

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

- Ancient & Medieval India:**
  - Largest economy (1st-17th centuries AD), controlled 1/3 to 1/4 of world's wealth.
  - Self-sufficient villages & cities (commerce, pilgrimage, administration).
  - Cities: diverse occupations; Villages: simple division of labor (race, class, gender).
  - Dominant occupation: Agriculture.
  - Highly skilled artisans producing goods for global market.

• **Ancient Economic Philosophy (Arthashastra by Kautilya/Chanakya)**

- Treatise on statecraft, political philosophy (321-296 BCE).
- Handbook for King Chandragupta Maurya.
- Artha:** Not just wealth, but material well-being, 'science of artha' = material prosperity.
- Focus: Maintaining and using land; Robust agricultural initiatives.
- Taxes: Equal for private/state businesses, fair, easily understood.
- Kingship: Ruler's desires subordinate to people's good.
- Seven vital elements: King, Ministers, Farmlands, Fortresses, Treasury, Military, Allies.

• **British Rule (1757-1947):**

- Economic Policy (1757-1858).**
- British Government in India (1858-1947).**
- Shift in India's role:** From manufacturer to raw material supplier (due to Industrial Revolution).
- Discriminatory Tariff Policy:** Heavy tariffs on Indian finished goods exports, lower tariffs on imports.
  - Result: Decline in external & domestic demand for Indian goods.
- Destruction of Handicrafts:** Hostile imperial policies & competition from machine-made goods.
- Shift in domestic consumer preferences towards foreign goods.

- Consequences of Damage to Traditional Production Structure:**
  - Widespread Unemployment:** Reliance on agriculture.
  - Land Pressure & Subdivision:** Fragmentation, subsistence farming, reduced productivity, poverty.
  - Imported Goods Impact:** Influx of cheap British goods, shift in Indian tastes.
  - Zamindari System:** Class perpetuating British rule, impacting economic/social structure.
  - Land Tenure Issues:** Excessive rents by zamindars.
  - Agricultural Crisis:** Absentee landlordism, high indebtedness, exploitative moneylenders, low attention to productivity.
- Factory-based production: Non-existent before 1850, modern industrial enterprises grew mid-19th century.

• **Industrial Growth (Pre-1947):**

- Cotton milling: Expanded, globally competitive (5th in 1930s).
- Jute mills: India largest producer (late 19th century).
- Other industries: brewing, paper-milling, leather-making, matches, rice-milling.
- Heavy industries (iron): India 8th globally (1930).
- Some industries reached global standards; India 12th largest industrialized country before Great Depression.
- Discouragement:** Pressure from English producers hindered competitive Indian industries.
- Insufficient Transformation:** Manufacturing sector's share in NDP only 7% in 1946.
- Limited Employment:** Factory employment 0.4% (1900), 1.4% (1941).

INDIAN ECONOMY: POST-INDEPENDENCE (1947-1991)

- Initial State:** Predominantly rural, largely illiterate, impoverished.
- Challenges:** Deeply stratified society, human capital deficit (literacy ≈18%, life expectancy ≈32 years in 1951).
- Nehruvian Model:** Influenced post-independence policy, focused on social/economic redistribution, state-led industrialization.
- Development Strategy:** Centralized economic planning (Planning Commission, five-year plans).
- Early Focus:** Rapid industrialization, central government designed strategy & coordinated investments.
- Nehru's Strategy:** 'Planned modernization,' significant state role in industrialization.

- Industrial Policy Resolution (1948):** Expanded public sector, introduced licensing for private sector, state monopoly in strategic areas (atomic energy, arms, railways).

• **1950s Philosophies:**

1. Nehru's socialistic society vision with emphasis on heavy industry.
  2. Gandhian philosophy of small-scale/cottage industry and village republics.
- Industrial Policy Resolution (1956):** Emphasized public sector expansion, dampened private initiative, negative consequences for industrial growth.
  - Trade Policy:** Open foreign investment/trade until 1958 Balance of Payments crisis, then tightened trade & reduced investment licensing.

- Comprehensive Import Controls:** Maintained until 1966.
- Hindu Growth Rate' (1950-80):** Modest 3.5% annual GDP growth.

- Initial Focus:** Capital-intensive projects (dams, power plants, heavy industrialization) over consumer goods.
- Mid-1960s Shift:** Inadequate agriculture prioritization, reduced outlays.
- Agricultural Strategy:** Relied on institutional models (land reforms, farm cooperatives), limited emphasis on technocratic areas.
- 1966-67 Droughts:** Negative agricultural growth, food problem, dependence on US aid.
- 'Green Revolution':** Shift to increasing agricultural productivity via innovative technologies (HYV seeds, intensive water, fertilizer, pesticides).
- Simultaneous Controls:** Stringent administrative controls on trade/industrial licensing, wave of nationalization (14 banks in 1949)6:9, 6 in 1980).
- Interventionist Policies (1960s):** Irreparable consequences in next decade.
- Worst Economic Period (1965-1981):** Growth decline due to productivity loss.
- Decelerated Growth Factors:** Autarchic policies, license-raj, three wars (1962, 1965, 1971), major droughts, oil shocks.
- Closed Economy:** Missed global opportunities.
- Government Policies:** Aimed at equitable distribution, undermined wealth creation incentives, anti-growth.
- MRTP Act (1969):** Regulated large firms, restricted market power, capacity limitations, and mergers/acquisitions.
- Small Scale Sector Reservation (1967):** Promoted small industries but excluded big firms from labor-intensive industries, hindering global competitiveness.
- Labor Laws:** Stringent, discouraged labor-intensive industries.
- Realization:** Strict regime lacked incentives for sustained rapid growth.

THE ERA OF REFORMS (1980s)

- Seeds of Liberalization:** Planted in the 1980s, especially after 1985.
- Early 1980s Efforts:** Price stability (tight monetary policy, fiscal moderation), structural reforms ('early liberalization').
- Aim:** Change 'inward-oriented' trade/investment practices ('reforms by stealth').
- Impact:** Higher growth rates in the 1980s vs. previous three decades.
- GDP Growth:** 5.7% (Sixth Plan, 1980-85), 5.8% (Seventh Plan, 1985-90).
- Focus:** Industry, trade, taxation, skillful exchange rate management.
- Industrial Policy Initiatives:**
  1. Delicensing 25 broad categories (1985), broad-banding for industry groups, raising MRTP asset limit.
  2. Conversion of multipoint excise duties to MODVAT tax (reduced input taxation).
  3. SEBI established (1988).
  4. Expansion of OGL list, export incentives.
  5. Realistic exchange rates, OGL expansion, export incentives (boosted exports, reduced forex pressure).
  6. Abolition of price/distribution controls on cement/aluminum.
  7. Rupee depreciation: ≈30% (1985-86 to 1989-90) based on REER.
  8. 1986 Budget: Policies to cut taxes, liberalize imports, reduce tariffs.

- Growth Hindrances:** Structural inadequacies & distortions.
- Private Sector Inhibition:** Complex licensing, public sector reservations, excessive government controls.
- Small Scale Sector Reservation:** Discouraged private sector investments.
- Public Sector:** Inefficiency, government controls, bureaucratic procedures, low returns.
- MRTP Act:** Barriers for entry, diversification, expansion for large industrial houses.
- Import Controls:** Tariffs, quotas, restrictions prevented foreign competition/investments.
- Outcome:** Despite limitations, 1980s reforms instilled confidence in policymakers for sustained economic growth.
- Belief Shift:** Well-regulated competitive markets as drivers of growth.
- Foundation:** 1980s liberalization laid ground for 1990s comprehensive reforms.

THE ECONOMIC REFORMS OF 1991

- Initiation:** Under Narsimha Rao government.
- Immediate Need (Factors):**
  1. **Fiscal Deficits:** Exceeding revenue receipts, unsustainable fiscal deficits financed by debt.
  2. **Public Debt:** Significant increase, large portion of revenue for interest payments.
  3. **Gulf War (1990):** Surge in oil prices, severe strain on Balance of Payments.
  4. **Forex Reserves:** Critical low (US\$1.2 billion, ≈\$2 weeks of imports).
  5. **Import Restrictions:** Tightening for essential imports, reduced industrial output.
  6. **IMF Dependency:** External borrowing subjected India to stringent conditions.
  7. **Crisis of Confidence:** Fragile political situation, economic crises.
- Paradigm Shift:** From 'socialist model' (state-controlled) to market orientation & external openness.
- Lessons:** Collapse of Soviet Union, China's success with outward-oriented policies.
- Objectives (LPG Reforms):**

1. **Reorientation:** From centrally directed to 'market friendly' economy.
  2. **Macroeconomic Stabilization:** Substantial reduction in fiscal deficit.
- Core Package:** Addressed economic, fiscal, BoP crises & structural rigidities.
  - Broad Classification:**
    1. **Stabilization Measures:**
      - Short-term: Address inflation, adverse BoP.
      - Immediate economic challenges.
    2. **Structural Reform Measures:**
      - Long-term & continuing.
      - Enhance productivity & competitiveness by eliminating rigidities.
      - Systemic changes for sustainable economic growth.

THE FISCAL REFORMS

- Context:** Escalating deficit levels, excess domestic demand, import surge, widening CAD.
- Goal:** Reduce fiscal deficit, increase revenues, curtail expenditure, ensure fiscal discipline.
- Measures:**
  - Stable & transparent tax structure.
  - Better tax compliance.
  - Curbing government expenditure.
  - Reduction/abolition of unnecessary subsidies.
  - Disinvestment of government equity in PSUs.
  - Promotion of private sector participation.

- Fiscal Discipline:** Agreement with RBI (Sept 1994) to reduce fiscal deficit to nil by 1997-98.

MONETARY AND FINANCIAL SECTOR REFORMS

- Goal:** Enhanced efficiency & transparency.
- Focus:** Reducing non-performing assets (NPAs) on government banks.

• **Key Measures (Narasimham Committee recommendations)**

1. Interest rate liberalization, reduced RBI controls on loan/deposit rates.
2. Opening new private sector banks.
3. Reduction in reserve requirements (SLR & CRR).
4. Liberalization of bank branch licensing & operations.
5. Introduction of prudential norms (accounting, asset classification, income disclosure, bad debt provisions).

REFORMS IN CAPITAL MARKETS

- SEBI:** Set up 1988, statutory recognition 1992.
- Mandate:** Independent regulator, transparent environment, facilitate resource mobilization/allocation.

THE 'NEW INDUSTRIAL POLICY' (24 July 1991)

- Goal:** Deregulate industry for efficient & competitive industrial economy.
- Series of Reforms:**
  1. Removal of licensing restrictions for all industries (except 5: security, safety, environment).
  2. Limiting public sector to 8 sectors, ultimately to railway transport & atomic energy.
  3. Restructuring of MRTP Act (eliminated pre-entry scrutiny/approval for large companies).
  4. De-reservation of goods for small-scale industries (allowed large-scale entry).
  5. Reduced public sector monopoly (reserved only 8 industries for strategic/security).
  6. Liberalization of foreign investment (automatic approval for FDI up to 51%, later extended to most industries).
  7. Liberalization of external trade (shifted from positive to negative list, eliminated import licensing for most goods).
  8. Reduction of highest tariff rate (355% in 1990-91 to 10% by 2007-08).
  9. 18% devaluation of rupee, official convertibility on current account.
  10. Disinvestment in government equity of PSUs (greater autonomy/management).

TRADE POLICY REFORMS

- **Aims:**
  - Dismantling quantitative restrictions on imports/exports.
  - More outward-oriented regime (phased reduction/simplification of tariffs).
  - Removal of import licensing procedures.
- **Export Boost:** Removal of export duties, various incentives.
- **Rupee Devaluation:** 18-19% (1991) under fixed exchange rate.
- **Dual Exchange Rate:** March 1992 (importers paid free-market/government-mandated rates).
- **Exchange Rate Unification:** March 1993, adopted managed floating system.
- **Post-1991 Changes (Broad Observations):**
  - Increased economic integration with global economy.
  - Shift to market-oriented economy, reduced government intervention.
  - Significant growth in private sector investment.
  - High international competitiveness in sectors (auto components, telecom, software, pharma, biotech).
  - Eased trade controls (access to foreign tech, inputs, finance).
  - Stable FDI & substantial FPI.
  - Strong foreign exchange reserves.
  - Services trade surplus (IT, financial services).
  - Lower pressure on Indian rupee vs. other emerging markets.
  - Increased incomes, large domestic market, high aggregate demand.
  - Better positioned for global challenges.
  - Substantial poverty reduction.
  - Increased competition/efficiency in banking/insurance.
  - Phenomenal growth in infrastructure.
  - Decline in value-added share of agriculture/allied activities.
  - Deepening financial sector due to liberalization.
  - **Constraints:** High fiscal deficit, inflation, debt (86% of GDP in FY21/22).

**NITI AAYOG: A BOLD STEP FOR TRANSFORMING INDIA**

- **Replaced:** Planning Commission (Jan 1, 2015).
- **Reason:** Rise of neoliberal ideologies, emphasis on market orientation, reduced government role.
- **Role:** Government "Think Tank," dynamic policy direction.
- **Objectives:**
  1. Develop shared vision of national development priorities with state involvement.
  2. Foster cooperative federalism.
  3. Formulate credible plans (village level, aggregate progressively).
  4. Incorporate national security interests into economic strategy.
  5. Special attention to at-risk sections of society.
  6. Design strategic, long-term policy frameworks, monitor progress.
  7. Provide advice & encourage partnerships with stakeholders/think tanks.
  8. Create knowledge/innovation support system.
  9. Resolve inter-sectoral/inter-departmental issues for development agenda.
  10. Maintain resource center for good governance/sustainable development.
  11. Monitor/evaluate program implementation, identify resources.
  12. Focus on technology upgrading/capacity building.
  13. Undertake necessary activities for national development agenda.
- **Key Initiatives:**
  1. 'Life' (replacing 'use-and-dispose' economy).
  2. National Data and Analytics Platform (NDAP).
  3. Shoonya campaign (improve air quality, electric vehicles).
  4. E-Amrit (one-stop info on electric vehicles).
  5. India Policy Insights (IPI).
  6. 'Methanol Economy' (reduce oil import bill, GHG emissions, convert coal/waste to methanol).
  7. 'Transforming India's Gold Market' (recommend measures for tapping potential, boosting exports/growth).

**THE CURRENT STATE OF THE INDIAN ECONOMY: A BRIEF OVERVIEW**

- **SummaryFocus:**Primary,Secondary, Tertiary sectors.

**THE PRIMARY SECTOR**

- **Transformation:** From food-deficient to world's largest producer of milk, pulses, jute, spices.
- **Crops:** Second-largest producer of wheat, rice, cotton.
- **Food & Grocery Market:** 6th globally, 70% sales retail.
- **Livestock:** Remarkable growth, major producer of milk, eggs, meat.
- **Contribution:** Supports 47% population, 18.8% Gross Value Added (GVA) in 2021-22.
- **Agricultural Production:** Sustained increase (315.7 million tonnes food grains in 2021-22).
- **Private Investment:** 9.3% in 2020-21.
- **Economic Survey (2022-23):** Robust growth of 3.5% (buoyant rabi sowing, allied activities).
- **Government Measures:**
  - Enhanced crop/livestock productivity.
  - **Minimum Support Price (MSP):** 1.5 times cost of production for 23 crops.
  - Crop diversification.
  - Improved market infrastructure (Farmer-Producer Organizations).

- Investment in infrastructure (Agriculture Infrastructure Fund).
- **Exports:** From food-deficient to food exporter. Top agricultural product exporter globally.
- **Agri & Processed Food Exports:** Record high Rs 374,611 crore (25% increase in first 6 months of 2022-23).
- **APEDA:** Key role in export promotion.
- **Liberalization:** 100% FDI in marketing/e-commerce of food products.
- **Recent Measures:**
  1. PM KISAN (income support).
  2. MSP fixed (1.5x cost).
  3. Concessional institutional credit.
  4. National Mission for Edible Oils.
  5. Pradhan Mantri Fasal Bima Yojana (crop insurance).
  6. Mission for Integrated Development of Horticulture.
  7. Soil Health Cards.
  8. Paramparagat Krishi Vikas Yojana (organic farming).
  9. Agri Infrastructure Fund (post-harvest management).
  10. Farmer Producer Organisations (FPOs) promotion.
  11. Per Drop More Crop (water use efficiency).
  12. Micro Irrigation Fund.
  13. Agricultural mechanization initiatives.
  14. E-NAM (unified national market).
  15. Kisan Rail (farm produce logistics).
  16. Start-up ecosystem in agriculture.
- **Issues in Indian Agriculture:**
  1. Small/medium farmers: Fragmented land, lower income.
  2. Resource-intensive, cereal-centric, regionally biased practices: Stress on water/soil fertility.
  3. Lack of agro-processing infrastructure.
  4. Slow agricultural diversification.
  5. Insufficient adoption of environmentally sustainable/climate-resistant tech.
  6. Poor adoption of new agricultural technologies.
  7. Lopsided marketing practices, ineffective credit delivery.
  8. Challenges in adapting to climate change.
  9. High food price volatility.
  10. Heavy dependence on monsoons.
  11. Marketing, warehousing, export potential issues.
  12. Inadequate post-harvest infrastructure.
  13. Poverty & malnutrition.

**THE SECONDARY SECTOR**

- **Role:**Vital, contributes 30% to GVA, employs over 12.1 crore people.
- **Sectors:** Manufacturing, heavy industries, chemicals, petrochemicals.
- **Informal Sector:** Over 50% of GVA.
- **Manufacturing Sector:** 78% of total production, key focus.
- **Manufacturing GVA:** \$77.47 billion in 2021-22, 16.3% of nominal GVA.
  - **Eight Core Industries Index (Sept 2022):** 142.8 (growth in coal, refinery products, fertilizers, steel, electricity, cement).
- **Manufacturing PMI (Jan 2023):** 55.4.
- **Global Innovation Index (GI):** Improved from 81st (2015) to 40th (2022).
- **DPIIT:** Crucial role in formulating/implementing industrial policies.
- **Government Initiatives:**
  1. GST (2017): Replaced multiple indirect taxes.
  2. Reduction of corporate tax rates.
  3. 'Make in India' (2014): Promote investment, innovation, manufacturing.
  4. 'Ease of Doing Business': Simplification, digitization.
  5. National Single Window System for investor approvals.
  6. PM Gati Shakti National Master Plan: Integrated planning of multimodal infrastructure.
  7. National Logistics Policy (NLP): Reduce logistics costs.
  8. Production Linked Incentive (PLI) Scheme: Enhance manufacturing capabilities.
  9. Industrial Corridor Development Programme: Sustainable infrastructure.
  10. FAME-India Scheme: Promote electric/hybrid vehicle manufacturing.
  11. 'Udyami Bharat': Empowerment of MSMEs.
  12. PM Mega Integrated Textile Region and Apparel (PM MITRA): World-class industrial infrastructure.
  13. Openness to global investments: Radical FDI reforms.
  14. RoDTEP (2021): Boost exports.
  15. Innovation fostering: Incubation, funding, industry-academia partnerships.
  16. National Logistics Policy (NLP): Comprehensive framework.
  17. Start-up India Programme: Support ideas/innovation.
  18. Public Procurement (Preference to Make in India) Order, 2017.
  19. Emergency Credit Line Guarantee Scheme (ECLGS): Guaranteed emergency credit line.
- **Industry 4.0:** India preparing for cloud computing, IoT, machine learning, AI.
- **National Manufacturing Policy:** Aim to boost manufacturing GDP share to 25% by 2025.
- **FDI in Manufacturing:** Attractive destination, increasing equity inflows.
- **FDI Inflow (FY21-22):** US\$58.77 billion.
- **Challenges in Industrial Sector:**
  - Shortage of efficient infrastructure/manpower.
  - Reliance on imports, exchange rate volatility.
  - MSME sector: Less favorably placed in credit.
  - Unsustainable cost structure of industrial locations.

- Public sector: Heavy losses, inefficiencies, low productivity.
- Strained labor-management relations.
- Lower export competitiveness, slowing external demand, non-tariff barriers.
- Global supply chain disruptions.
- Inflation, macroeconomic developments, input cost escalations.
- Global slowdown, negative sentiments affecting investment.
- Aggressive monetary policy, increased cost of credit.
- High & increasing fuel prices.
- Mounting presence of informal sector.

**THE TERTIARY SECTOR (Services Sector)**

- **PredominantRole:** Driving income & employment growth post-reform.
- **Unique Pattern:** Bypassed secondary sector, moved directly from agriculture to services.
- **Wide Variety of Activities:**
  1. Wholesale/retail trade, vehicle repair.
  2. Transportation & storage.
  3. Accommodation & food service.
  4. Information & communication.
  5. Financial & insurance.
  6. Real estate.
  7. Professional, scientific & technical.
  8. Administrative & support.
  9. Public administration, defense, compulsory social security.
  10. Education.
  11. Human health & social work.
  12. Arts, entertainments & recreation.
  13. Other service activities.
  14. Household activities (employers, goods/services for own use).
  15. Extra-territorial organizations/bodies.
- **Contribution:** 53.89% of India's GVA.
- **GVA:** Estimated at ₹96,54 lakh crore in 2020-21.
- **Growth:** Fastest-growing, high labor productivity, driven by knowledge-based services.
- **Information-intensive Services:** Rapid expansion, fueled by advanced technology.
- **Complement to Manufacturing:** Many successful startups.
- **Global Ranking:** Among top 10 WTO members in service exports/imports.
- **Services Exports:** US\$27.0 billion (Nov 2022), resilient during Covid-19.
- **FDI Recipient:** Largest, over 60% of total FDI equity inflows.
- **Highest-ever FDI Inflows:** US\$84.8 billion in 2021-22 (US\$7.1 billion in services).
- **Telecommunication:** 100% foreign participation via Automatic Route.
- **Insurance:** FDI ceiling raised from 49% to 74%.
- **Facilitating Investment:** National Single-Window system, increased FDI ceiling via automatic route.

**CONCLUSION (Post-1991)**

- **Challenges:** Russia-Ukraine war, high oil prices, global supply disruptions.
- **GDP Growth:** India's real GDP grew by 6.3% (July-Sept 2022).
- **Driving Factors:** Strong private consumption & investment.
- **World Bank Report:** India's relative insulation from global spillovers.
- **Less Exposure to International Trade:** Due to reliance on large domestic market.
- **Resilience:** Withstanding global adversities compared to other emerging economies.

**EXERCISE (MCQ Focus)**

**Key Concepts for MCQs:**

- **Pre-Independence:**
  - Arthashastra: Author, key concepts (Artha, seven elements).
  - British policies: Discriminatory tariffs, de-industrialization, impact on Indian economy (unemployment, land issues, agricultural crisis).
  - Industrial scenario: Limited manufacturing growth, specific industries (cotton, jute, iron).
- **Post-Independence (Pre-1991):**
  - Initial state: Rural, illiterate, stratified.
  - Nehruvian model: State-led industrialization, planning.
  - Industrial Policy Resolutions (1948, 1956): Public sector role, licensing.
  - 'Hindu Growth Rate': Definition, average.
  - Green Revolution: Causes, impact.
  - Nationalization: Banks.
  - Interventionist policies: Consequences.
- **Era of Reforms (1980s):**
  - 'Early liberalization': Goals, impact on GDP.
  - Industrial policy initiatives: Delicensing, MODVAT, SEBI establishment, OGL expansion, rupee depreciation.
  - Constraints: Reasons for limited impact.
- **Economic Reforms of 1991 (LPG):**
  - Causes: Fiscal deficit, BoP crisis, Gulf War, forex reserves.
  - Objectives: Reorientation to market economy, macroeconomic stabilization.
  - Types of reforms: Stabilization vs. Structural (definitions, examples).
  - Fiscal reforms: Measures to reduce deficit.
  - Monetary & Financial reforms: Interest rate liberalization, private banks, SLR/CRR, SEBI.
  - New Industrial Policy: Key changes (delicensing, public sector reduction, MRTP, FDI, tariffs, devaluation, disinvestment).
  - Trade Policy Reforms: Quantitative restrictions, tariffs, exchange rate system evolution.
  - Impact of reforms: Global integration, private sector growth, specific sector competitiveness, challenges.
- **NITI Aayog:**
  - Replacement of Planning Commission: Date, reasons.
  - Role: Think Tank, policy direction.
  - Objectives: Key functions (cooperative federalism, credible plans, national security, social inclusion).
  - Key initiatives: 'Life', NDAP, Shoonya, E-Amrit, Methanol Economy.
- **Current State (Primary, Secondary, Tertiary):**
  - Primary: Transformation (food security, milk/spices), contribution to GVA, government measures (MSP, schemes), challenges.