



CA Foundation – Business Economics



Economics Chp 10

Last Minute Notes

(Only Important Points)

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Disclaimer- These notes are meant only for **last-minute revision**. They are **not a substitute of Super Chart book**. In exams, students must explain each point in more detail & should refer to chart book for complete understanding of every concept.

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1	Between 1st & 17th century AD → India was largest economy of ancient & medieval world . → controlled between 1/3rd & 1/4th of world's wealth . (India was self-reliant & prosperous)		➤ Destruction of Indian manufactures → due to hostile imperial policies & competition from machine-made goods.
2	➤ Earliest known book on ancient Indian economic philosophy is ' Arthashastra ' by Kautilya (Chanakya) → genre of political philosophy . ➤ Handbook for King Chandragupta Maurya ➤ The major focus of work is on means of fruitfully maintaining and using land . ➤ True kingship is defined as a ruler's subordination of his own desires & ambitions to good of his people	5	<u>Stagnated Nature of Industrialisation During Colonial Era</u> ➤ Cotton mill industry → 9 million spindles in 1930s ➤ Jute mills expanded in Calcutta → global demand for ropes.. ➤ At end of 19th century , Indian jute mill industry was largest in world in terms of amt of raw jute consumed . ➤ Producer goods industries → no expansion → because of pressure from English producers to discourage devp of industries in India. ➤ Share in NDP of mfg sector → 7% in 1946 .
3	<u>Period of British Rule</u> 2 sub periods: • East India Company → 1757 to 1858 • British government → 1858 to 1947 ➤ Industrial revolution in Britain in latter half of 18 th century → there arose need of raw material & markets for finished goods → led to change in nature of India's foreign trade from exporter of manufactures to exporter of raw materials ➤ Indian exports of finished goods → heavy tariffs Indian Imports from Britain → lower tariffs (Indian goods lost their competitiveness)	6	➤ <u>INDIAN ECONOMY: POST-INDEPENDENCE (1947-1991)</u> ➤ At time of independence, India had a literacy rate of 18% & 32 years of life expectancy in 1951 . ➤ Nehruvian model supported social & economic redistribution & industrialization ➤ Rapid industrialization of economy was cornerstone of Nehru's development strategy . ➤ Planning Commission of India was established in 1950 → to plan development of nation → through five-year plans



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7	<u>Industrial Policy Resolution</u> ➤ Industrial Policy Resolution (IPR) (1948) → expanded role of public sector & licensing to the private sector. It granted govt. monopoly in- atomic energy, arms and ammunition, & railways ➤ IPR of 1956 → provided framework for industrial devp→ but lopsided as lead to huge expansion of scope of public sector . (dampening of private sector initiatives)	11	➤ 'Green Revolution' was initiated soon by- ➤ innovative farm technologies & HYV seed → focus on wheat & rice ➤ intensive use of water, fertilizer and pesticides
8	➤ Policies in 1950's were guided by two economic philosophies : 1. Nehru ji → build socialistic society & focus on heavy industry 2. Gandhi ji → focus on small scale, cottage industry and village republics	12	<u>Nationalisation of Banks</u> Taking of full control & mgt. from Private Sector by Govt. Govt nationalized- ✓ 14 banks in 1969 and ✓ then 6 in 1980 .
9	In 1950–80 → India's avg annual GDP growth rate - ' Hindu growth rate '- was 3.5 % .	13	The economic performance during " 1965-81 " is the worst in independent India's history .
10	<u>Agriculture Issues & Green Revolution</u> ➤ Agri devp till mid 1960s → institutional model i.e. land reforms, farm cooperatives & no importance to technocratic areas like R&D , irrigation. ➤ 2 severe droughts struck India in 1966 & 1967 . India had to depend on USA for food aid under PL 480 .	14	MRTTP Act, 1969 was aimed at regulation of large firms which had relatively large market power .
		15	In 1967 , many products were reserved for exclusive manufacture by the small scale sector
		16	<u>THE ERA OF REFORMS</u> ➤ The initiatives from 1981 to 1989 → referred as ' early liberalization ' ➤ Aka. ' reforms by stealth ' → ad-hoc & not widely publicized nature. ➤ The early reforms of 1980's covered three areas- industry, trade and taxation .

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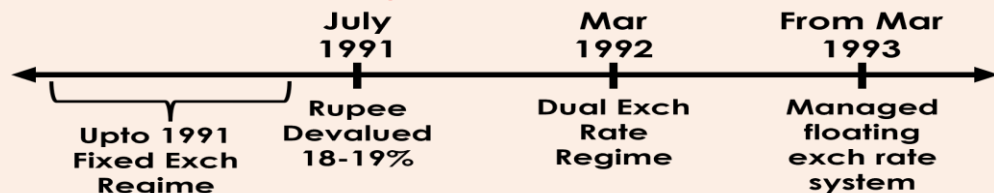
<p>17</p> <p><u>Economic Reforms of 1991</u></p> <ul style="list-style-type: none"> ➤ Done under Narsimha Rao government. ➤ Major causes for such drastic change are <ul style="list-style-type: none"> • Large & persistent fiscal deficit. • Foreign exchange reserves touched lowest point → only \$1.2 billion → sufficient for only two weeks of imports. ➤ 1991 reforms → known as LPG- Liberalization, Privatization & Globalisation, had two major objectives: <ol style="list-style-type: none"> 1) reorientation of economy from centrally directed & controlled one to market oriented economy. 2) macroeconomic stabilization by reduction in fiscal deficit. ➤ Globalization indicate rapid integration between countries 	<p>19</p> <p><u>Monetary and Financial Sector Reforms</u></p> <ul style="list-style-type: none"> ➤ The focus was on- <ul style="list-style-type: none"> • reducing burden of NPAs on govt banks, • introducing & sustaining competition, and • deregulating interest rates. ➤ Reduction in reserve requirements (SLR & CRR), on recommendations of Narasimham Committee Report, 1991.
<p>18</p> <p><u>The Fiscal Reforms</u></p> <ol style="list-style-type: none"> 1) Stable & transparent tax structure, 2) Ensuring better tax compliance, 3) Thrust on curbing govt exp. 4) Reduction in subsidies 5) Disinvestment of govt's equity in PSUs & 6) Encouraging private sector participation. 	<p>20</p> <p><u>Reforms in Capital Markets</u></p> <ul style="list-style-type: none"> ➤ SEBI → set up in 1988 & statutory recognition in 1992. ➤ Independent regulator of capital (stock) market <p>21</p> <p><u>New Industrial Policy</u></p> <ul style="list-style-type: none"> ➤ Announced on 24 July 1991 ➤ Important reforms- <ul style="list-style-type: none"> • Ended 'License Raj' by removing licensing restrictions industries except for 5 industries, having severe implications on health & environment. • Public sector was limited to two items– railway transport & atomic energy • In 1990-91 → highest tariff rate was 355%. • Rupee was devalued by 18% against the dollar.

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Trade Policy Reforms

- dismantling of **quantitative restrictions on imports & exports**, focusing on **outward oriented regime**, **removal of licensing on imports**.



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NITI AAYOG

- Planning Commission was abolished in 2014 → & on **1st Jan 2015** it was replaced by **National Institution for Transforming India (NITI) Aayog**.
- It is a '**Think Tank**' of govt. & a 'directional and policy dynamo'.
- **Objectives- (Only IMP points)**
 - 1) '**spur innovative thinking** by 'experts', &
 - 2) promote '**co-operative federalism**' by enhancing voice of states'.
 - 3) To **evolve a shared vision** of national development priorities, sectors & strategies with active involvement of states.
 - 4) To **foster cooperative federalism**
 - 5) To **develop mechanisms to formulate credible plans** at the village level

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Key initiatives of NITI Aayog

- Life (Lifestyle for Environment) → replacing prevalent '**use-and-dispose**' economy
- National Data and Analytics Platform (NDAP) → Access to Indian **government data**
- Shooonya campaign → **improve air quality** in India by accelerating the deployment of **EVs**
- E-Amrit → **one-stop destination** for all information on **EVs**
- **Methanol Economy** → aimed at **reducing India's oil import bill**, **greenhouse gas (GHG) emissions**, and **converting coal reserves** and **municipal solid waste into methanol**.

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THE CURRENT STATE OF THE INDIAN ECONOMY: A BRIEF OVERVIEWI) PRIMARY SECTOR

- Agriculture → **largest source of livelihood** in India.
- **47%** of India's population dependent on **agriculture**.
- Contributed **18.80%** to **GDP**.
- India has emerged as-
 - ✓ **world's largest producer** of **milk, pulses, jute** and **spices**.
 - ✓ **largest area planted** under **wheat, rice** and **cotton**.
 - ✓ **world's largest cattle herd** (buffaloes).

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26	<p>➤ India is among top 10 exporters of agri products in world</p> <p>➤ Agricultural and Processed Food Export Development Authority (APEDA) → responsible for export promotion of agri-products.</p>	28	<p>Small & fragmented landholdings, low farm productivity and subsistence farming result in very little marketable surplus & thus lower income of agriculturists.</p>
27	<p>Measures by govt to improve agri. sector-</p> <p>1) 100% FDI → marketing of food products & its E-commerce under automatic route</p> <p>2) Income support to farmers through PM KISAN</p> <p>3) Fixing of Minimum Support Price (MSP) at 1.50 times the cost of production</p> <p>4) Pradhan Mantri Fasal Bima Yojana (PMFBY) – insurance scheme → farmers suffering crop loss/damage</p> <p>5) Paramparagat Krishi Vikas Yojana → promoting organic farming, & improvement of soil health.</p> <p>6) Promotion of Farmer Producer Organisations (FPOs) to ensure better income for producers.</p> <p>7) Per Drop More Crop- increase water use efficiency</p> <p>8) Setting up of E-NAM (Electronic National Agriculture Market) - a pan-India electronic trading portal which networks existing APMC mandis to create unified national market for agri commodities.</p> <p>9) Kisan Rail → improvement in farm produce logistics</p>	29	<p>We can say Indian agriculture has become modern since-</p> <p>1) increase in use of HYV seeds, fertilizers pesticides etc.</p> <p>2) positive change in attitude of farmers on new techniques of production</p> <p>3) farmers using intensive cultivation, multiple cropping, scientific water management</p>
		30	<p>II) SECONDARY SECTOR</p> <p>➤ 30% of GVA & employs over 12.1 crores of people.</p> <p>➤ In 2023 → Manufacturing Purchasing Managers' Index (PMI) in India stood at 55.4.</p> <p>➤ India's rank in Global Innovation Index (GII) → 40th in 2022</p> <p>➤ Department for Promotion of Industry and Internal Trade (DPIIT) has a role in formulation & implementation of industrial policy.</p>



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- Indian industry faced **retrogression & deceleration** bcoz-
- ✓ unsatisfactory performance of agriculture
- ✓ slackening of real investment in public sector
- ✓ narrow market for industrial goods, especially in rural areas

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- **Govt policies for growing secondary sector**
- 1) Introduction of **GST** on **1 July 2017** → replacing many indirect taxes.
- 2) **Reduction of corp. tax to domestic comp.** → at **22%**
- 3) '**Make in India**' is a '**Vocal for Local**' initiative launched in 2014
- 4) '**Ease of Doing Business**' → India ranks **63rd** in **World Bank's** annual **Doing Business Report** (DBR), 2020
- 5) **National Single Window System** → one-stop-shop for **investor related approvals & support to investors.**
- 6) **PM Gati Shakti National Master Plan** → **facilitate data-based decisions** & planning of **multi-modal infrastructure** → reducing logistics cost.
- 7) **National Logistics Policy (NLP)** → aims to lower cost of logistics

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- 8) **Production Linked Incentive (PLI) Scheme** was initiated for **14 key sectors** → now also extended for **white goods (air conditioners & led lights).**
- 9) **FAME-India Scheme** (Faster Adoption & mfg of Hybrid & Electric Vehicles) to **promote manufacturing of electric & hybrid vehicle technology**
- 10) '**Udyami Bharat**' → empowerment of Enterprises MSMEs.
- 11) **PM Mega Integrated Textile Region and Apparel** (PM MITRA) → for **textiles sector.**
- 12) **Foreign Investment Promotion Board (FIPB)** was abolished in May 2017, & replaced by **Foreign Investment Facilitation Portal (FIFP).**
- 13) **Remission of Duties & Taxes on Export Products (RoDTEP) 2021** formed to the existing **MEIS** (Merchandise Exports from India Scheme) to boost exports.

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- National Manufacturing Policy** → aims to **increase share of mfg in GDP to 25%** by 2025



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- 35 **Industrial sector depends on agri sector because-**
- ✓ Agri sector **provides food & other products** for consumption of ind. sector
 - ✓ Agri sector **provides raw materials** for development of agro-based industries
 - ✓ Agri sector **provides market** for industrial products

- 36 **III) SERVICE SECTOR**
- India has unique experience of **by-passing secondary sector** in growth trajectory by a **shift from agriculture to services sector.**

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- **Service sector** refers to **industry producing intangible goods** (services)
 - Its **largest sector of India** & is **55% of GVA.**
 - It is **fastest growing sector** in India & has **highest labour productivity.**
 - **India** is among **top 10** WTO members in **service exports and imports.**
 - Services sector is **largest recipient of FDI inflows.**
 - **100% foreign participation** in **telecommunication services** through Automatic Route.
 - **FDI ceiling in insurance cos.** was raised to **74%.**

- 38 **Conclusion**
- India Development Update (IDU)** of **World Bank** published in Nov 2022 → **India's** is relatively **more insulated from global spillovers** than other emerging markets