India was ranked **8th** among the world's major FDI recipients. (US $ 81,973 million during 2020-21)

X ——— X ——— X ——— X

CH10 INDIAN ECONOMY (7-10 Marks)

- Pre Independence Era (1850-1947)
- 1947 to 1991 (Post Independence)
- 1980s Reforms
- 1990s Reforms (LPG)
- Post Reforms (1991 onwards)
- NITI Aayog
- Current Status

I Pre Independence Era (1850-1947)

→ Indian economy was prosperous and self-reliant

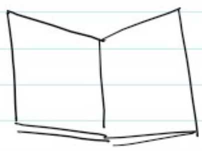
→ It controlled between $\frac{1}{3}^{rd}$ & $\frac{1}{4}^{th}$ of world's wealth

→ Agriculture was dominant occupation

→ Highly skilled artisans & craftsmen

→ Well Known Handicraft industry

* $\boxed{\text{Ancient Philosophy of India}}$

 Chanakya  "**Arthashastra**"

→ Arthashastra is the science of "Artha" or "material well being", which is primarily "**wealth**" & secondarily "**the land**"

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

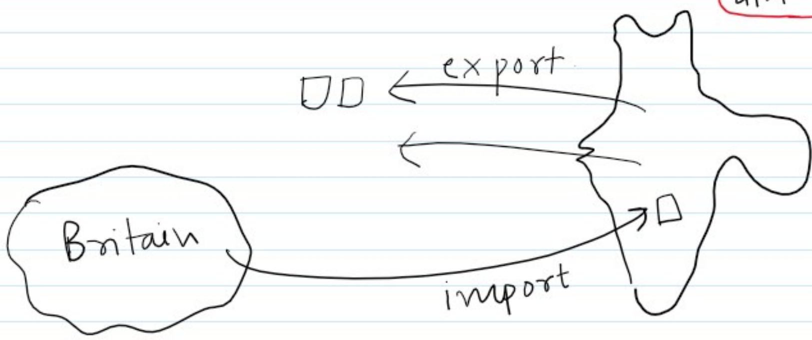
a) Rule of East India Company (1757 to 1858)

b) British Government (1858 to 1947)

→ The Indian exports of finished goods subject to ज़्यादा Taxes heavy tariffs.

→ Imports from British were subject to lower tariffs. कम tax

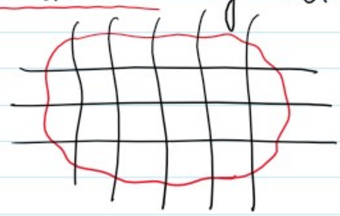
Discrimatory Tariff Policy



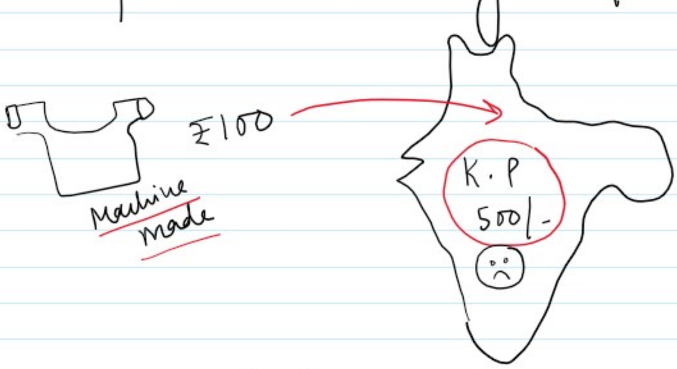
→ Large scale unemployment and absence of alternative sources of employment which forced many to depend on "AGRICULTURE"

→ Sub division & fragmentation of land holdings

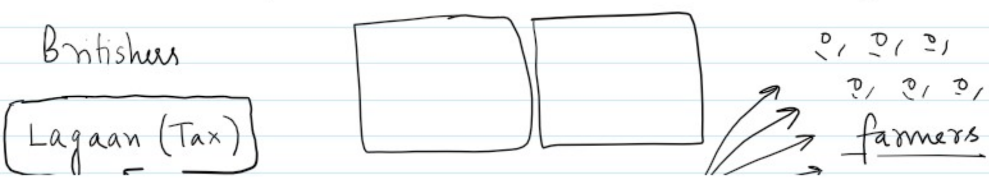
"छोटे-2 टुकड़े"

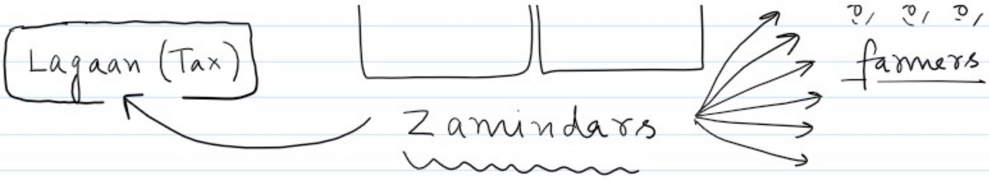


→ Imports of "cheap" machine made goods from Britain



→ Zamindari System (land settlement system)





→ High indebtness of agriculturists.

→ "Factory based production" did not exist till 1850

→ At the end of 19^{th} century, the Indian Jute Mill industry was the largest in the world. In addition, paper-milling, leather-making, rice-milling industries also developed. Heavy industries such as iron industry were established in 1814 by Britishers.

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 and distributive justice

→ 5 years plans were developed and monitored by Planning Commission

→ 1948 :- 1^{st} Industrial Policy Resolution

expanded role of public sector and licensing for private sector

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

→ 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 and cottage industries.

→ 1956 : 2^{nd} Industrial Policy Resolution

private investments were discouraged and more focus on public sector investments

→ India followed open foreign Investment Policy and relatively open trade policy

→ BOP crisis emerged in 1958 (import > export)

→ "Import" controls were maintained "till 1966"
(रोकना)

→ From 1950 - 1980, India's annual growth rate of GDP was 3.5% → Hindu Growth Rate

→ 1966 :- Green Revolution (HYV seeds)
High Yielding Variety

→ Due to food shortage, India had to depend on US for food aid

→ 1969 :- 14 Banks were nationalised

1980 :- 6 more Banks were nationalised

→ The performance during 1965 - 1981 is WORST

WORST

→ During 1960s + 1970s there were license Raj

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

→ 1969 : The Monopolies + Restrictive Trade Practices Act

→ Stringent labour laws (It discouraged labour Intensive technique)

"कठोर" (Harsh)

III REFORMS (1980s)

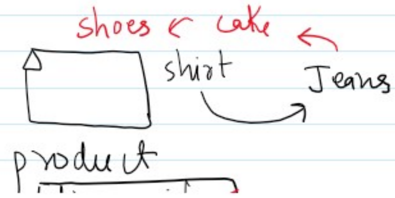
→ The annual growth rate of GDP during 1980 - 1985 and 1985 - 1990 were 5.7% and 5.8% respectively

→ 1980s Reforms broadly covers three areas :-

Industry | Trade | Taxation

→ In 1985, delicensing of 25 industries was done

→ The facility of Broad banding was accorded for industries i.e allow flexibility and rapid changes in their product mix without any fresh license



product
diversify
~~"License"~~

→ The "multipoint excise duty" were converted into Modified Value Added Tax (MODVAT)

→ 12 April 1988 : Establishment of SEBI (Securities Exchange Board of India)

→ 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 in 1980s were limited in Scope and thus bigger reforms were organised in 1990s.

IV REFORMS 1991 (LPG)

→ Reasons for Reforms in 1991 :-

1. Huge deficits (Total expenditure of Government is higher than their total receipts)

2. BOP crisis (Oil prices triggered by gulf war in 1990)

3. Foreign exchange reserves touched the

(3) Foreign exchange reserves touched the lowest point ☹

(4) India had to depend on external borrowings from International Monetary Fund

(5) Poor performance of Public sector Undertakings

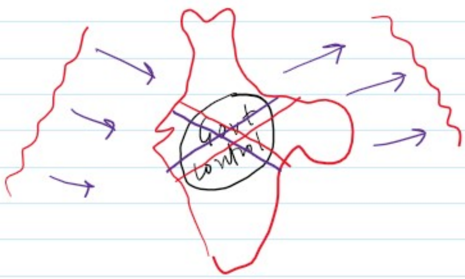
$\boxed{\text{Crisis of Confidence}}$ ☹

Therefore the reforms were initiated in 1991 and popularly known as LPG.

→ The reforms had two major objectives :-

(i) Reorientation of the economy from centrally directed and highly controlled one to "market friendly" or "market oriented economy"

(ii) Macro economic stabilisation by substantial reduction in fiscal deficit



Borrowings कम करती है

→ The policies can broadly be classified as :-

Stabilisation Measures	Structural Reforms
SHORT TERM Measures	LONG TERM Measures

SHORT TERM Measures	LONG TERM Measures
Overcome BOP crisis	Efficieny increase
Control Inflation	Unemployment decrease

(A) FISCAL Reforms

→ There was fiscal deficit in the economy and we had a large Current A/c deficit (CAD). Therefore Fiscal reforms were needed.

→ Introduction of stable + transparent tax structure

→ Better "tax compliance"

कम

→ Curbing Government expenditure

→ Reduction in Subsidies

→ Disinvestment — sale

→ 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 > Receipts)

Fiscal deficit
(exp > Receipts)
∴ Borrowings

(B) Monetary and Financial Sector Reforms

→ Interest rate liberalisation

→ Reduction in controls on Bank by RBI

→ Opening new private Banks

Reduction in Reserve requirements i.e CRR SLR

→ Opening new private Banks

→ Reduction in Reserve requirements i.e (CRR, SLR etc (Recommendation by Narsimhan Committee)

→ Liberalising of Bank "branch" licensing policy

→ Prudential Norms of accounting were introduced. (classification of Assets)

(C) Capital Market Reforms

→ The Securities & Exchange Board of India (SEBI) was set up in 1988 and given statutory recognition in 1992

(D) New Industrial Policy

→ New Industrial policy was announced on $\boxed{\text{24 July 1991}}$

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

- Arms & Ammunition
- Atomic substances
- Narcotic drugs (chemicals)
- Alcoholic drinks.
- Cigarettes & Cigar

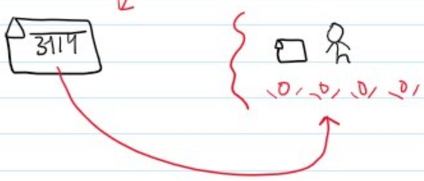
→ Public Sector was limited to 8 sectors only. Subsequently only 2

- Railways
- Atomic energy

→ MRTP Act was restructured

→ MRTP Act was restructured

- → restriction in concentration of economic power in few hands.
- → control of monopolies
- → "prohibit" restrictive trade practices



→ Many goods produced by small scale industries were De reserved

SSI

De Reservation ~~Shoes~~

→ 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% against dollar.

(E) Trade Policy Reforms

→ dismantling of "quantitative restrictions" on import & export

limits हटा दी

→ focus on outward oriented regime

~~Inward looking trade policy~~

~~Inward looking trade policy~~

→ 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 Managed Floating exchange Rate regime

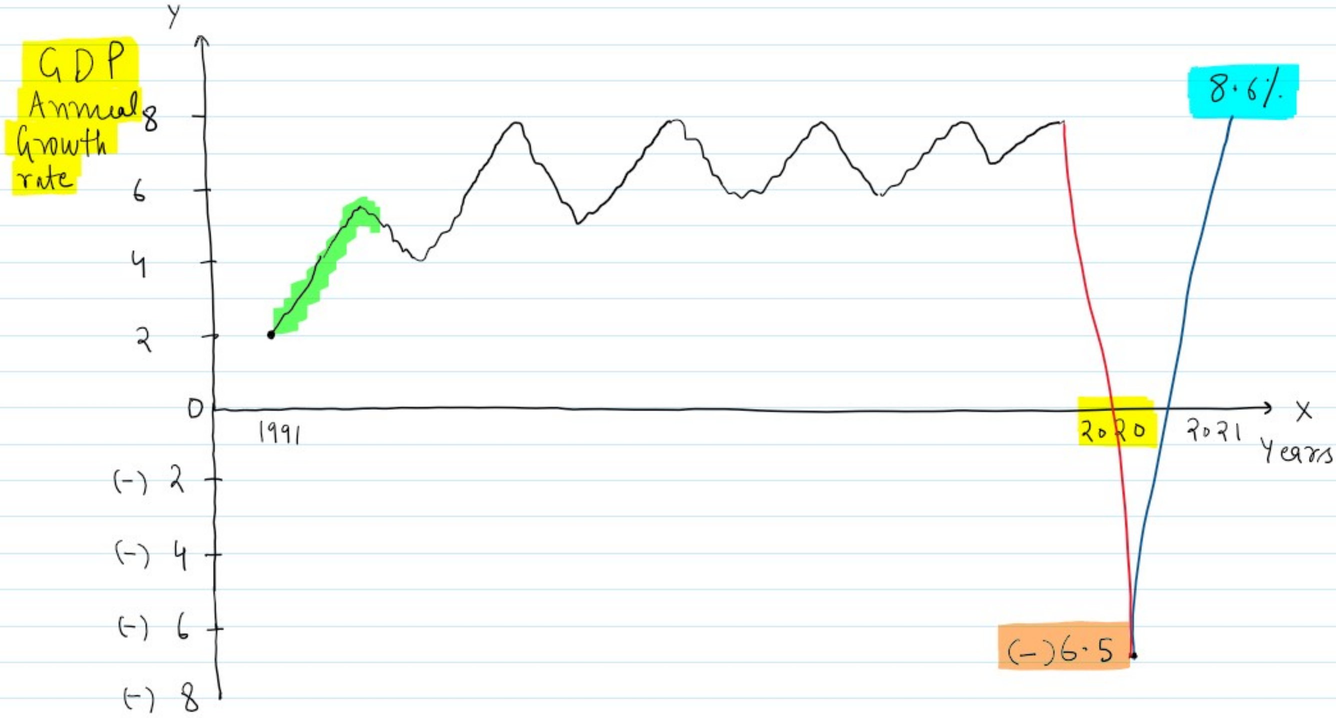
** CRUX of all above Reforms :-

- India has progressively moved towards market oriented economy
- Growth of Private sector Investment
- Ease of trade ☺
- Robust demand for Information Technology and financial services has kept the services trade surplus high.
  (Inflows > outflows)
- Poverty has reduced substantially
- Reforms led to increased Competition
- Improvement in financial sector.

☹ However, the fiscal deficit of the country remains high

V Post Reform

V POST REFORMS



VI NITI Aayog

→ On 1 Jan 2015, the apex policy making body namely Planning Commission, was replaced by National Institution for Transforming India (NITI) Aayog (Think Tank of the government)

→ Objectives :-

- National development
- help करना (support) foster cooperative federalism — centre & state — division of power
- develop mechanisms to formulate credible (भरोसेमंद) plans at village levels
- design strategic and long term policy
- offer platform for resolution of inter-"sectoral" and inter "departmental" issues

- offer platform for resolution of inter- "sectoral" and inter "departmental" issues
- Focus on technological updation
- Etc Etc Etc

Key Initiatives (H.W Study about them)

→ " LIFE " - replaces the prevalent " use and dispose " economy

→ The National Data & Analytics Platform (NDAP) facilitates and improves access to Indian government data

→ Shoonya Compaign - improve air quality

→ E - Amrit - electronic vehicles

→ India Policy Insights (IPI)

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

→ Transforming India's Gold market

Weaknesses

→ limited role

→ exclusion from "Budgeting process"

→ lacks autonomy (Freedom → Power)

→ Termination of Planning Commission strengthens the "Ministry of finance"

VII CURRENT STATE [100% Ratta]

Primary (Agriculture) | Secondary (Industry) | Tertiary (Services)

Unique experience of the sequence as Agriculture, Services and Industry

sequence of Growth

1. Primary Sector

→ India has emerged as world's largest producer of milk, pulses, jute and spices.

→ India has the largest area planted under wheat, rice and cotton

→ India is the second largest producer of fruits, vegetables, tea, fish, cotton, sugarcane, wheat, rice and sugar.

→ Indian food & grocery market is the world's 6^{th} largest (contributing 70% of the retail sales)

→ India has the world's largest cattle herd (buffaloes)

→ India is among top ten exporters of agricultural products in the world. Agricultural and Processed Food Export Development Authority (APEDA) is entrusted with the responsibility of export promotion.

→ Various measures are adopted by government such as :-

- 100% FDI in marketing of food products
- Income support to farmers (PM KISAN)
- fixing of MSP (Minimum Support Price)
- National Mission for Edible Oils
- Pradhan Mantri Fasal Bima Yojna (PMFBY)
- Paramparagat Krishi Vikas Yojna (PKVY)

- Pradhan Mantri Fasal Bima Yojna (PMFBY)
- Paramparagat Krishi Vikas Yojna (PKVY)
- Agri Infrastructure fund
- Per Drop more Crop (PDMC)
- Micro Irrigation Fund
- Farmer Producer Organisation (FPO)
- E-NAM – National Agriculture Market
  – Pan India electronic trading portal

- Start up Eco system
- Etc Etc Etc

Issues
- Fragmented land holdings
- low farm productivity
- low marketable surplus
- Inadequate Infrastructure
- Low level of technological upgradation
- Inadequate post-harvest infrastructure
- Etc Etc Etc

2. Secondary Sector

→ Industrial sector contributes about 30% of Gross Value Added (GVA)

→ It employes over 12.1 Crores 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

(GII) improved to 40 in 2022 from
81st in 2015

→ The Department for Promotion of Industry and Internal Trade (DPIIT) has a role in the formulation and implentation of Industrial policy.

→ Some Policies :-

- Vocal for local
- Ease of doing Business — India's Rank 63rd in 2020
- National Single Window System.
- Make in India
- PM Gati Shakti National Master Plan
- National Logistics Policy (NLP)
- FAME - India Scheme - promote electric & hybrid vehicle
- Remission of Duties & Taxes on Export Products (RoDTEP) 2021 - It replaced Merchandise Exports from India Scheme
- Start Up India
- Emergency Credit Line Guarantee Scheme
- Foreign Investment Facilitation Portal - It replaced Foreign Investment Promotion Board (FIPB)
- Etc Etc

Challenges

→ Inadequate Infrastructure

→ heavy reliance on Imports

→ Inadequate infrastructure
→ heavy reliance on Imports
→ Inadequate Manpower
तनावपूर्ण
→ Strained labour-management relation
→ Slow external demand
→ Lower export competitiveness
→ Supply chain uncertainities.
→ Etc Etc

(3) SERVICE sector

→ It is the largest sector of India
→ It accounts for 53.89% of India's GVA
→ It has highest labour productivity
→ It is the fastest growing sector
→ India is among top 10 WTO members in service exports & imports
→ India's service exports at US $ 27 billion (Nov 2022)
→ To ensure liberalisation of investment, government has permitted 100% foreign participation in telecommunication services through automatic route
→ The India Development Update (IDU) of the World Bank published in 2022 holds optimistic view that compared to other emerging economies, India is more resilient to adversities

"adaptive"

x ——— x ——— x ——— x ——— x ——— x