

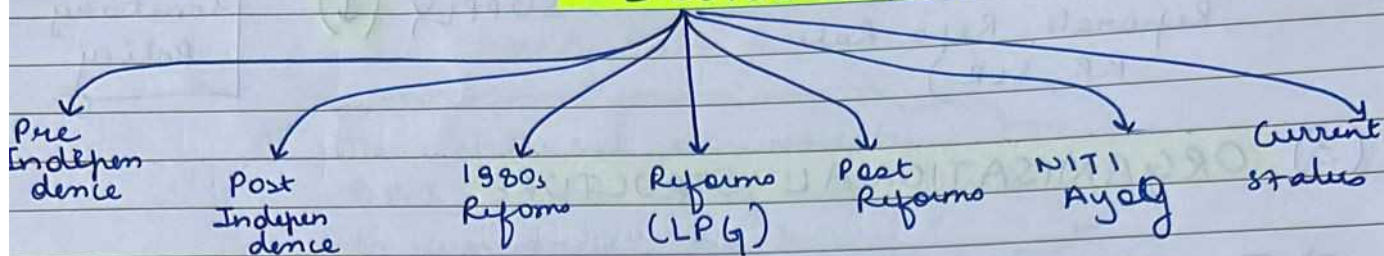
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[7-10 Marks]

INDIAN ECONOMY



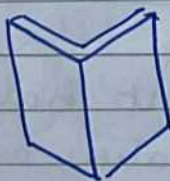
I Pre Independence Era (1850-1947)

- Indian economy was prosperous & self-reliant
- It controlled between $\frac{1}{3}^{\text{rd}}$ + $\frac{1}{4}^{\text{th}}$ of world's wealth
- Agriculture was dominant occupation
- Highly skilled artisans & craftsmen
- well known handicraft industry

* Ancient Philosophy of India



Chanakya



"Arthashastra"

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

II POST INDEPENDENCE [1947-1991]

- Literacy rate was around 18%.
- Life Expectancy was 32 years
- India adopted Nehruvian Model which supported Social & economic redistribution

Economic growth by equity
& distributive Justice

- 5 yrs plans were developed & monitored by Planning Commission

- 1948 :- 1st Industrial Policy Resolution

Expanded role of Public Sector

Licensing for Private Sector

- The policies in 1950s were guided by two economic philosophies :-

(a) to build socialistic society with emphasis on heavy industries.

(b) The Gandhian philosophy of small scale & cottage industries.

→ Major droughts were there in 1966 & 1967 and oil shocks in 1973 & 1979

→ 1969 : The Monopolies & Restrictive Trade Practices Act.

→ Stringent labour laws

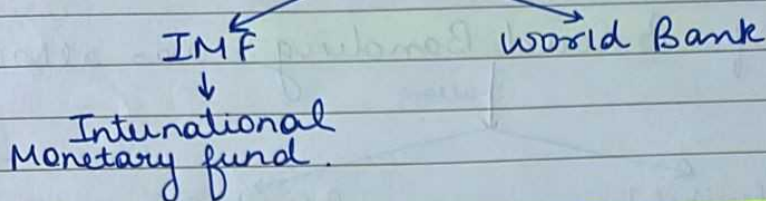
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It discouraged labour Intensive techniques

IV Reforms 1991

→ Reasons for reforms in 1991 :-

- ① Huge Deficits :- (Total Exp > Total Receipts)
- ② BOP Crisis :- (Oil prices triggered by gulf war in 1990)
- ③ Foreign Exchange Reserve touched the lowest Point :-
- ④ India had to depend on External Borrowings:-



- ⑤ Poor Performance of Public Sector Undertakings:-

★ CRISIS OF CONFIDENCE ★

Therefore the reforms were initiated in 1991 & properly known as LPG

(A) Fiscal Reforms :-

→ There was fiscal deficit in the economy & we had a large current A/C deficit (CAD). Therefore Fiscal reforms were needed.

→ Introduction of stable & transparent tax structure

→ Better Tax Compliance

→ Curbing Govt. Expenditure

→ Reduction in Subsidies

→ Disinvestment

→ Encouraging Private investments

(*) Government entered into a historic agreement with RBI in September 1994 to bring down fiscal deficit in phased manner to Nil By 1997-98

Current A/C Deficit (CAD)

(Exp > Receipt)

Fiscal deficit

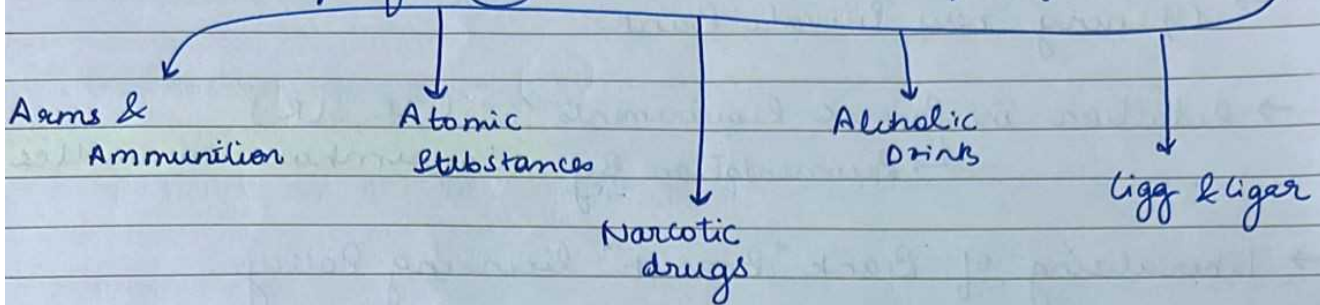
(Exp > Receipt)

} Borrowing

D) New Industrial Policy :-

→ New Industrial Policy was announced on 24 July 1991

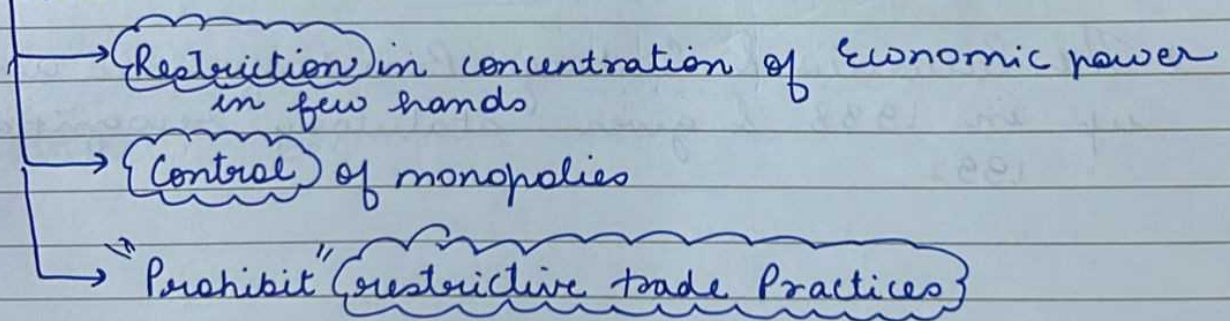
→ Put an end on licence Raj - Removing license for all industries except for (18) industries. Subsequently reduced to (5)



→ Public sector was limited to (8) sectors only Subsequently only (2)

- Railways
- Atomic energy

→ MRTP Act was restructured



Many goods produced by small scale industries were De Reserved

→ India Policy Insights (IPT)

→ Methanol Economy - aimed at reducing India's oil import bill, green house gas emission & converting coal reserves & solid wastes into Methanol.

→ Transforming India's Gold market

WEAKNESSES

- ① limited role
- ② Exclusion from Budgeting Process
- ③ Lacks autonomy
- ④ Termination of Planning commission strengthened the "Ministry of Finance"

→ Various measures are adopted by government such as:-

- ① 100% FDI in marketing of food Products
- ② Income Support to farmers (PM KISAN YOJNA)
- ③ Fixing of MSP (minimum Support Price)
- ④ National mission for edible Oils
- ⑤ Pradhan Mantri Fasal Bima Yojna (PMFBY)
- ⑥ Paramparagat Krishi Vikas Yojna (PKVY)
- ⑦ Agri Infrastructure Fund
- ⑧ Per Drop more Crop (PDMC)
- ⑨ Micro Irrigation Fund
- ⑩ Farmer Producer Organisation (FPO)
- ⑪ E-NAM — National Agriculture Market
— Pan India Electronic trading Portal
- ⑫ Start up Eco System
etc. etc. etc.

CHALLENGES

- Inadequate Infrastructure
- heavy reliance on Imports
- Inadequate Manpower
- Strained labour-management relation
- Slow External demand
- Lower export competitiveness
- Supply chain uncertainties etc. etc.

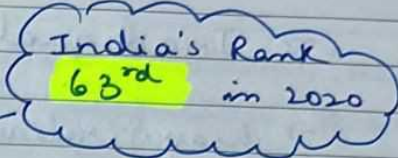
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SERVICE SECTOR

- It is the largest sector of India
- It has highest labour productivity
- It accounts for 53.89% of
- It is the fastest growing sector
- India is among top 10 WTO members in Ex&Im
- India's service export at US \$ 27 Billion (Nov 22)
- To ensure liberalisation of investment, govt has permitted 100% foreign participation in telecommunication services through automatic route

→ The India Development update (IDU) of world Bank published in 2022 holds Optimistic view that compared to other countries, India is more resilient to adversities.

→ Some policies :-

- ① Vocal for local
 - ② Ease of Doing Business - 
 - ③ National single window system
 - ④ Make in India
 - ⑤ PM Gati Shakti National Master Plan
 - ⑥ National Logistics Policy (NLP)
 - ⑦ Fame - India scheme - promote electric & hybrid vehicle.
 - ⑧ Remission of Duties & Taxes on Export Products (RODTEP) → It replaced merchandise from India
 - ⑨ Start up India
 - ⑩ Emergency credit line Guarantee Scheme
 - ⑪ Foreign Investment Facilitation Portal
↳ It replaced Foreign Investment Promotion Board
- etc. etc. etc.

ISSUES

- ① Fragmented land holdings
- ② Low farm productivity
- ③ Low marketable surplus
- ④ Inadequate Infrastructure
- ⑤ Low level of technological upgradation
- ⑥ Inadequate Post-harvest infrastructure

SECONDARY SECTOR

- ②
 - Industrial sector contributes about 30% of Gross value added.
 - It employs over 12.1 crore of people
 - Manufacturing accounts for 78% of total production
 - India's rank in Global innovation Index (GII) improved to 40th in 2022 from 81st in 2015
 - The Department for Promotion of Industry & Internal Trade (DPIIT) has a role in the formulation & implementation of Industrial policy.

VII CURRENT STATE [100% Ratta]

Primary
(Agriculture)

Secondary
(Industry)

Tertiary
(Services)

unique Experience of Sequence as Agriculture, Services & Industry

1. Primary Sector

- India has emerged as world's largest producer of milk, pulses, jute & spices.
- India has the largest area planted under wheat, rice & cotton.
- India is the second largest producer of fruits, vegetables, tea, fish, cotton, sugarcane, wheat, rice & sugar.
- India is the ~~second~~ largest producer of fruits, vegetables, tea, fish,
- Indian food & grocery market is the world's 6th largest (contributory 70% of retail sales)
- India is the world's largest cattle herd (buffaloes)
- India is among top 10 exporters of agricultural products in the world. Agricultural & Processed Food Export Development Authority (APEDA) is entrusted with the responsibility of export promotion.

VI NITI AAYOG

→ On 1st Jan 2015, the apex policy making body namely planning commission was replaced by :-

National Institution for Transforming India Ayog
(NITI)

↓ AKA

Think Tank of the
government

OBJECTIVES :-

- National development
- Foster Cooperative federalism
- develop mechanisms to formulate credible plans at village levels.
- Design strategic & long term policy.
- Offer platform for resolution of inter-sectoral & inter departmental issues
- Focus on technological updation

Key Initiatives

(H.W study about them)

- "LIFE" - replaces the prevalent "use & dispose" economy.
- The National Data & Analytics Platform (NDAP) facilitates & improves access to Indian government data
- Shooonya Campaign - Improve air quality
- E-Amit - Electric vehicles

→ This policy ended the public sector monopoly in many sectors

→ Foreign Investments was also liberalised. Concept of Automatic approval was introduced for foreign direct investment upto 51%.

→ External Trade was also liberalised

→ Rupee was Devalued by 18%.

(E) Trade Policy Reforms :-

→ Dismantling of "Quantitative restrictions" on import & Export

→ Focus on Outward oriented regime

→ Removal of licensing procedures for imports

(*) In 1991, the Indian government devalued rupee by around 18%. In 1992, the government decided to establish a dual exchange rate regime.

└→ Fixed Exchange rate (✓)

└→ (+) Fluctuating Exchange rate (✓)

1993 onwards, India adopted N Managed Floating Exchange Rate Regime

(B) Monetary & Financial Sector Reforms

- Interest rate liberalisation
- Reduction in Control on Bank By RBI
- Opening new Private Banks
- Reduction in Reserve Requirements i.e (RR, SLR)
 - ↳ Recommendation By Narasimhan Committee
- Liberalising of Bank "Branch" licensing Policy.
- Prudential Norms of accounting were introduced (Classification of Assets)
 - ↳ $\geq 6M$
 - ↳ $< 6M$

(C) Capital Market Reforms

- The Securities & Exchange Board of India was set up in 1988 & given statutory recognition in 1992.

Reforms (1980s)

★ The reforms of 1980s were limited in scope & thus bigger reforms were org. in 1990s.

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

→ 1980 Reforms Broadly covers three areas

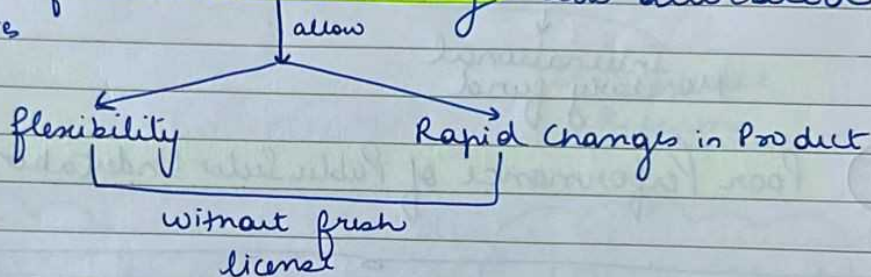
Industry

Trade

Taxation

→ In 1985, delicensing of (25) industries was done.

→ The facility of Broad Banding was allocated for industries



→ The multipoint excise duty was converted into Modified Value Added Tax (MOD VAT)

→ 12th April 1988: Establishment of SEBI

→ Several Export incentives were introduced

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

→ Budget for 1986 introduced policies of cutting taxes, liberalising imports and reducing tariffs.

→ The reforms had 2 major objectives :-

(i) Reorientation of Economy from centrally directed & highly controlled one to "Market friendly" or "Market Orientation Economy".

(ii) Macro Economic Stabilisation by substantial reduction in fiscal Deficit

Borrowings

→ The policies can broadly be classified as :-

Stabilisation Measures

SHORT TERM

- BOP crisis
- Control Inflation

Structural Reforms

LONG TERM

- Increase Efficiency
- Reduce Unemployment

→ 1956 : 2nd Industrial Policy Resolution

Private investments were discouraged
& more focus on public sector
Investments

→ India followed Open foreign Investment Policy &
relatively Open trade Policy

→ BOP crisis emerged in 1958 ($Im > Exp$)

→ "Imports" control were maintained till 1966

→ From 1950-1980, India's annual growth rate of GDP was
HINDU GROWTH RATE $\leftarrow$ 3.5%

→ 1966 : Green Revolution (HYV Seeds)
high yielding variety seeds

→ Due to food shortage, India had to depend on U.S for
food aid

→ 1969 : (14) Banks were nationalised

→ 1980 : (6) more Banks were nationalised

→ The performance during 1965-1981 is WORST

→ During 1960s & 1970s there were license Raj

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

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

(b) British Government (1858 to 1947)

- The Indian exports of finished goods subject to heavy tariffs ← Discriminatory Tariff Policy
- Imports from British were subject to lower tariffs
- Large scale unemployment & absence of alternative sources of employment which forces many to depend on "AGRICULTURE"
- Sub division & fragmentation of land holding
- Imports of "cheap" machine made goods from Britain
- ZAMINDARI SYSTEM (land settlement system)
- High indebtedness of agriculturist
- "Factory based production" did not exist till 1850
- At the end of 19th century, the Indian Jute Mill industry was the largest in the world. In the addition, paper-milling, leather making, rice milling industries also developed.
- Heavy industries such as iron Industry were established in 1814 by Britishers