Ch 10 : Indian Economy

Status of the Indian Economy: Pre-Independence Period (1850–1947)

10. 1 India's Economy Before British Rule (1st–17th Century AD):

Between the 1st and 17th centuries, India was the largest economy in the ancient and medieval world, controlling between one-third and one-fourth of global wealth.

Structure of the economy:

- Villages were self-sufficient and supported agriculture, handicrafts, textiles and basic needs.
- Cities served as centers of commerce, pilgrimage, and administration, offering more opportunities for trade and occupations compared to villages.

Division of labor:

- Villages were structured around a simple division of labor linked to class, race, and gender, which created social and economic differentiation.

Main occupations:

- Agriculture was dominant, providing livelihood to most people.
- Skilled artisans and craftsmen produced high-quality manufactures, handicrafts, and textiles, which were in demand in the global market.

2. Ancient Economic Philosophy of India: The Arthashastra

- **The Arthashastra:**
  - Written by Kautilya (Chanakya) (321–296 BCE), a key advisor to King Chandragupta Maurya (the founder of Mauryan Empire), it is one of the earliest works on statecraft and political philosophy.
  - Served as a handbook for governance, guiding rulers on managing their kingdom and focusing on practical solutions to political issues.

- **Definition of "Artha":**
  - It refers to material well-being, including wealth, land, and the means of human subsistence.
  - The science of "Artha" (Arthashastra) emphasizes building and using resources like land and wealth effectively.

- **Economic principles in Arthashastra:**
  - Agriculture was considered the most important sector for producing wealth.
  - Taxes were to be fair, equal for private and state-owned businesses, and easily understandable by citizens.
  - Kingship was about serving the greatest good for the greatest number of people.

- **Seven essential elements for a strong state:**
  - The King, Ministers, Farmlands, Fortresses, Treasury, Military, and Allies.

The Impact of British Rule on India’s Economy

The advent of Europeans and the British caused a major transformation in India's economic structure.

Periods of British Rule:

1. East India Company Rule (1757–1858):

- The Company focused on maximizing profits by exploiting India's resources.

2. British Government Rule (1858–1947):

- Policies during this period were aimed at serving Britain’s industrial and commercial interests.

Effects of British Rule:

Reversal in Trade Patterns:

- India transitioned from being an exporter of finished goods to an exporter of raw materials for Britain.

- Heavy tariffs on Indian exports and lower tariffs on British imports made Indian goods uncompetitive, reducing both external and domestic demand.

Destruction of Handicrafts:

- British policies, competition from machine-made goods, and Indians' growing preference for foreign products led to the collapse of traditional industries.

4. Consequences of British Colonialism in Economic Policies

The destruction of India’s traditional production system had far-reaching effects on the economy and society:

Unemployment: With the decline of handicrafts and small industries, many workers became jobless and had to depend on agriculture.

Pressure on Agriculture: Increased reliance on farming led to land fragmentation, subsistence farming, lower productivity, and widespread poverty.

Decline of Domestic Industries: Cheap, machine-made imports from Britain flooded the market, making survival difficult for Indian industries.

Zamindari System: Created a class of landlords focused on supporting British rule. Excessive rents and payments were extracted from farmers, worsening their plight.

Absentee Landlordism: Many landlords did not live on their estates but still profited from high rents, leaving farmers impoverished.

Moneylenders and Debt: Exploitative moneylenders flourished, trapping farmers in cycles of debt. Little attention was given to measures that could improve agricultural productivity.

Nature of Industrialization during Colonial Era

Factory-based production did not exist in India before 1850.The ‘Modern’ industrial enterprises in colonial India started to grow in the mid-19th century. However, industrial development was slow and uneven.

Key Industries That Grew:

1. **Cotton Milling:**
   - Grew steadily in the 19th century, achieving international competitiveness by the 1930s (India ranked 5th globally in number of spindles with 9 million spindles).

2. **Jute Mills:**
   - Expanded near Calcutta due to global demand for jute products.
   - By the late 19th century, Indian jute mills were the largest in the world in terms of amount of raw jute consumed in production.

3. Other Industries:

- Brewing, paper milling, leather-making, matches, and rice milling also developed.
- Heavy industries like iron production began as early as 1814. India's iron industry was ranked eighth in the world in terms of output in 1930.
- Due to progress in modern industrial enterprises, some industries even reached global standards by the beginning of the 20th century.
- Just before the Great Depression, India was ranked as the twelfth largest industrialised country measured by the value of manufactured products.

Limited Progress:

- Producer goods industries (e.g., machinery) remained underdeveloped due to British policies discouraging competition with British industries.

Industrial growth was insufficient to transform India’s economic structure:

- By 1946, manufacturing contributed just 7% of the Net Domestic Product (NDP).
- Factory employment was minimal, involving only 0.4% of the population in 1900 and 1.4% by 1941.

Summary

- The colonial period marked a significant decline in India's economic status. British policies destroyed traditional industries, overburdened agriculture, and slowed industrial growth.
- While some modern industries developed, the overall economic transformation was inadequate, leaving India impoverished by the time of independence.

Indian Economy: Post-Independence (1947–1991)

Economic and Social Conditions at Independence

- In 1947, India was largely rural, with a majority of the population being illiterate and impoverished.
  - Literacy rate in 1951: 18%.
  - Life expectancy in 1951: 32 years.

- Human capital deficit: Poverty extended beyond low income to a severe lack of human capital (education and health).

- Social structure: Society was deeply stratified and characterized by extreme heterogeneity across social, cultural, and economic dimensions.

Nehruvian Economic Model

- India's economic policy after independence was shaped by the Nehruvian model, emphasizing:
  - Social and economic redistribution.
  - State-directed industrialization.

- **Centralized planning**: India adopted centralized economic planning to achieve rapid growth with equity and distributive justice. The Planning Commission was established to develop and implement Five-Year Plans.

- **Planned industrialization**: Rapid industrialization was the cornerstone of Nehru's vision. The concept of planned modernization meant systematic planning for the economy, with the state playing a dominant role.

Industrial Policy Resolution of 1948

- Emphasized a significant role for the public sector and regulated private sector activity through licensing.
- Reserved key strategic sectors (e.g., atomic energy, arms, railways) for state monopoly.
- Basic industries: Rights for new investments were exclusively granted to the state.

Influences on Policy:

- **Nehru's socialist vision**: Focused on heavy industries.
- **Gandhian philosophy:** Advocated for small-scale and cottage industries and village-based economies.

Industrial Policy Resolution of 1956

- Provided a framework for industrial development but favored the public sector, stifling private enterprise and initiative.

Foreign Trade and Industrial Policy

Early openness: India initially followed an open foreign investment policy and relatively liberal trade policy.

Balance of payments crisis (1958):Foreign exchange reserves were depleted, leading to:

- Gradual tightening of trade.
- Reduction in licensing for investments requiring imported capital goods.

Comprehensive import controls were imposed and maintained until 1966.

Economic Growth (1950–1980)

- India's GDP growth averaged 3.5% annually during this period, often referred to as the **"Hindu growth rate".**

- While agriculture was not neglected, the thrust of the first decade and a half was on capital goods— capital-intensive projects such as dams, power plants, and heavy industrialization—rather than consumer goods.

Major Shift in Indian Economy in the Mid 1960s

Agriculture in the Second Plan:

- The Second Five-Year Plan reduced agricultural focus, emphasizing institutional reforms like land reforms and farm cooperatives.
- Result: Minimal productivity increases and modest success of reforms.

Severe droughts (1966–67): Two consecutive droughts led to:

- Negative agricultural growth.
- Dependence on food aid from the United States (PL-480 program).

Agricultural Restructuring through Green Revolution:

Strategic shift to improve agricultural productivity through:

- High-yield seed varieties.
- Intensive use of fertilizers, pesticides, and irrigation.

Result: A significant increase in food grain production, helping India overcome the food crisis.

Increasing Government Control on Trade and Industry

Nationalization:

- Banks were nationalized in two phases:
  - 1969: 14 banks.
  - 1980: 6 more banks.

- The government also launched stringent controls on trade and industrial licensing.

License Raj:

- An elaborate system of licenses, permits, and quotas restricted private sector growth and stifled innovation.
- Resulted in inefficiencies, delays, and corruption.

Economic Challenges (1965–1981)

Stagnant growth:

- This period is considered the worst in India's economic history.
- Factors contributing to stagnation:
- License Raj and excessive controls.
- Autarkic policies, closing India off from global economic opportunities.

External shocks: Three wars (1962, 1965, 1971), severe droughts, and oil shocks (1973, 1979).

The Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 (MRTP Act):
Aimed at regulating large firms with market power but discouraged:

- Expansion of big businesses.
- Entry into many sectors, except for those that were highly capital-intensive, like heavy industries or infrastructure.

Reservation for small-scale industries (1967):

- Certain products were reserved for small-scale industries to promote labor-intensive growth.
- It was argued that this policy will encourage labour-intensive economic growth and allow redistribution of income by shifting incomes towards lower wage earners.
- 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 which were in place also discouraged starting of labour intensive industries in the organized sector.

- There was a growing realisation among policymakers and industrialists that the prevailing strict regime is invariably counterproductive and that most of the controls and regulations had not delivered in the absence of adequate incentives and openness which are necessary conditions for sustained rapid growth.

- This set the stage for the economic reforms of 1991.

10.3 The Era of Reforms

- In the 1980s, India began to lay the groundwork for economic liberalization, especially after 1985.
- Before this, India's economy was characterized by inward-oriented trade policies, strict regulations, and a heavy reliance on government controls.
- However, in the early 1980s, the government took several steps to stabilize the economy and boost growth.
- These efforts, often called "early liberalization" or "reforms by stealth," were not part of a comprehensive reform package like the one in 1991, but they marked the beginning of a shift in economic thinking.

- The key initiatives of this period were aimed at reducing trade and investment barriers and changing the overly protectionist policies.

- The economy started to grow at a faster rate during the 1980s, with an average annual GDP growth of 5.7% between 1980-1985 and 5.8% from 1985-1990.

- This was an improvement compared to the earlier decades of slower growth.

- The early reforms focused on three main areas: industry, trade, and taxation. The government took steps to ease restrictions in these areas.

Industrial Reforms

- In 1985, the government removed licensing requirements for 25 categories of industries, and later expanded this to many more. This allowed firms more flexibility to grow and adapt.

- A system called "broad-banding" was introduced, enabling companies to switch between different products without needing a new license. For example, a company could shift from making trucks to cars without the bureaucratic hassle of applying for a new license.

- The government also relaxed restrictions on large firms by raising the asset limit for the Monopolies and Restrictive Trade Practices (MRTP) Act from ₹20 crore to ₹100 crore, which allowed more flexibility for these companies to expand.

- The introduction of the Modified Value-Added Tax (MODVAT) system reduced the tax burden on inputs and eliminated distortions in the taxation system.

Trade Reforms

- The government gradually expanded the Open General Licence (OGL) list, which allowed more goods to be imported freely. This included capital goods, which were crucial for industrial growth.

- Export incentives were introduced to encourage businesses to produce for foreign markets. The exchange rate was adjusted to a more realistic level, which helped boost exports and reduce pressure on foreign exchange reserves.

- Price and distribution controls on key sectors like cement and aluminum were abolished, which helped improve efficiency and competition.

Exchange Rate and Fiscal Reforms:

- The government also took steps to manage the exchange rate effectively. Between 1985-1990, the rupee was depreciated by about 30%, which helped make Indian exports more competitive on the global market.
- The 1986 budget introduced further tax cuts, liberalized imports, and reduced tariffs, signaling a shift towards more market-friendly policies.

- Despite efforts, India’s economy in the 1980s faced challenges like complex licensing, excessive controls, and inefficiencies in public sector monopolies.
- The MRTP Act curbed firm growth, and import controls shielded industries but restricted foreign investment and technology.
- While the 1980s reforms were modest, they marked a shift toward recognizing competitive markets, paving the way for the transformative 1990s reforms.

10.4 The Economic Reforms of 1991

In 1991, India undertook significant economic reforms under the leadership of Prime Minister Narasimha Rao. These reforms were a response to a deep economic crisis and aimed at shifting India's economy toward market-friendly policies and greater integration with the global economy.

Several factors led to the urgent need for these reforms:

- **Fiscal Imbalance**: Throughout the 1980s, government spending consistently outpaced its revenue, resulting in large fiscal deficits. This meant the government had to rely heavily on both domestic and foreign borrowing, creating a debt burden that became unsustainable.

- **Rising Debt:** The government's mounting deficits meant a large chunk of its revenue was spent on paying interest on debt, further straining the economy.

Oil Price Surge: The Gulf War in 1990 caused a spike in oil prices, putting additional pressure on India's balance of payments and further increasing fiscal stress.

Foreign Exchange Crisis: India’s foreign exchange reserves had dwindled to a dangerously low level—only $1.2 billion, enough for just two weeks of imports. This situation was a major trigger for reform, as India risked defaulting on its international obligations.

Import Restrictions: To conserve foreign exchange for essential imports, India tightened import restrictions, which led to a decrease in industrial output and economic growth.

IMF Assistance: Facing a crisis, India sought help from the International Monetary Fund (IMF), which agreed to provide financial assistance but only if India implemented certain policy reforms.

Political and Economic Crisis: The combination of these economic challenges and a fragile political situation led to what was called a "crisis of confidence." There was a general loss of faith in the country's economic direction.

- The 1991 reforms represented a major shift in India's economic policy, moving away from the state-dominated, socialist model to one that was more market-oriented and outward-facing.
- The collapse of the Soviet Union and the rapid success of China, which adopted outward-oriented economic policies, influenced India's policymakers to adopt similar strategies.

The key objectives of the reforms were:

Market Orientation: To transform India's centrally controlled economy into one that was market-friendly, allowing for more private sector involvement, competition, and efficiency.

Macroeconomic Stabilization: To reduce fiscal deficits and stabilize the economy by addressing issues like inflation and balance of payments deficits.

The reforms in 1991 can be divided into two main categories:

- **Stabilization Measures:** These were short-term measures aimed at addressing the immediate economic problems, such as the fiscal deficit and balance of payments crisis. They were designed to stabilize the economy in the short run.

- **Structural Reforms**: These were long-term measures intended to improve productivity and competitiveness by removing structural rigidities in the economy. They focused on sectors such as industry, trade, and finance, and aimed at making the economy more flexible and efficient in the long term.

In essence, the 1991 reforms laid the foundation for the **liberalization, privatization, and globalization (LPG)** that would follow, marking a major shift in India's economic philosophy and opening the country to global markets.

10.4.1 The Fiscal Reform

The Fiscal Reforms introduced in 1991 were aimed at tackling India’s escalating fiscal deficit, which had worsened the economic crisis.

The main causes of this crisis were excessive domestic demand, rising imports, and a growing current account deficit (CAD). These factors drained India’s foreign exchange reserves, making it necessary to take radical measures to balance the government’s finances.

Key steps taken included:

- **Stable and Transparent Tax System:** The government introduced a more stable and transparent tax structure to ensure better revenue generation.

- **Better Tax Compliance:** Efforts were made to improve the collection of taxes, reducing the tax gap.

- **Reducing Government Expenditure:** The government worked on cutting down unnecessary spending and curbing wasteful subsidies.

- **Subsidy Cuts:** Many subsidies were reduced or abolished, which helped cut government expenditure.

- **Disinvestment:** The government sold off part of its stake in select public sector undertakings (PSUs), raising revenue and reducing the fiscal burden.

- **Private Sector Participation:** Encouraged private sector involvement in areas that were previously under government control.

Additionally, a historic agreement with the Reserve Bank of India in 1994 was made to bring down the fiscal deficit to zero by 1997–98, avoiding the easy option of financing the deficit through money creation.

10.4.2 Monetary and Financial Sector Reforms

These reforms focused on making the financial system more efficient and transparent. The government aimed to reduce the burden of non-performing assets (NPAs) in public sector banks and introduce competition in the banking sector.

Key measures included:

1. **Interest Rate Liberalization**: The Reserve Bank of India (RBI) relaxed controls on interest rates charged by banks on loans and paid on deposits.

2. **Private Sector Banks**: The government allowed the creation of new private banks to increase competition with public sector and foreign banks.

3. **Reduction of Reserve Requirements:** The statutory liquidity ratio (SLR) and cash reserve ratio (CRR) were reduced, following recommendations from the Narasimham Committee Report.

4. **Bank Branch Licensing:** Restrictions on bank branch locations were eased, allowing banks to open, close, or relocate branches freely.

5. **Prudential Norms**: New accounting norms were introduced for banks, ensuring greater transparency regarding their financial positions.

10.4.3 Capital Market Reforms

- The Securities and Exchange Board of India (SEBI) which was set up in 1988 was given statutory recognition in 1992.

- SEBI’s role was to regulate the capital markets and ensure transparency in securities trading, facilitating better resource mobilization.

10.4.4 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. End of 'License Raj':

Licensing restrictions were removed for all industries except 18 that dealt with security, strategic concerns, social reasons, safety, or environmental issues.

80% of industries were taken out of the licensing framework, later reduced to just five:

i. Arms and ammunition
ii. Atomic substances
iii. Narcotic drugs and hazardous chemicals
iv. Distillation and brewing of alcoholic drinks
v. Cigarettes and cigars

2. Reduced Public Sector Areas: Public sector involvement was limited to eight strategic sectors. This was further reduced to only two: railway transport and atomic energy.

3. Changes to the MRTP Act: Provisions related to mergers, amalgamations, and takeovers were repealed. Pre-entry scrutiny of investment decisions and prior approval for large companies' capacity expansion or diversification were eliminated.

4. Small-Scale Industries: Many goods previously reserved for small-scale industries were de-reserved, allowing entry of large-scale industries.

5. End of Public Sector Monopoly: Public sector monopolies were ended in many areas, encouraging private sector participation. Industries reserved for the public sector were narrowed down to eight, and later to just two: parts of atomic energy generation and certain core activities in railway transport.

6. Liberalization of Foreign Investment:

- Automatic approval for foreign direct investment (FDI) up to 51% was introduced, later extended to nearly all industries except reserved ones.
- FDI is prohibited only in four sectors: (i) Retail trade, (ii) Atomic energy, (iii)Lottery business, (iv) Betting and gambling

7. Trade Liberalization:

- The policy replaced the 'positive list approach' (listing items allowed without licenses) with the 'negative list approach' (only a few restricted items).
- Import licensing was removed for most goods except some intermediate and capital goods.
- Consumer goods under licensing were made free 10 years later.
- Today, most goods can be imported except a few disallowed for health, environmental, or safety reasons, and certain items like edible oil, fertilizers, and petroleum products.

8. Reduced Tariffs:

- In 1990-91, the highest tariff rate was 355%.This was reduced to:
- 85% by 1993-94
- 50% by 1995-96
- 10% by 2007-08 (exceptions like automobiles remain at 100%).

9. Rupee Devaluation and Convertibility:

- The rupee was devalued by 18% against the dollar.
- From 1994, all current account transactions (business, education, medical, and foreign travel) were allowed at market exchange rates, making the rupee officially convertible on the current account.

10. Disinvestment in Public Sector Enterprises:

- The government sold equity shares of public sector enterprises.
- Public sector units were given more autonomy in decision-making and professional management opportunities to ensure reasonable returns.
- Budgetary support to the public sector was progressively reduced.

10.4.5 Trade Policy Reforms

The trade policy reforms introduced in 1991 aimed to make India's trade more open, efficient, and globally competitive. Key features include:

Removal of Restrictions on Trade:

- Quantitative restrictions on imports and exports were dismantled.
- Licensing procedures for imports were removed.

Focus on Outward Orientation:

- A phased reduction and simplification of tariffs were implemented to encourage global integration.

Boost to Exports:

- Export incentives were continued, and new ones were introduced.
- Export duties were removed to make Indian goods more competitive internationally.

Exchange Rate Reforms:

- In 1991, India followed a fixed exchange rate system, where the rupee was tied to a basket of currencies of major trading partners.
- July 1991: Rupee was devalued by 18–19%.

- March 1992: A dual exchange rate regime was introduced:
  - Some imports were paid using foreign exchange at free-market rates.
  - Other imports used foreign exchange at government-mandated rates.

- March 1993: The exchange rate was unified, and the rupee was allowed to float.
- From 1993 onwards, India adopted a managed floating exchange rate system.

Impact of Economic Reforms

- Over the past 31 years, these reforms have significantly transformed India's economy:
  - India's economy is now more integrated with the global economy.
  - Government intervention and controls have reduced, making India more market-driven.
  - There has been unprecedented growth in private sector investment and initiatives.
  - Sectors like auto components, telecommunications, software, pharmaceuticals, biotechnology, and professional services have achieved global recognition.
  - Easier trade controls have enabled access to foreign technology, inputs, know-how, and finance.

- Stable foreign direct investment (FDI) inflows and substantial foreign portfolio investments.
- India has one of the largest holdings of international reserves, providing around eight months of import cover
- High demand for information technology and financial services has maintained a trade surplus in services, around 3.7% of GDP.
- The rupee has been more stable compared to other emerging market economies.
- Rising incomes, a large domestic market, and high aggregate demand sustain the economy.
- India is better positioned to handle global economic challenges compared to many emerging markets.
- Reforms have contributed to substantial poverty reduction.
- Liberalization has deepened the financial sector, improving efficiency, customer choice, and private sector participation in banking, insurance, and other financial services.
- Infrastructure sectors have achieved phenomenal growth.
- The value-added share of agriculture has steadily decreased over the last four decades, reflecting economic diversification.

Challenges:

Despite these achievements, challenges remain:

- High Fiscal Deficit: India’s fiscal deficit is significant.
- Inflation: Inflationary pressures persist.
- High Debt: India’s debt-to-GDP ratio is 86% (FY21/22), higher than the emerging market average of 64.5% (IMF 2022).

Table 10.1

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

Year	GDP Growth (Annual %)	Year	GDP 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

10.6 NITI Aayog: A Bold Step for Transforming India

- The Planning Commission, a cornerstone of India's policy-making for over six decades, was rooted in public investment-led growth. However, changing global economic trends, with their focus on market-oriented reforms and limited government intervention, highlighted the need for institutional transformation.

- Responding to these changes, India replaced the Planning Commission with the National Institution for Transforming India (NITI Aayog) on 1st January 2015.

- The primary aim of this shift was to embrace innovation and foster cooperative federalism, amplifying the role of states in national development.

- NITI Aayog operates as a "think tank" and a policy catalyst, focusing on crafting strategies for long-term, inclusive growth.

Objectives of NITI Aayog

NITI Aayog focuses on key developmental priorities:

1. **Shared National Vision**: Collaborating with states to set national goals and strategies.
2. **Cooperative Federalism**: Building strong partnerships between the Centre and states, emphasizing that strong states make a strong nation.
3. **Bottom-Up Planning**: Developing village-level plans and integrating them into higher governance frameworks.
4. **National Security in Policy**: Aligning economic policies with security interests.
5. **Inclusive Growth**: Addressing the needs of vulnerable sections of society.
6. **Strategic Frameworks**: Designing and monitoring long-term programmes and policies.
7. **Global and National Collaboration**: Partnering with think tanks, academia, and research institutions for innovative solutions.

8. **Knowledge & Innovation**: Creating a system to foster entrepreneurship and disseminate best practices.

9**. Issue Resolution**: Acting as a mediator to address inter-departmental conflicts for smoother implementation of policies.

10. **Research Repository**: Maintaining a database of governance models and sustainable practices.

11. **Monitoring Implementation**: Evaluating programme performance and ensuring effective resource utilization.

12. **Technology & Capacity Building**: Supporting technology upgrades and skill development for efficient governance.

Key Initiatives in NITI Aayog

1. **LiFE (Lifestyle for Environment):** Advocates a shift from a "use-and-dispose" to a sustainable economy.
2. **NDAP (National Data and Analytics Platform):** Enhances access to government data for informed decision-making.
3. **Shoonya Campaign:** Promotes the adoption of electric vehicles to improve air quality.
4. **E-Amrit:** Centralizes information on electric vehicles for easy access.
5. **India Policy Insights (IPI):** Drives data-backed governance insights.
6. **Methanol Economy:** Focuses on reducing oil imports, greenhouse gas emissions, and converting waste into methanol.
7. **Gold Market Reforms:** Unlocks the economic potential of India's gold sector to boost exports and economic growth.

Criticism of NITI Aayog

- Unlike the Planning Commission, NITI Aayog does not produce national plans, control expenditures, or review state plans.

- A significant shortcoming is that NITI Aayog has no role in the budget-making process, which weakens its influence on financial planning and resource allocation.

- NITI Aayog does not have the independence required to act decisively, nor does it possess a balanced share of power within the central government's policy-making structure.

- The dissolution of the Planning Commission has increased the Ministry of Finance's control, with its focus on short-term macroeconomic stability and limiting expenditures.

- NITI Aayog lacks the authority and independence to serve as a counterbalance to the Ministry of Finance and fails to act effectively as a "voice of development" to address issues like inequities.

10.7 The Current State of The Indian Economy: A Brief Overview

- Due to the vast and ever-changing nature of economic activities, it's not possible to have complete and up-to-date information about the economy at all times.

- Despite these challenges, the following sections aim to provide an overview of India's current economy by focusing on its three main sectors:

1. Primary,
2. Secondary, and
3. Tertiary.

10.7.1 Primary Sector

- Agriculture and allied sectors are the primary source of livelihood in India, with 47% of the population directly dependent on it.
- Until the 1960s, India was a food-deficient nation, heavily reliant on imports. However, it has since become self-sufficient and a major exporter of agricultural products.

Major Achievements:

- India is now the largest producer of milk, pulses, jute, and spices. It has the largest area under wheat, rice, and cotton cultivation.
- It is the second-largest producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, and rice.
- India has the world's largest cattle herd (buffalo) and a growing livestock sector, achieving 6.6% annual growth from 2010–19.
- The Indian food and grocery market is the world's sixth-largest, with retail contributing 70% of sales.

Recent Trends and Stats

- Agriculture and allied sectors contributed **18.8%** to Gross Value Added (GVA) in 2021-22.
- Food grains production reached 315.7 million tonnes in 2021-22.
- Agricultural production index numbers for food grains, cereals, and non-food grains show consistent increases.
- Private investment in agriculture grew to 9.3% in 2020-21.
- India has transitioned to a food-exporting nation, ranking among the top ten agricultural exporters globally.
- Agricultural exports reached a peak of ₹3,74,611 crore in 2021-22 and increased by 25% in the first half of 2022-23.

Government Initiatives for Agriculture

1. Support to Farmers:

PM KISAN: Provides direct income support to small and marginal farmers.

Minimum Support Price (MSP): Ensures farmers earn at least 1.5 times their cost of production for 23 mandated crops.

2. Insurance and Risk Management:

Pradhan Mantri Fasal Bima Yojana (PMFBY): Offers financial help for farmers facing crop losses due to natural calamities.

3. Infrastructure Development:

Agri Infrastructure Fund: Provides financing for building post-harvest facilities like warehouses and cold storages.

E-NAM Platform: Links APMC mandis across India, creating a unified market for trading agricultural commodities.

4.Crop Diversification and Edible Oils:

- Encourages farmers to diversify from cereals to higher-value crops.
- **National Mission for Edible Oils:** Aims to boost domestic oilseed production and reduce import dependency.

5. Water and Resource Efficiency:

- **Per Drop More Crop Scheme:** Promotes water-efficient irrigation systems like drip and sprinkler irrigation.
- **Micro Irrigation Fund:** Supports projects aimed at increasing water-use efficiency.

6. Horticulture and Organic Farming:

- **Mission for Integrated Development of Horticulture (MIDH):** Promotes growth in fruits, vegetables, and floriculture.
- **Paramparagat Krishi Vikas Yojana (PKVY):** Supports organic farming and soil health improvement.

7. Farmer-Producer Organizations (FPOs):

- Helps farmers organize into groups to improve their bargaining power, market access, and incomes.

8. Technological and Startup Support:

- Focus on agricultural mechanization to reduce labor intensity.
- Promotion of agricultural startups to bring innovation in farming and allied sectors.

9. Improved Logistics:

- **Kisan Rail:** A dedicated train service for transporting perishable farm products, ensuring timely delivery and reduced wastage.

10. Ease of Investment:

- 100% FDI permitted in food product marketing and E-commerce under the automatic route.

11. Soil Health Management:

- Distribution of Soil Health Cards to educate farmers about nutrient management for better yields.

Challenges Faced by Indian Agriculture

Structural Issues:

- **Small and Fragmented Landholdings**: Most farmers operate on small plots, leading to low productivity and limited marketable surplus.
- **Subsistence Farming**: Focus on self-consumption reduces the ability to compete in domestic and export markets.

Resource Depletion:

- **Water Scarcity and Soil Fertility Loss**: Excessive use of water and fertilizers has degraded natural resources.
- **Unscientific Farming Practices:** Practices like over-irrigation and chemical overuse contribute to desertification and land degradation.

Market and Infrastructure Gaps:

- **Inadequate Post-Harvest Infrastructure:** Lack of storage, processing, and cold chain facilities leads to high wastage.
- **Weak Value Chains:** Poor connectivity between producers and markets limits profitability.

Technological and Diversification Barriers:

- **Slow Adoption of Advanced Technologies**: Limited use of climate-resilient and high-yield technologies.
- **Cereal-Centric Farming**: Over-reliance on grains instead of diversifying to high-value crops.

Environmental Sustainability Issues:

- Resource-intensive and regionally skewed farming creates ecological imbalances.
- Poor adaptation to climate change aggravates risks for farmers.

Dependence on Monsoons:

- Heavy reliance on seasonal rainfall makes agriculture vulnerable to droughts and floods.

Marketing and Financial Challenges:

- **Price Volatility:** Fluctuating prices of crops impact farmer incomes.
- **Credit and Marketing Inefficiencies:** Complex credit systems and ineffective marketing reduce farmer profits.

Export and Surplus Management:

- **Underutilization of Export Potential:** Limited processing and branding prevent full exploitation of international markets.
- **Surplus Management Issues:** Excess production in some commodities leads to wastage instead of finding alternative profitable destinations.

Social and Economic Challenges:

- High incidence of poverty and malnutrition among agricultural workers.

10.7.2 The Secondary Sector

- The secondary sector contributes approximately 30% of the total Gross Value Added (GVA) in India and employs over 12.1 crore people.

Components of the Sector:

- Key industries include manufacturing, heavy industries, fertilizers, pharmaceuticals, chemicals and petrochemicals, oil and natural gas, food processing, mining, defense products, textiles, retail, micro, small & medium enterprises (MSMEs), cottage industries, and tourism.
- Informal sector accounts for over 50% of GVA in this domain.

Strategic Importance:

- Rapid industrial growth and diversification of the industrial structure are critical for sustainable economic growth.
- Developing a robust manufacturing base remains a key government priority.

Industrial Development: Current Status

Industrial Output:

- Manufacturing dominates, accounting for 78% of total production in the sector.
- In FY 2021-22 (Q3), manufacturing GVA was valued at US$ 77.47 billion.

Key Performance Indicators:

- **Manufacturing GVA Contribution**: Consistently around 16.3% of nominal GVA over the last decade.
- **Core Industry Index (ICI):** Stood at 142.8 (2022-23 until September), driven by coal, refinery products, fertilizers, steel, electricity, and cement production.
- **Manufacturing PMI (Purchasing Managers' Index):** Reached 55.4 in January 2023, signaling robust growth.
- **Global Innovation Index (GII):** India's rank improved to 40th in 2022, up from 81st in 2015.

Eight Core Industries:

Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement, and Electricity constitute 40.27% of the IIP (Index of Industrial Production).

Government Policies and Initiatives for Industrial Development

1. **Taxation and Investment Climate:**
   - **Goods and Services Tax (GST):** Unified indirect tax system introduced in July 2017.
   - **Reduced Corporate Tax:** Option to pay **22% income tax** without exemptions.
2. **"Make in India" Initiative:**
   - Launched in 2014 to attract investment, foster innovation, and promote manufacturing.
   - **Make in India 2.0:** Focuses on **27 sectors**, including 15 in manufacturing and 12 in services.
3. **Ease of Doing Business:**
   - Simplified procedures, digitized processes, and reduced penalties for minor defaults.
   - India's rank improved to **63rd** in the World Bank's 2020 **Doing Business Report**, a jump of **14 ranks from 2019**.

4. Key Logistics and Infrastructure Plans:

- **National Single Window System:** A one-stop digital platform for investors to obtain all necessary approvals and clearances, reducing bureaucratic delays.
- **PM Gati Shakti National Master Plan:** Focuses on creating integrated, multimodal infrastructure (road, rail, air, ports) to improve connectivity and reduce transportation costs.
- **National Logistics Policy (NLP):**Aims to reduce the cost of transporting goods in India (currently higher than global benchmarks) by streamlining logistics operations and improving supply chain efficiency.

5. Boosting Manufacturing and Exports:

- **Production Linked Incentive (PLI) Scheme**: Offers financial incentives to companies that increase manufacturing output in 14 strategic sectors like electronics and white goods (appliances).

- **Industrial Corridor Development Programme**: Develops industrial zones with ready-to-use ("plug-and-play") infrastructure, such as power, roads, and utilities, to attract industries.

- **RoDTEP Scheme (2021):**Refunds taxes and duties paid by exporters, replacing the earlier MEIS (Merchandise Exports from India Scheme).

6. Sector-Specific Policies:

- **FAME-India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles):** Promotes the use of electric and hybrid vehicles by offering subsidies and infrastructure development (e.g., charging stations).

- **PM MITRA (Mega Integrated Textile Region and Apparel) Scheme:** Creates modern industrial infrastructure for textiles with integrated facilities (e.g., weaving, dyeing, finishing).
- **Udyami Bharat:** Focuses on empowering Micro, Small, and Medium Enterprises (MSMEs) with credit access, skill development, and digitization.

7. FDI and Global Investments:

- 100% FDI: Permitted for coal mining, coal processing, and insurance intermediaries.
- Foreign Investment Facilitation Portal (FIF): Simplifies FDI processes, replacing the Foreign Investment Promotion Board (FIPB).
- FDI inflows in 2021-22 totaled US$ 58.77 billion.

8. Innovation and Startups:

- Startup India Program: Facilitates innovation and industry-academia collaboration.
- Strengthened IPR regime and mentoring for startups.

9. Sustainability and Industry 4.0:

- Adoption of AI, IoT, and cloud computing as part of the fourth industrial revolution.
- National Manufacturing Policy aims to increase manufacturing’s GDP share to 25% by 2025.

Other Key Government Schemes:

1. **Emergency Credit Line Guarantee Scheme (ECLGS):**
    - ECLGS is a fully guaranteed emergency credit line, designed to help businesses recover and continue operations amid challenges like the COVID-19 pandemic. It helps businesses, especially MSMEs, by providing access to liquidity without additional collateral.

2. **Public Procurement (Preference to Make in India) Order, 2017:**
    - Ensures preference is given to locally manufactured goods, works, and services in public procurement, promoting industrial growth.

Challenges in the Secondary Sector

1. **Infrastructure and Productivity**: Inadequate infrastructure and workforce skills reduce productivity.
2. **Dependence on Imports**: Reliance on imported materials makes the sector vulnerable to exchange rate volatility and cost overruns.
3. **MSME Credit Accessibility**: MSMEs face limited access to affordable credit.
4. **Public Sector Issues**: Inefficiencies, lower productivity, and losses in state-owned enterprises.
5. **Global Pressures**: Supply chain disruptions, inflation, and macroeconomic volatility increase costs and reduce demand.
6. **Labor and Export Constraints**: Strained labor-management relations and reduced export competitiveness due to non-tariff barriers.
7. **External and Domestic Risks**: Global slowdown, aggressive monetary tightening, and rising fuel prices impact sector growth.

The Tertiary Sector

The services sector in India has become the dominant driver of economic growth post-reforms, showcasing a unique development trajectory.

Unlike other countries where economic growth typically transitions from agriculture to industry, India bypassed significant industrialization and moved directly from an agricultural economy to a services-driven one.

This shift marks a defining feature of India's economic structure, with the services sector now contributing significantly to both income and employment generation.

Classification of Services in India

India's services sector spans a diverse range of activities, as outlined by the National Industrial Classification (2008). The broad categories of services include:

1. Wholesale and Retail Trade & Vehicle Repair
2. Transportation and Storage
3. Accommodation and Food Services
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 Social Security
10. Education
11. Human Health and Social Work Activities
12. Arts, Entertainment, and Recreation
13. Other Service Activities
14. Household Services for Own Use
15. Extraterritorial Organizations and Bodies

Economic Contribution of the Services Sector

1. **Share of GDP:**
   The services sector is the largest sector in India, contributing 53.89% of the total Gross Value Added (GVA). In terms of monetary value, the GVA at current prices for the services sector was estimated at ₹96.54 lakh crore in 2020-21.

2. **Fastest Growing Sector:**
   The services sector in India is the fastest growing and boasts the highest labor productivity across all sectors. This is due to the rapid expansion of knowledge-based services, such as professional, scientific, and technical services.

Drivers of Growth in the Services Sector

- Several factors have contributed to the growth of India's services sector, including both domestic and global influences:

1. **Knowledge-Based Services**: Rapid growth in computing, accounting, marketing, and legal services, driven by advanced IT, has boosted domestic and international service delivery.

2. **Complementarity with Manufacturing**: Services enhance manufacturing productivity, with startups in the services domain driving recent growth.

3. **Digital Transformation:** Rising demand for digital infrastructure, remote work, and e-commerce post-COVID-19 has fueled sector expansion.

Global Impact and Trade in Services

India's services sector is also a significant player in the global economy:

Global Trade in Services:

- India ranks among the top 10 World Trade Organization (WTO) members in both services exports and imports.
- In November 2022, India’s services exports surged to US$ 27.0 billion, driven by demand for software, business services, and travel services.

Resilience During the Pandemic:

- The services sector showed strong resilience during COVID-19, boosted by rising demand for digital services and infrastructure.

Export Strength:

- Software and business services drive India’s robust services exports, leveraging remote work and online services to maintain global competitiveness.

FDI in the Services Sector

- India's services sector has emerged as the largest recipient of Foreign Direct Investment (FDI), with significant inflows in various sub-sectors.

Share of FDI:

- In FY 2021-22, FDI equity inflows into the services sector accounted for more than 60% of the total FDI equity inflows into India. This showcases the sector's attractiveness to global investors.

Global Ranking in FDI:

- According to the UNCTAD World Investment Report 2022, India is ranked as the **7th largest** recipient of FDI, placing it among the top 20 host countries globally

- India received its highest-ever FDI inflows in FY 2021-22, totaling US$ 84.8 billion, with US$ 7.1 billion directed specifically into the services sector

FDI Policies:

To encourage FDI, India has undertaken several policy measures, including:

- 100% foreign participation allowed in telecommunication services through the Automatic Route.
- Increase in the FDI ceiling for insurance companies, raising it from 49% to 74%.
- Implementation of the National Single-Window System to streamline approvals and investment processes.

- These measures have played a crucial role in attracting both domestic and foreign investments into India's services sector.

Conclusion

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

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

- The report observes that India's economy is relatively more insulated from global spillovers than other emerging markets and is less exposed to international trade flows on account of reliance on its large domestic market.

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

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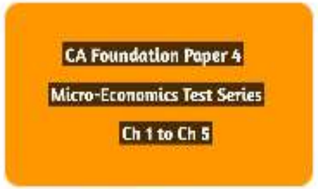

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