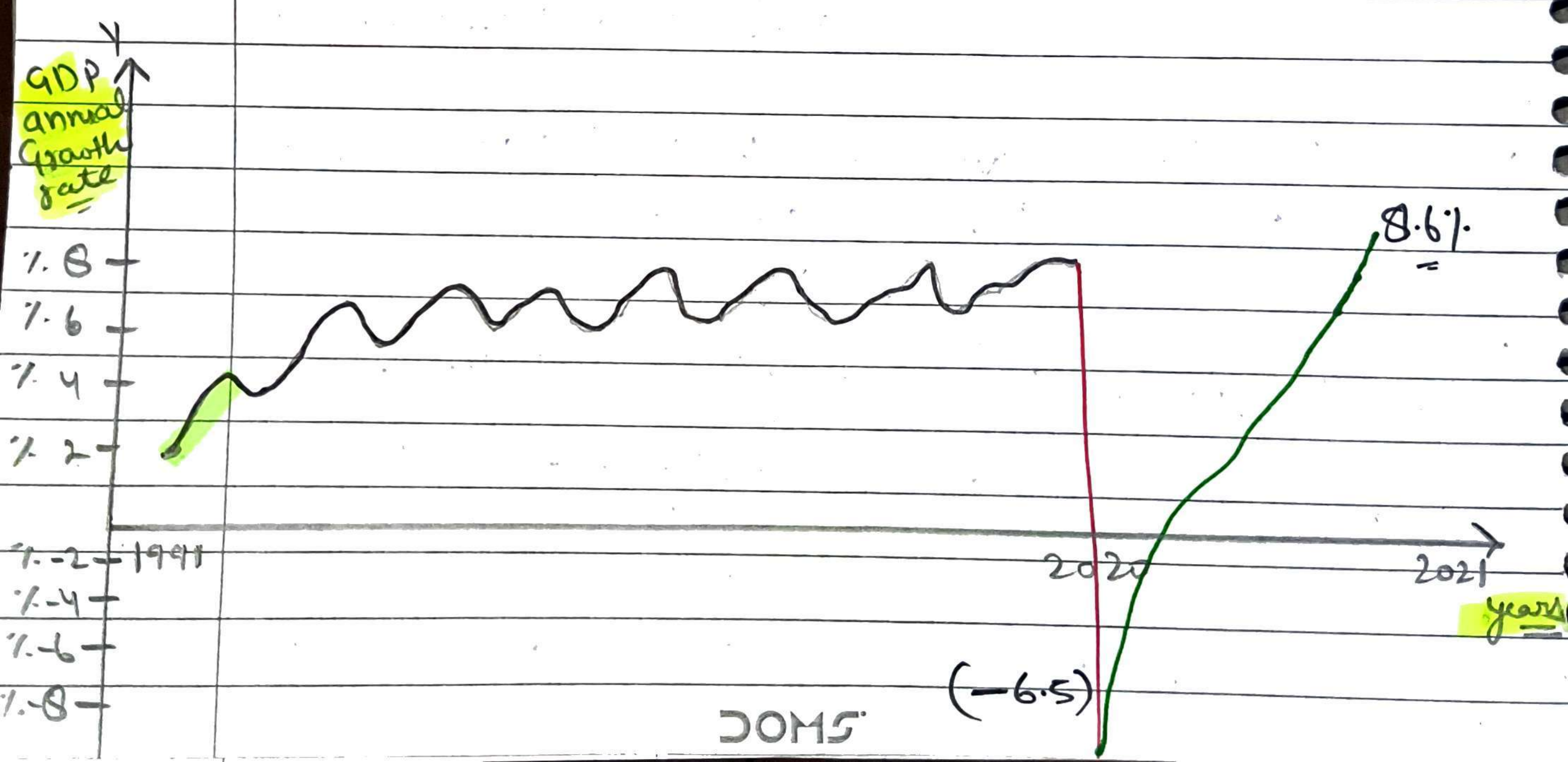
- Poverty has Reduce Substancially.

- Reforms led to Increased Competition.

- Improvement in financial Sector.

☹ However, the fiscal deficit of the country remains high.

V Post Reforms



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VI NITI Aayog

→ On 1 Jan 2015, the 'apex policy making body namely planning commission, was replaced by National Institution for Transforming India (NITI) Ayog. (Think tank of the government)

→ **Objectives:-**

- National development
- foster Cooperative federalism — Centre & State division of power.
  help करना (support)
- develop mechanisms to formulate Credible plans at village levels.
  Credible — विश्वसनीय
- design Strategic and long term policy.
- Offer platform for resolution of Inter-Sectoral and Inter departmental Issues.
- focus on Technological Updation.
- Etc Etc

→ **Key Initiatives.** (H.W Study about them)

- 'LIFE' - replaces the prevalent "Use and dispose" Economy.
- The national data & Analytics platform (NDAP) facilitates and Improves access to Indian government data.

DOMS

- → Shoonya Campaign – Improve air quality.
- → E-Amrit – Electronic vehicles
- → India policy Insights (IPI)
- → Methanol Economy – aimed at reducing India's oil Import bill, Green house gas Emission and Converting Coal reserves & solid Wastes Into Methanol
- → Transforming India's Gold market.

→ **Weaknesses**

- Limited Role
- Exclusion from Budgeting process.
- lacks autonomy. --→ (Freedom → Power)
- Termination of planning Commission strengthens the "ministry of finance"

VII CURRENT Status [100% Ratta]

- Primary (Agriculture)
- Secondary (Industry)
- Tertiary (Services)

Unique Experience of the Sequence as agriculture, services and Industry.

Sequence of Growth

(1) primary Sector.

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→ Indian has Emerged as world largest producer of milk, pulses, jute and spices.

→ India has the largest area planted under wheat, rice and cotton.

→ India is the Second largest producer of fruits vegetables, tea, fish, Cotton, Sugarcane, wheat, rice and Sugar.

→ Indian food and grocery market is the world's 6th largest (Contributing 70% of the retail Sales)

→ India has the World's largest Cattle herd (Buffalos)

→ India is among Top 10 Exporters of agricultural products in the world. Agricultural and processed food Export Development Authority (APEDA) is Entrusted with the responsibility of Export promotion.

→ Various measures are adopted by government Such as:-

- 100% FDI in marketing of food products
- Income Support to farmers (PM KISAN)
- fixing of MSP (Minimum Support Price)
- National mission for Edible oils.
- Pradhan Mantri Fasal Bima Yojna (PMFBY)
- Param paragat krishi Vikas Yojana (PKVY)
- Agri Infrastructure fund

- per drop more crop (PDMC)
- micro Irrigation fund
- farmer Producer Organisation (FPO)
- E-NAM - National Agriculture market.
  - Pan India electronic trading Portal.
- Startup Eco-System.

Etc Etc.

Issues

- fragmented land holdings
- low farm productivity.
- low marketable surplus.
- Inadequate Infrastructure.
- low level of technological upgradation.
- Inadequate post-harvest infrastructure.
- Etc Etc Etc.

DOMS

2 - Secondary Sector

→ Industrial Sector Contributes about 30% of Gross Value added (GVA)

→ It Employees over 12.1 Crores of people.

→ Manufacturing accounts for 78% of total production.

→ India's rank in 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.

→ Some policies :-

- Vocal for local.
- Ease of doing Business — India's Rank 63rd in 2020.
- National Single Window System.
- Make in India
- PM Gati Shakti National Master plan.
- National logistics Policy (NLP)
- FAME - India Scheme — Promote Electric & hybrid Vehicle.
- Remission on duties and Taxes on Export Products 2021 (RODTEP) — It replaced Merchandise Export ~~fo~~ from India Scheme.
- Start up India.

- Emergency Credit line Guarantee Scheme.
- foreign Investment facilitation portal.
  - It replaced foreign Investment promotion Board (FIPB)
- Etc Etc.

Challenges

→ Inadequate Infrastructure.

→ Heavy reliance on Imports.

→ Inadequate manpower.

तनावपूर्ण → Strained labour - management relation.

→ Slow external demand.

→ lower Export Competitiveness.

→ Supply chain Uncertainities.

→ Etc Etc

(3) Service Sector.

→ It is the largest Sector of India.

→ It accounts of 53.89% of India's GVA.

→ It has highest labour productivity.

→ It ~~A~~ is the fastest growing Sector..

→ India is among top 10 WTO members in Services Exports & Imports.

→ India's Service exports at US $ 27 ~~mil~~ billion (Nov 2022)

→ To Ensure liberalisation of Investment, govern permitted 100% foreign participation in telecommunication Services through automatic route.

- The India development update (IDU) of the World Bank published in 2022 holds $\boxed{\text{optimistic view}}$ that compared to other emerging economies, India is <u>more resilient</u> to adversities.

"<u>adaptive</u>"