CHAPTER

10

Indian Economy

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

- India had the largest economy in the ancient and medieval world between the 1st and 17th centuries AD.
- Controlled between one third and one fourth of the world's wealth during this period.
- The economy consisted of self-sufficient villages and cities, serving as centers for commerce, pilgrimage, and administration.
- Cities offered more opportunities for diverse occupations and economic activities compared to villages.
- The structure of villages was based on a simple division of labor, influenced by race, class, and gender, leading to economic and social differentiation.
- Agriculture was the dominant occupation, but there were highly skilled artisans and craftsmen producing superior quality manufactures, handicrafts, and textiles for the global market.

Box 1: Ancient Economic Philosophy of India

The earliest known treatise on ancient Indian economic philosophy is 'Arthashastra' the pioneering work attributed to Kautilya (Chanakya) (321-296 BCE)Arthashastra is recognized as one of the most important works on statecraft in the genre of political philosophy. It is believed to be a kind of handbook for King Chandragupta Maurya, the founder of Mauryan empire, containing directives as to how to reign over the kingdom and encouraging direct action in addressing political concerns without regard for ethical considerations.

Artha is not wealth alone; rather it encompasses all aspects of the material well-being of individuals. Arthashastra is the science of 'artha' or material prosperity, or "the means of subsistence of humanity," which is, primarily, 'wealth' and, secondarily, 'the land'. The major focus of the work is on the means of fruitfully maintaining and using land. Kautilya emphasizes the importance of robust agricultural initiatives for an abundant harvest which will go toward filling the state's treasury. Taxes, which were charged equal for private and state-owned businesses, must be fair to all and should be easily understood by the king's subjects.

Being a multidisciplinary discourse on areas such as politics, economics, military strategy, diplomacy, function of the state, and the social organization, Kautilya's writings relate to statecraft, political science, economic policy and military strategy. True kingship is defined as a ruler's subordination of his own desires and ambitions to the good of his people; 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.

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

- The rule of East India Company from 1757 to 1858.
- British government in India from 1858 to 1947
  - British colonialism in India, influenced by the Industrial Revolution, led to a shift in India's role from a manufacturer to a supplier of raw materials.
  - British policies imposed heavy tariffs on Indian exports of finished goods while keeping lower tariffs on imports, making Indian products less competitive.
  - This discriminatory tariff policy, aimed at serving British interests, resulted in a sharp decline in both external and domestic demand for Indian goods.
  - The destruction of Indian handicrafts and manufactures was a consequence of hostile imperial policies and competition from machine-made goods.
  - The shift in domestic consumer preferences towards foreign goods, driven by a desire to align with Western culture, further harmed the Indian manufacturing sector.
  - The consequences of the damage to India's traditional production structure under British colonialism were extensive:
    (a) **Widespread Unemployment:** The destruction of traditional industries led to large-scale unemployment, forcing many to rely solely on agriculture for livelihood.
    (b) **Land Pressure and Subdivision:** Increased pressure on land resulted in the subdivision and fragmentation of land holdings, leading to subsistence farming, reduced agricultural productivity, and increased poverty.
    (c) **Imported Goods Impact:** The influx of cheap machine-made goods from Britain and a shift in Indian tastes towards imported products made it challenging for domestic industries to survive.
    (d) **Zamindari System:** The zamindari system created a class focused on perpetuating British rule, impacting the overall economic and social structure.
    (e) **Land Tenure Issues:** Excessive pressure on land increased demand for land under tenancy, allowing zamindars to extract excessive rents and payments.
    (f) **Agricultural Crisis:** Absentee landlordism, high indebtedness among agriculturists, the rise of exploitative money lenders, and low attention to productivity-enhancing measures contributed to a virtual collapse of Indian agriculture.
  - 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.
- Jute mills, 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, including the iron industry established in 1814, ranked India eighth globally in terms of output in 1930.
- Some industries in India reached global standards by the early 20th century, and, just before the Great Depression, it was the twelfth largest industrialized country by the value of manufactured products.
- Pressure from English producers influenced policy formulation, discouraging the development of industries that could compete with English producers.
- India's industrial growth was insufficient to bring about a general economic transformation, with the manufacturing sector's share in the net domestic product (NDP) reaching only 7% in 1946.
- Factory employment in India remained small, accounting for 0.4% of the total population in 1900 and 1.4% in 1941.

INDIAN ECONOMY: 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 early days of independence saw a focus on rapid industrialization, with the central government having authority to design economic strategy and coordinate investments with the private sector.
- Nehru's development strategy emphasized 'planned modernization,' with a significant role envisioned for the state in industrialization.
- The Industrial Policy Resolution of 1948 expanded the public sector's role and introduced licensing for the private sector, granting state monopoly in strategic areas such as atomic energy, arms, ammunition, and railways. New investments in basic industries were exclusively given to the state.
- The policies in 1950's were guided by two economic philosophies:
  (a) The then prime minister Nehru's visualization to build a socialistic society with emphasis on heavy industry, and
  (b) 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.
- 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.
- Severe droughts in 1966 and 1967 led to negative growth in the agricultural sector, prompting a serious food problem and dependence on the United States for aid.
- The need for a quantum jump in food grain production shifted the focus to increasing agricultural productivity, initiating the 'green revolution.'
- The green revolution involved restructuring agricultural policy, emphasizing innovative technologies like high-yielding seed varieties and intensive use of water, fertilizer, and pesticides, successfully increasing food grain production.
- Simultaneously, the government introduced stringent administrative controls on trade and industrial licensing and launched a wave of nationalization, including the nationalization of 14 banks in 1969 and another 6 in 1980.
- 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.
- The MRTP Act of 1969 regulated large firms, restricting their market power through licensing, capacity limitations, and restrictions on mergers and acquisitions.
- The policy of reserving products for exclusive manufacture by the small scale sector from 1967 aimed at promoting small industries but excluded big firms from labor-intensive industries, hindering global competitiveness.
- Stringent labor laws discouraged labor-intensive industries in the organized sector.
- Policymakers and industrialists realized that the strict regime lacked incentives and openness necessary for sustained rapid growth.

TRY YOUR UNDERSTANDING 10.1

1. Which book is considered to be the Handbook of political Philosophy during 321-296 BCE?
   (a) Rajtarangini (b) Natyashasthra
   (c) Arthashasthra (d) Raghuvansan
2. The Arthashastra was composed by _______.
   (a) Megasthenes (b) Kautilya or Chanakya
   (c) Chandragupta Maurya (d) None of the above
3. Kautilya's writings relate to statecraft-
   (a) Political science (b) Economic policy
   (c) Military strategy (d) All of the above
4. Which year East India Company established its factory at Patna, Bihar?
   (a) 1620 (b) 1632 (c) 1621 (d) 1622
5. Who was the ruler of India at the time of establishment of East India Company?
   (a) Jahangir (b) Shershahsuri
   (c) Akbar (d) Aurangzeb
6. The British introduced Free trade. What does it mean?
   (a) The British goods were levied tax to enter in India
   (b) Finished goods from Indian manufacturer were taxed in Britain
   (c) Bulk of Indian trade was done with countries except Britain
   (d) None of the above
7. In which city British East India company has set up its factory in India?
   (a) Cochin (b) Kolkata (c) Calicut (d) Surat
8. During the period of British Rule, exports of finished goods were relatively _______ and the imports _______.
   (a) Costlier, Cheaper (b) Cheaper, cheaper
   (c) Cheaper, Costlier (d) Costlier, Costlier
9. The main feature and nature of our Indian Economy is harmonious blendings of _______, which was damaged because of British colonialism and destroyed long established production structure.
   (a) Domestic Trade of cereals (b) Agriculture and handicrafts
   (c) Export of Raw materials (d) Supply of Natural resources
10. The waves of colonialism have impacted-
    (a) Employment Sector (b) Agricultural sector
    (c) Taxation sector (d) All of the above

Answer Key

1. (c) 2. (b) 3. (d) 4. (a) 5. (c) 6. (b) 7. (d) 8. (a) 9. (b) 10. (d)

THE ERA OF REFORMS

- Seeds of liberalization and reforms were planted in the 1980s, especially after 1985.
- Early 1980s saw efforts to restore price stability through tight monetary policy, fiscal moderation, and some structural reforms, referred to as 'early liberalization.'
- 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.
- 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.
- 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.
- Early reforms in the 1980s focused on industry, trade, and taxation, accompanied by skillful exchange rate management.
- 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.
  - (c) Establishment of the Securities and Exchange Board of India (SEBI) in 1988.
  - (d) Expansion of the open general licence (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 growth performance of the economy was hindered by structural inadequacies and distortions.
- Private sector investments were inhibited due to complex licensing policies, public sector reservations, and excessive government controls.
- Reservation of goods for the small scale sector and price controls discouraged private sector investments.
- The public sector, despite its massive size and monopoly, suffered from inefficiency, government controls, and bureaucratic procedures, yielding low returns on investment.
- The MRTP Act created barriers for entry, diversification, and expansion for large industrial houses.
- Import controls, tariffs, quotas, and restrictions prevented foreign competition and investments to protect domestic industries.
- Despite limited scope and lack of a clear roadmap, the reforms in the 1980s instilled confidence in politicians and policymakers regarding the efficacy of policy changes for sustained economic growth.

- The belief in well-regulated competitive markets as drivers of economic growth and increased total welfare gained acceptance.
- Liberalization in the 1980s laid the necessary foundation for the more comprehensive reforms of the 1990s.

THE ECONOMIC REFORMS OF 1991

India embarked on a bold set of economic reforms in 1991 under the Narsimha Rao government.

The immediate need for drastic economic reforms in the 1990s was driven by several factors:

1. Fiscal initiatives in the 1980s led to consistently exceeding revenue receipts, resulting in unsustainable fiscal deficits financed by domestic and external debt.
2. Persistent deficits led to a significant increase in public debt, with a large portion of government revenues allocated to interest payments.
3. The Gulf War in 1990 triggered a surge in oil prices, causing severe strain on the balance of payments.
4. Foreign exchange reserves reached a critical low of $1.2 billion, only sufficient for two weeks of imports, prompting the need for economic reforms.
5. Tightening import restrictions to secure foreign exchange for essential imports led to a reduction in industrial output.
6. Dependency on external borrowing from the International Monetary Fund (IMF) subjected India to stringent conditions for additional drawings, influencing corrective policy measures.
7. The fragile political situation, coupled with economic crises, created a 'crisis of confidence' that emphasized the urgency for comprehensive economic reforms in India.

The year 1991 marked a paradigm shift in the Indian policy reforms. The nation which had embraced the 'socialist model', with the state playing an overriding role in the economy had the history of the government persistently intervening in the markets. Collapse of the Soviet Union and the spectacular success of China, based on outward oriented policies were lessons for the Indian policy makers. The reforms instituted in 1991 aimed to move the economy toward greater market orientation and external openness.

The reforms, popularly known as liberalization, privatization and globalisation, spelt a major shift in economic philosophy and fundamental change in approach and 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 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:**
   - 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.

THE FISCAL REFORMS

The escalating deficit levels complicated stabilization efforts in 1991. To address the crisis caused by excess domestic demand, a surge in imports, and a widening current account deficit (CAD), reducing the fiscal deficit was crucial. Radical measures were taken to increase revenues and curtail government expenditure, aiming to bring in fiscal discipline and avoid drawing down on reserves to finance the CAD.

- Introduction of a stable and transparent tax structure.
- Emphasis on better tax compliance to enhance revenue collection.
- Focus on curbing government expenditure to address fiscal challenges.
- Reduction and abolition of unnecessary subsidies to optimize resource allocation.
- Disinvestment of government equity in select public sector undertakings.
- Promotion of private sector participation in the economy for increased efficiency and growth.

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

- Introduction of drastic monetary and financial sector reforms for enhanced efficiency and transparency.
- Focus on reducing nonperforming assets burden on government banks.
- These included many measures, important among them are:
  (a) Interest rate liberalization and reduced controls by the Reserve Bank of India on loan and deposit rates.
  (b) Opening new private sector banks to foster competition and removing administrative constraints.
  (c) Reduction in reserve requirements (SLR and CRR) as per Narasimham Committee recommendations.

(d) Liberalization of bank branch licensing policy and granting freedom for branch operations.

(e) Introduction of prudential norms for accounting, asset classification, income disclosure, and bad debt provisions in line with Narasimham Committee recommendations.

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'

The 'New Industrial Policy' announced by the government on 24 July 1991 sought to substantially deregulate industry so as to promote growth of a more efficient and competitive industrial economy. In order to provide greater competitive stimulus to the domestic industry, a series of reforms were introduced

1. Removal of licensing restrictions for all industries, except for 5 related to security, safety, and environmental concerns.
2. Limiting the public sector to eight sectors, ultimately reducing it to railway transport and atomic energy.
3. Restructuring of the MRTP Act, eliminating pre-entry scrutiny and prior approval for large companies.
4. De-reservation of goods produced by small-scale industries to allow entry of large-scale industries.
5. Reduction of public sector monopoly, reserving only eight industries for strategic and security reasons.
6. Liberalization of foreign investment, introducing automatic approval for FDI up to 51%, later extended to nearly all industries except reserved ones.
7. Liberalization of external trade, shifting from a positive list to a negative list approach, eliminating import licensing for most goods.
8. Reduction of highest tariff rate from 355% in 1990-91 to 10% by 2007-08, with exceptions for certain goods.
9. 18% devaluation of the rupee against the dollar and official convertibility on the current account.
10. Bold step of disinvestment in government holdings of equity share capital of public sector enterprises, providing greater autonomy and professional management.

TRADE POLICY REFORMS

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.

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 increased economic integration with the global economy.
- Shift towards a market-oriented economy with reduced government intervention.
- Significant growth in private sector investment and initiatives.
- Sectors like auto components, telecommunications, software, pharmaceuticals, and biotechnology have high international competitiveness.
- Eased trade controls for access to foreign technology, inputs, know-how, and finance.
- Stable foreign direct investment and substantial foreign portfolio investments.
- Strong foreign exchange reserves, among the world's largest.
- Services trade surplus, particularly in information technology and financial services.
- Lower pressure on the Indian rupee compared to other emerging market economies.
- Increased incomes, large domestic market, and high aggregate demand sustain the economy.
- Better positioned than many emerging market economies to handle global challenges.
- Substantial reduction in poverty.
- Reforms led to increased competition and efficiency in sectors like banking and insurance.
- Phenomenal growth in infrastructure sectors.
- Decline in the value-added share of agriculture and allied activities over four decades.
- Deepening of India's financial sector due to increased liberalization.
- Constraints include high fiscal deficit, inflation, and debt at 86% of GDP in FY21/22, higher than the average for emerging market and developing economies (EMDEs) at 64.5% for 2022 (IMF).

1. Economic Policies followed by India, immediately after independence, were _______ in nature.

   (a) Conservative (b) Liberalised (c) Globalised (d) None of the above

2. Liberalisation refers to _______.

   (a) Relaxation of previous government restrictions usually in the areas of social and economic policies.

   (b) Transferring the assets and service functions from public to private sectors

   (c) Disposal of public sector units equity in the market.

   (d) None of these

3. Conservative Economic Policies were followed by India, immediately after independence in-

   (a) Industrial Sector (b) External Trade Sector

(c) Financial Sector (d) All of the above

4. In the pre-liberalization period, dominant position was given to _______ sector in India.
   (a) Private (b) Public
   (c) Both (a) and (b) (d) Neither (a) nor (b)
5. In the pre-liberalization period -
   (a) Full support was given to Private Sector in all industries
   (b) Industries were reserved exclusively for Public Sector
   (c) Both (a) and (b)
   (d) Neither (a) nor (b)
6. In the pre-reforms period (i.e. before 1991), Banking Scene was dominated by _______ Sector.
   (a) Private (b) Public
   (c) Both (a) and (b) (d) Neither (a) nor (b)
7. In the pre-reforms period (i.e. before 1991), CRR and SLR were -
   (a) High (b) Low
   (c) Moderate (d) Nothing can be said
8. In the pre-reforms period (i.e. before 1991), Interest Rate Structure in the economy-
   (a) Left to the interaction of market forces
   (b) Administered by RBI and Government
   (c) Not relevant at all
   (d) Nothing can be said
9. In the pre-reforms period (i.e. before 1991), entry of Foreign Firms into the country was-
   (a) Restricted (b) Freely permissible
   (c) Not relevant at all (d) Nothing can be said
10. In the pre-reforms period (ie. before 1991), Import permission was available primarily for-
   (a) Consumer Goods (b) Capital Goods
   (c) Both (a) and (b) (d) Neither (a) nor (b)
11. In the pre-reforms period (i.e. before 1991), Import permission was available primarily for-
   (a) Capital Equipment (b) Machinery
   (c) Industrial Raw Material (d) All of the above
12. In the pre-reforms period (i.e. before 1991), Import permission was available primarily for -
   (a) Cosmetics (b) Components, Spare Parts

(c) Perfumes (d) All of the above

13. In the pre-reforms period (i.e. before 1991), Import of foodgrains was permitted –

(a) In order to meet domestic demand in case of shortage of foodgrains

(b) To help Indians consume nutritious food

(c) Whenever there was a favourable Balance of Trade

(d) All of the above

14. In the pre-reforms period (i.e. before 1991), control was exercised over import of–

(a) Consumer Goods (b) Capital Goods

(c) Both (a) and (b) (d) Neither (a) nor (b)

15. In the pre-reforms period (i.e. before 1991), restrictions on import consisted of –

(a) Import Licenses (b) Quantitative Restrictions

(c) Quota System (d) All of the above

16. In the pre-reforms period (i.e. before 1991), Export Subsidy Schemes were characterized by

(a) High transaction costs (b) Delays

(c) Corruption (d) All of the above

17. In the pre-reforms period (i.e. before 1991), there were restrictions in respect of –

(a) Foreign Equity Participation in Indian Industries

(b) Import of Foreign Technology

(c) (a) but not (b)

(d) Both (a) and (b)

18. Which of the following was not immediate cause of 1991 economic crisis

(a) Rapid growth of population (b) Severe inflation

(c) Expanding Fiscal deficit (d) Rising current account deficit

Answer Key

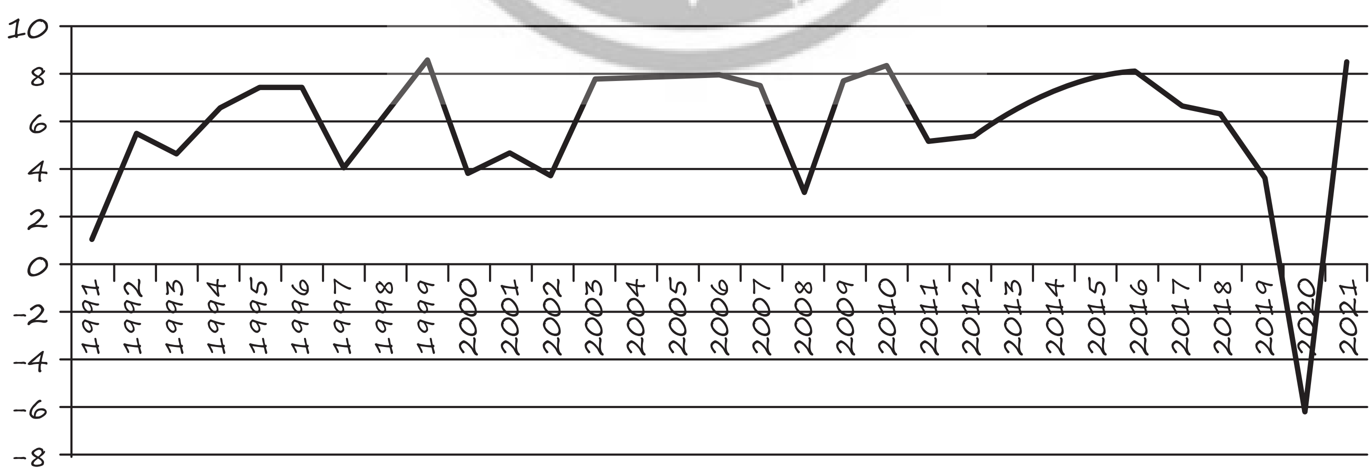
1. (a)	**2.** (a)	**3.** (d)	**4.** (b)	**5.** (b)	**6.** (b)	**7.** (a)	**8.** (b)	**9.** (a)	**10.** (b)
11. (d)	**12.** (b)	**13.** (a)	**14.** (a)	**15.** (d)	**16.** (d)	**17.** (d)	**18.** (a)		

GDP GROWTH RATES POST 1991 REFORMS

As we are aware, GDP growth rate is regarded as the most rel iable indicator of economic growth. The following table and graphical presentation present data on GDP growth rate post 1991 reforms.

Table 10.1: GOP Growth (Annual %) –India from 1991 to 2021 Year

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



Source: *Extracted from GDP growth (annual %) – India – World Bank Data. data.worldbank.org > indicator > NY.GDP.MKTP.KD.ZG*

Figure 10.1: GDP Growth (Annual %) – India from 1991 to 2021

NITI AAYOG: A BOLD STEP FOR TRANSFORMING INDIA

For 64 years, the Planning Commission of India played a crucial role in public investment-led development. However, the rise of neoliberal ideologies emphasizing market orientation and a reduced government role led to a shift in governance institutions. On January 1, 2015, the Planning Commission was replaced by the National Institution for Transforming India (NITI) Aayog. This change aimed to encourage innovative thinking from objective experts and promote cooperative federalism by giving states a greater voice. NITI Aayog serves as a government "Think Tank" and a dynamic force for policy direction.

NITI Ayog will work towards the following objectives*:

1. Develop a shared vision of national development priorities with state involvement.
2. Foster cooperative federalism, recognizing that strong states contribute to a strong nation.
3. Formulate credible plans at the village level and aggregate them progressively.
4. Incorporate national security interests into economic strategy and policy.
5. Pay special attention to sections of society at risk of not benefiting adequately from progress.
6. Design strategic, long-term policy frameworks, and monitor progress and efficacy.
7. Provide advice and encourage partnerships with key stakeholders and think tanks.
8. Create a knowledge and innovation support system through collaboration.
9. Resolve inter-sectoral and inter-departmental issues to accelerate development agenda implementation.
10. Maintain a resource center for research on good governance and sustainable development practices.
11. Actively monitor and evaluate program implementation, identifying needed resources.
12. Focus on technology upgrading and capacity building for program implementation.
13. Undertake necessary activities to further the execution of the national development agenda.

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.

THE CURRENT STATE OF THE INDIAN ECONOMY: A BRIEF OVERVIEW

The ever-changing nature of economic variables makes it challenging to provide an up-to-date and comprehensive documentation of the current state of the Indian economy. However, this summary will highlight the broad characteristics of the present-day Indian economy, focusing on the three sectors: primary, secondary, and tertiary.

THE PRIMARY SECTOR

India, once a food-deficient nation heavily reliant on imports, has transformed into the world's largest producer of various commodities such as milk, pulses, jute, and spices. The country boasts significant areas under cultivation for staples like wheat, rice, and cotton, making it the second-largest producer of several agricultural products. The Indian food and grocery market ranks sixth globally, with 70% of sales attributed to retail. The livestock sector has experienced remarkable growth, with India becoming a major producer of milk, eggs, and meat. Despite a declining share in overall Gross Value Added, agriculture continues to grow in absolute terms, playing a crucial role in India's economy.

Agriculture is a vital sector in India, supporting 47% of the population and contributing significantly to the GDP, with a Gross Value Added of 18.8% in 2021-22. The index numbers reveal a sustained increase in agricultural production, reaching 315.7 million tonnes of food grains in 2021-22. Private investment in agriculture has grown to 9.3% in 2020-21. The economic survey for 2022-23 indicates a robust growth of 3.5%, attributed to buoyant rabi sowing and allied activities. Government measures have played a key role in fostering the sector's performance over the years.

Government measures have led to a buoyant performance in India's agriculture and allied sectors.

- Focus on enhancing crop and livestock productivity.
- Implementation of the Minimum Support Price (MSP) ensures farmers receive returns at 1.5 times the all India weighted average cost of production for 23 mandated crops.
- Promotion of crop diversification to enhance agricultural practices.
- Improvement of market infrastructure through the establishment of farmer-producer organizations.
- Encouragement of investment in infrastructure facilities via the Agriculture Infrastructure Fund.

India has transformed from a food-deficient nation to a food exporter, ranking among the top agricultural product exporters globally. Agricultural and processed food exports reached a record high of Rs 374,611 crore in the last year, with a 25% increase in the first six months of 2022-23 compared to the same period in 2021-22. The Agricultural and Processed Food Export Development Authority (APEDA) plays a key role in export promotion. The government has implemented liberalization measures, allowing 100% FDI in the marketing and E-commerce of food products. Various interventions cater to the diverse needs of the agricultural sector and farming community.

A few such recent measures are:

1. PM KISAN provides income support to farmers.
2. Minimum Support Price (MSP) fixed at 1.5 times the cost of production.
3. Concessional institutional credit for the agriculture sector.
4. National Mission for Edible Oils launched.
5. Pradhan Mantri Fasal Bima Yojana offers insurance for crop loss/damage.
6. Mission for Integrated Development of Horticulture for holistic growth.
7. Soil Health Cards provision.
8. Paramparagat Krishi Vikas Yojana promotes organic farming and soil health.
9. Agri Infrastructure Fund supports post-harvest management projects.
10. Promotion of Farmer Producer Organisations (FPOs) for better income.
11. Per Drop More Crop scheme enhances water use efficiency.
12. Micro Irrigation Fund established.
13. Initiatives for agricultural mechanization.
14. E-NAM creates a unified national market for agricultural commodities.
15. Kisan Rail improves farm produce logistics.
16. Start-up ecosystem introduced in agriculture and allied sectors.

Despite phenomenal increase in output of both food crops and commercial crops, Indian agriculture faces many issues such as:

1. Small and medium farmers dominate Indian agriculture, leading to fragmented land holdings and lower income levels.
2. Resource-intensive, cereal-centric, and regionally biased practices result in stress on water resources and soil fertility.
3. Lack of agro-processing infrastructure hampers the creation of competitive value chains.
4. Slow agricultural diversification to higher-value commodities.
5. Insufficient adoption of environmentally sustainable and climate-resistant farming technologies.
6. Poor adoption of new agricultural technologies.
7. Lopsided marketing practices and ineffective credit delivery.
8. Challenges in adapting to climate change disturbances.
9. High food price volatility.
10. Heavy dependence on monsoons, leading to crop and livelihood loss due to natural vagaries.
11. Issues related to marketing, warehousing, and tapping export potential.
12. Inadequate post-harvest infrastructure and management practices.
13. Incidence of poverty and malnutrition.

THE SECONDARY SECTOR

The Indian industry plays a vital role in the economy, contributing 30% to the gross value added and employing over 12.1 crore people. It encompasses various sectors like manufacturing, heavy industries, chemicals, petrochemicals, and more. The informal sector constitutes over 50% of the GVA. Sustainable economic growth relies on rapid industrial development and diversification. The manufacturing sector, constituting 78% of total production, is a key focus. In 2021-22, manufacturing GVA reached $77.47 billion, contributing 16.3% to the nominal GVA over the past decade. The eight core industries index, as of September 2022, stood at 142.8, reflecting growth in coal, refinery products, fertilizers, steel, electricity, and cement. The Manufacturing Purchasing Managers' Index (PMI) in January 2023 was 55.4. India's Global Innovation Index (GII) rank improved from 81st in 2015 to 40th in 2022. The Department for Promotion of Industry and Internal Trade (DPIIT) plays a crucial role in formulating and implementing industrial policies. Various governments have introduced innovative schemes to boost industrial performance since independence.

The Indian government has implemented several significant economic reforms to boost industrial growth and encourage investment:

1. Introduction of Goods and Services Tax (GST) in 2017, replacing multiple indirect taxes.
2. Reduction of corporate tax rates for domestic companies.
3. 'Make in India' initiative launched in 2014 to promote investment, innovation, and manufacturing.
4. Focus on 'Ease of Doing Business' with simplification of procedures and digitization.
5. National Single Window System for investor-related approvals and services.
6. PM Gati Shakti National Master Plan for integrated planning of multimodal infrastructure.
7. National Logistics Policy (NLP) to reduce logistics costs.
8. Production Linked Incentive (PLI) Scheme to enhance manufacturing capabilities.
9. Industrial Corridor Development Programme for sustainable infrastructure.
10. FAME-India Scheme to promote electric and hybrid vehicle manufacturing.
11. 'Udyami Bharat' for the empowerment of Micro, Small, and Medium Enterprises (MSMEs).
12. PM Mega Integrated Textile Region and Apparel (PM MITRA) for world-class industrial infrastructure in the textiles sector.
13. Openness to global investments with radical Foreign Direct Investment (FDI) reforms.
14. Implementation of Remission of Duties and Taxes on Export Products (RoDTEP) 2021 to boost exports.
15. Initiatives for fostering innovation through incubation, funding, and industry-academia partnerships.
16. National Logistics Policy (NLP) as a comprehensive framework for the logistics sector.
17. Start-up India Programme to support ideas and innovation.
18. Public Procurement (Preference to Make in India) Order, 2017, giving preference to locally manufactured goods.
19. Emergency Credit Line Guarantee Scheme (ECLGS) providing a fully guaranteed emergency credit line to lending institutions.

India is actively preparing for the fourth industrial revolution, Industry 4.0, incorporating technologies like cloud computing, IoT, machine learning, and AI. The National Manufacturing Policy aims to boost the manufacturing sector's GDP share to 25% by 2025. India is becoming an attractive destination for foreign investments in manufacturing, with increasing FDI equity inflows. The government is facilitating this by raising FDI limits, eliminating regulatory barriers, and enhancing infrastructure. In the fiscal year 2021-22, India attracted a total FDI inflow of US$ 58.77 billion, reflecting its commitment to fostering industrial growth and innovation.

There are many challenges to the industrial sector; a few of these are enumerated below:

- Shortage of efficient infrastructure and manpower and consequent reduced factor productivity.
- Reliance on imports, exchange rate volatility and associated time and cost overruns
- The MSME sector is relatively less favorably placed in terms of credit availability.
- Industrial locations established without reference to cost-effective points tend to experience unsustainable cost structure.
- Heavy losses, inefficiencies, lower productivity and unsustainable returns plaguing public sector industries.
- Strained labor-management relations and loss of man hours.
- Lower export competitiveness, slowing external demand and imposition of non tariff barriers by other countries.
- Global supply chain disruptions and uncertainties.
- Inflation and associated macro economic developments leading to input cost escalations and lower demand.
- Global slowdown and related negative sentiments affecting investment.
- Aggressive tightening of monetary policy and increases in cost of credit.
- High and increasing fuel prices, and
- Mounting presence of informal sector.

THE TERTIARY SECTOR

The post-reform Indian economy stands out for the predominant role of the services sector in driving income and employment growth. Unlike typical economic development patterns where growth transitions from agriculture to industries, India has uniquely bypassed the secondary sector, moving directly from agriculture to the services sector.

India's services sector covers a wide variety of activities. (Refer Box 2 Below)

Box 2: 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

Source: The Service Sector in India Arpita Mukherjee ADB Economics Working Paper Series No. 352/June 2013

- The services sector, producing intangible goods, constitutes 53.89% of India's GVA.
- Gross Value Added (GVA) for the services sector at current prices is estimated at ₹96.54 lakh crore in 2020-21.
- The services sector is the fastest-growing, with high labor productivity, driven by knowledge-based services.
- Rapid expansion of information-intensive services, fueled by advanced technology, contributes to sector growth.
- Services sector complements manufacturing growth, with many successful startups emerging in this domain.
- India ranks among the top 10 WTO members in service exports and imports.
- Services exports, valued at US$ 27.0 billion in November 2022, remained resilient during the Covid-19 pandemic.
- The services sector is the largest recipient of FDI inflows, accounting for over 60% of total FDI equity inflows.
- India received the highest-ever FDI inflows of US$ 84.8 billion in 2021-22, with US$ 7.1 billion FDI equity inflows in the services sector.
- Government allows 100% foreign participation in telecommunication services through the Automatic Route.
- This includes all services and infrastructure providers in the telecommunication sector.
- The FDI ceiling in insurance companies has been raised from 49% to 74%.
- Measures like the National Single-Window system and increased FDI ceiling through the automatic route aim to facilitate investment in various industries.

CONCLUSION

- India faced challenges from Russia-Ukraine war, high oil prices, and global supply disruptions.
- Despite challenges, India's real GDP grew by 6.3% in July-September 2022.
- Strong private consumption and investment were driving factors for economic growth.
- The World Bank report notes India's relative insulation from global spillovers compared to other emerging markets.
- India's economy is less exposed to international trade due to reliance on its large domestic market.
- The report highlights India's resilience in withstanding global adversities compared to other emerging economies.

EXERCISE

1. The Indian industry stagnated under the colonial rule because
   (a) Indians were keen on building huge structures and monuments only
   (b) Deterioration was caused by high prices of inputs due to draught
   (c) The Indian manufactures could not compete with the imports of cheap machine made goods
   (d) None of the above

2. The first wave of liberalization starts in India
   (a) In 1951 (b) In 1980's (c) In 1990 (d) In 1966

3. The sequence of growth and structural change in Indian economy is characterized by
   (a) The historical pattern of prominence of sectors as agriculture, industry, services
   (b) The historical pattern of prominence of sectors as industry, services, agriculture
   (c) Unique experience of the sequence as agriculture, services, industry
   (d) All the above are correct

4. Merchandise Exports from India Scheme was replaced by -
   (a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
   (b) Natiunal Logistics Polity (NLP) in 2020
   (c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
   (d) None of the above

5. The Foreign Investment Promotion Board (FIPB)
   (a) A government entity through which inward investment proposals were routed to obtain required government approvals
   (b) No more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal
   (c) No more exists as all inward investments ore through automatic route and need no approval
   (d) Is the body which connects different ministries in respect of foreign portfolio investments

6. FAME-India Scheme aims to
   (a) Enhance faster industrialization through private participation
   (b) To promote manufacturing of electric and hybrid vehicle technology
   (c) To spread India's fame among its trading partners
   (d) None of the above
7. In terms of Ease of Doing Business in 2020 India mnks
   (a) 63 (b) 77 (c) 45 (d) None of the above
8. E-NAM is -
   (a) An electronic name card given to citizens of India
   (b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.
   (c) A Pan-India electronic t rading porta/which networks the existing APMC mandis
   (d) (b) and (c) above
9. Which of the following is not a policy reform included in r.he new economic policy of 1991 -
   (a) Removing licensing requirements for all industries
   (b) Foreign investment was liberalized
   (c) Liberalisation of internotional tmde
   (d) The disinvestment of government holdings of equity share capital of public sector enterprises
10. Imports of foreign goods and entry of foreign investments were restricted in India because-
   (a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
   (b) Because foreign goods were costly and meant loss of precious foreign exchange
   (c) Government policy was directed towards protection of domestic industries from foreign competition
   (d) Government wanted to preserve Indian culture and to avoid influence of foreign culture
11. The 'Hindu growth rate' is a term used to refer to -
   (a) The high rate of growth achieved after the new economic policy of 7997
   (b) The low rate of economic growth of India from the 7950s to the 7980s, which averaged around 3.5 per cent per year
   (c) The low growth of the economy during British period marked by an average of 3.5 percent
   (d) The growth rate of the country because India is referred to as 'Hindustan'
12. In the context of the new economic policy of 1991, the term 'disinvestment' stands for-
   (a) A policy whereby government investments are reduced to correct fiscal deficit
   (b) The policy of sale of portion of the government shareholding of a public sector enterprise
   (c) The policy of public partnership in private enterprise
   (d) A policy of opening up government monopoly to the privates sector

13. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was–
(a) To ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
(b) To provide for the control of monopolies
(c) To prohibit monopolistic and restrictive trade practice
(d) All the above

14. Which one of the following is a feature of green revolution –
(a) Use of soil friendly green manure to preserve fertility of soil
(b) Grow more crops by redistributing land to landless people
(c) High yielding varieties of seeds and scientific cultivation
(d) Diversification to horticulture

15. The strategy of agricultural development in India before green revolution was –
(a) High yielding varieties of seeds and chemical fertilizers to boost productivity
(b) Institutional reforms such as land reforms
(c) Technological up gradation of agriculture
(d) All the above

16. The Industrial Policy Resolution (1948) aimed at –
(a) Market oriented economic reforms and opening up of economy
(b) A shift from state led industrialization to private sector led industrialisation
(c) An expanded role for the public sector and licensing to the private sector
(d) An expanded role of private sector a limited role of public sector

17. The new economic policy of 1991 manifest in –
(a) State led industrialization and import substitution
(b) Rethinking the role of markets versus the state
(c) Emphasized the role of good governance
(d) Bringing about reduction in poverty and redistributive justice

18. The post independence economic policy was rooted in –
(a) A capitalist mode of production with heavy industrialization
(b) Social and economic redistribution and industrialization directed by the state
(c) Social and economic redistribution through private sector initiatives
(d) Industrialization led by private entrepreneurs and redistribution by state

Answer Key

1. (c)	**2.** (b)	**3.** (c)	**4.** (a)	**5.** (b)	**6.** (b)	**7.** (a)	**8.** (d)	**9.** (a)	**10.** (c)
11. (b)	**12.** (b)	**13.** (d)	**14.** (c)	**15.** (b)	**16.** (c)	**17.** (b)	**18.** (b)		

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