CHAPTER – 10

Indian Economy

- **Status of Indian Economy: Pre Independence Period (1850-1947)**
  - Between 1st and 17th century AD → India was largest economy
  - It was self-reliant → controlled between 1/3rd (33%) and 1/4th (25%) of world's wealth.
  - Agriculture was dominant occupation, and main source of livelihood for majority of people.
  - It also had a highly skilled set of artisans and craftsmen who produced handicrafts and textiles.
    - Labor Division of labour in Villages based on race, class, and gender.
    - Agriculture and Craftsmanship: Agriculture dominated, with skilled artisans for global markets.

- **Ancient Economic Philosophy of India**
  - The earliest treatise/book on ancient Indian economic philosophy is 'Arthashastra' by Kautilya (Chanakya) (321-296 BCE).
  - It was handbook for King Chandragupta Maurya, founder of Mauryan empire
  - Arthashastra science of 'artha' or material prosperity, or "the means of subsistence of humanity," which is, primarily, 'wealth' and, secondarily, 'the land'.
  - Meaning of True kingship → ruler's subordination of his own desires to the good of his people;
  - 7 vital elements of policy → King, Ministers, Farmlands/agriculture land, Fortresses/ raja ki strong quila like lal quila, Treasury, Military and Allies/friends.

- **Period of British Rule is classified into 2 parts -**
  1. East India Company Rule: 1757 - 1858
  2. British Government Rule: 1858 – 1947

Economic and Social Consequences of Damage to Traditional Economy

1. Large-Scale Unemployment: Destruction of traditional industries led to widespread unemployment, increasing dependence on agriculture.
2. Increased Land Pressure: Subdivision and fragmentation of land led to subsistence farming, reduced productivity, and growing poverty.

3. Imported Goods Impact: Cheap British machine-made goods and changing consumer preferences harmed domestic industries.
4. Zamindari System: The zamindari system supported British rule and disrupted the local economy and social structure.
5. Excessive Rent: Land pressure allowed zamindars to impose excessive rents on tenants.
6. Agricultural Collapse: Absentee landlordism, debt, exploitative money lenders, and neglect of productivity led to the collapse of Indian agriculture.

- Reason for British Expansion: Industrial Revolution in Britain (late 18th century)
- Trade Policies of britishers :
- Discriminatory Tariffs:
  - Indian Finished Goods: High tariffs on exports and domestic sales → Costlier Indian goods
  - Imports from Britain : Low tariffs → Cheaper

Effects of this tariff policy on Indian Industries:

- Decline in Demand:
  - Decreased for indigenous products
  - Rise in competition from British machine-made goods
  - Shift in consumer preference towards foreign goods

- Stagnated Nature of Industrialization: During the Colonial Era

Aspect	Details
Cotton Mill Industry (1930s)	9 million spindles (5^{th} position)
Jute Mills	Largest globally by raw jute consumption
Iron Industry (1930)	8^{th} in world output
Industrial Ranking (1930)	12^{th} in manufactured products value
Producer Goods Industries	Limited expansion due to British Policies
Manufacturing Sector Share (1946)	7% Net Domestic Product

Indian Economy: Post-independence (1947-1991)

Literacy Rate (1947)	18%
Life Expectancy (1951)	32 years
Nehruvian Model Focus	Social and economic redistribution, state-led industrialization
Planning Commission (1950)	Established for economic development through 5-Year Plans
First 5-Year Plan (1951)	Launched to support economic development
Development Strategy	Rapid industrialization and planned modernization

Industrial Policy Resolution

Industrial Policy Resolution (1948)	Expanded public sector, state monopoly in strategic areas
Strategic Areas for State Monopoly	Atomic energy, arms and ammunition, railways
Basic Industries Investment Rights	Exclusively given to the state
1950s - two Economic Philosophies	Nehru's heavy industry focus vs. Gandhian small scale industries
Industrial Policy Resolution (1956)	Framework for development; biased towards public sector
Trade Policy (1950s)	Open until 1958; followed by tighter controls
Balance of Payments Crisis (1958)	Led to tighter trade and investment controls
Growth Rate (1950-1980)	Average annual GDP growth: 3.5% (Hindu growth rate)

Key Events and Policies

Pre-Green Revolution Strategy	Land reforms, farm cooperatives; neglected RandD
Agricultural Crisis (1966-1967)	Severe droughts, food aid dependence
Green Revolution	High-yield seeds, intensive inputs like fertilizers, pesticides etc.
Bank Nationalization	14 banks (1969), 6 banks (1980)
Economic Performance (1965-1981)	Decline in productivity, license raj, external shocks
MRTP Act, 1969	Regulated large firms, restricted expansion

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 and 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

Early Liberalization (1981-1989)	Shift from inward-oriented practices
GDP Growth Rates	5.7% (1980-1985), 5.8% (1985-1990)
Industrial Policy Initiatives	Delicensing, broad-banding, MRTP limit increase
MODVAT Tax	Reduced taxation on inputs
SEBI	Established April 12, 1988
OGL Expansion	1,329 capital goods items by April 1990
Export Incentives	Introduced and expanded
Exchange Rate Policy	Rupee depreciated ~30% (1985-1990)
Price Controls	Abolished on cement and aluminum
1986 Budget Policies	Tax cuts, import liberalization, reduced tariffs

The Economic Reforms of 1991

Causes for Reforms	Fiscal deficit, balance of payments crisis, low forex reserves, import restrictions, external borrowing, political instability
Reform Objectives	Reorient economy to market-friendly; stabilize macroeconomic
Policy Types	Stabilization (short-term); Structural reforms (long-term)
Key Areas of Reform	Liberalization, Privatization, Globalization

Fiscal Reforms

- 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 and 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 and
  - (6) Encouraging private sector participation.

Monetary and 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 and reduction in controls on banks by RBI in respect of interest rates.
  - (2) Opening of new private sector banks and facilitating competition among public, private sector and foreign banks and removal of administrative constraints.
  - (3) Reduction in reserve requirements namely, SLR and 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 (Announced July 24, 1991)

Objective:

- Purpose: Substantially deregulate industry to foster a more efficient and competitive industrial economy.

- **Key Reforms Introduced:**

1. Ending the 'License Raj':
   - Licensing Restrictions: Removed for most industries except 5:
     - Arms and ammunition
     - Atomic substances
     - Narcotic drugs
     - Hazardous chemicals
     - Distillation and brewing of alcoholic drinks, cigarettes, and cigars
2. Limiting Public Sector:
   - Initial Scope: Public sector limited to eight sectors based on security and strategic importance
   - Current Scope: Reduced to two sectors - railway transport and atomic energy
3. Restructuring of the MRTP Act:
   - Changes: Repealed provisions related to mergers, amalgamations, and takeovers
   - Impact: Removed pre-entry scrutiny and prior approval requirements for large companies
4. Dereservation of Products:
   - Effect: Opened products previously reserved for small-scale industries to large-scale industries
5. Ending Public Sector Monopoly:
   - Current Reserved Sectors: Only atomic energy generation and railway transport
6. Liberalization of Foreign Investment:
   - Automatic Approval: Introduced for most FDIs
   - FDI prohibited in four sectors:
     - Retail trade
     - Atomic energy
     - Lottery business
     - Betting and gambling
7. Liberalization of External Trade:
   - Approach Change: Shifted from positive list (license-free items) to negative list approach

8. Reduction in Tariffs:
   - Tariff Rates: Reduced from 355% in 1990-91 to:
     - 85% in 1993-94
     - 50% in 1995-96
     - 10% by 2007-08
   - Exceptions: Some goods retained higher tariffs like automobile 100%
9. Rupee Devaluation:
   - Rate: Devalued by 18% against the dollar
10. Disinvestment and Autonomy for PSUs:
   - Disinvestment: Reduced government equity in PSUs
   - Autonomy: Increased decision-making power and professional management for PSUs
   - Budgetary Support: Gradual reduction

- NITI AAYOG: A bold step for transforming India

Establishment Date	January 1, 2015
Objective	Foster innovation; promote cooperative federalism
Role	Think Tank; Policy dynamo/guidance
Key Initiatives	LIFE, NDAP, Shoonya, E-Amrit, IPI, Methanol Economy, Transforming Gold Market
Shortcomings	Limited role, exclusion from budgeting, lack of autonomy, strengthened Ministry of Finance, limited counterweight function

- 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 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 for reducing India's oil import bill, greenhouse gas emissions, and 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.

The Current State of the Indian Economy: A brief overview

(I) The Primary Sector

- **Importance:**
  - Largest source of livelihood.
  - Directly supports 47% of the population.
  - Contributes 18.80% to GDP.
- **Achievements:**
  - Top Producer: World's largest producer of milk, pulses, jute, and spices.
  - Major Areas: Largest area planted under wheat, rice, and cotton.
  - Second Largest Producer: Fruits, vegetables, tea, farmed fish, cotton, sugarcane, and more.
  - Food Market: 6th largest food and grocery market globally.
  - Cattle Herd: World's largest buffalo herd.
  - Food Grains Production: 315.7 million tonnes in 2021-22.
  - Private Investment: Increased to 9.3% in 2020-21.
  - Sector Growth: 3.50% growth in 2022-23.
  - Exports: All-time peak of ₹3,74,611 crore; 25% increase in the first half of 2022-23.
- **Government Measures:**
  1. 100% FDI in Food Marketing: Allowed under the automatic route.
  2. PM KISAN: Income support for farmers.
  3. Minimum Support Price (MSP): Fixed at 1.50 times the cost of production.
  4. Institutional Credit: Concessional rates for agriculture.
  5. Launch of National Mission for Edible Oils
  6. PMFBY: Insurance scheme for crop loss/damage.
  7. MIDH: Integrated Development of Horticulture.
  8. Soil Health Cards: Provision for farmers.

9. PKVY: Promotes organic farming.
10. Agri Infrastructure Fund: Debt financing for post-harvest and community farming projects.
11. Farmer Producer Organizations (FPOs): Promotes better income through organization.
1. Per Drop More Crop (PDMC): Increases water use efficiency.
2. Micro Irrigation Fund: Established.
3. Agricultural Mechanization: Various initiatives.
4. E-NAM: Electronic trading portal for unified national market for agricultural commodities.
5. Kisan Rail: Enhances logistics for farm produce.
6. Start-up Ecosystem: Creation in agriculture and allied sectors.

(II) The Secondary Sector

- Contribution:
  - Gross Value Added: 30% of total GVA.
  - Employment: Over 12.1 crores.
- Components:
  - Includes manufacturing, heavy industries, fertilizers, pharmaceuticals, chemicals, petrochemicals, oil and gas, food processing, mining, defense products, textiles, retail, MSMEs, cottage industries, and tourism.
  - Informal Sector: More than 50% of GVA.
- Manufacturing:
  - Share: 78% of total production.
  - PMI (Jan 31, 2023): 55.4.
  - Global Innovation Index: Improved to 40th in 2022 from 81st in 2015.
- Role of The Department for Promotion of Industry and Internal Trade (DPIIT) :
  - Formulates and implements industrial policy and strategies.
- Current Economic Policies and Strategies

- Goods and Services Tax (GST) Implementation Date: July 1, 2017.
- Purpose of GST: Replaced multiple indirect taxes with a single tax, simplifying the tax structure.
- Reduction of corporate tax to 22% for domestic companies.

- Make in India, Launched: 2014.'S Objective: Facilitate investment, innovation, and infrastructure development in India. Promotes a 'Vocal for Local' approach. Make in India 2.0' is now focusing on 27 sectors, which include 15 manufacturing sectors and 12 service sectors.
- Ease of Doing Business Ranking: India ranked 63rd in the World Bank's Doing Business Report (DBR), 2020.
- National Single Window System's Purpose: A one-stop-shop for investor-related approvals and continuous facilitation and support to investors.
- PM Gati Shakti National Master Plan's Objective: Integrated planning of multi-modal infrastructure to reduce logistics costs through data-based decision-making.
- National Logistics Policy (NLP)'s Goal: Lower logistics costs in India.
- Production Linked Incentive (PLI) Scheme's Purpose: Enhance manufacturing capabilities and export competitiveness in 14 key sectors to promote 'Atmanirbhar' (self-reliant) India.
- Industrial Corridor Development Programme's Focus: Develop greenfield industrial regions with sustainable infrastructure and 'plug and play' facilities.
- FAME-India Scheme's Objective: Promote the manufacturing of electric and hybrid vehicle technology.
- Udyami Bharat's Purpose: Empower Micro, Small, and Medium Enterprises (MSMEs).
- PM Mega Integrated Textile Region and Apparel (PM MITRA)'s Goal: Ensure world-class infrastructure in the textiles sector and boost FDI and local investment.
- FDI Regulations Details: 100% FDI under automatic route allowed for coal mining, coal sale, and insurance intermediaries.
- Foreign Investment Facilitation Portal (FIFP) Replaced FIPB: Simplified FDI approval process, leading to a 39% increase in FDI.
- Remission of Duties and Taxes on Export Products (RODTEP)'s Purpose: Replace MEIS to boost exports by providing rebates on all hidden central, state, and local duties/taxes/levies.
- Start-up India Programme's Objective: Facilitate ideas and innovation; India's rank in GII is 40th in 2022.
- Emergency Credit Line Guarantee Scheme (ECLGS)'s Objective: Provide fully guaranteed emergency credit lines to monitor lending institutions.

Preparing for Industry 4.0

- Focus Areas: Cloud computing, Internet of Things (IoT), machine learning, and artificial intelligence (AI).
- National Manufacturing Policy: Aims to increase manufacturing's share in GDP to 25% by 2025.

(III) The Tertiary Sector

- Growth Trajectory:
  - India has seen a unique shift directly from agriculture to services, bypassing the traditional industrial growth phase.
  - Contribution to Economy: The service sector is the largest sector in India, contributing 53.89% to the country's Gross Value Added (GVA). The GVA of the service sector was estimated at ₹96.54 lakh crore for 2020-21.
- Key Characteristics
  - The service sector is the fastest-growing sector in India.
  - It has the highest labour productivity compared to other sectors.
  - Telecommunications: 100% foreign participation allowed through the Automatic Route.
  - Insurance Sector: The FDI ceiling was increased from 49% to 74%, enhancing foreign investment opportunities.
  - Government Measures to Support the Sector
  - National Single Window System Provides a one-stop-shop for investor-related approvals and facilitates continuous support.

FDI Policies -

1. Permits 100% foreign participation in telecommunications.
2. Increases FDI limit in insurance to 74%.