CHAPTER 10

INDIAN ECONOMY

LEARNING OUTCOMES

After studying this Chapter, you will be able to –

- Describe the state of affairs of the pre British Indian economy
- Give an account of the Indian economic phenomena during the British rule
- Illustrate the turning points in the growth trajectory of India
- Explain the major reform initiatives post-independence and assess their impact
- Appreciate the role of NITI Aayog
- Portray the current status of the economy sector wise

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

Between the first and the seventeenth century AD, India is believed to have had the largest economy of the ancient and the medieval world. It was prosperous and self-reliant and is believed to have controlled between one third and one fourth of the world's wealth. The economy consisted of self-sufficient villages as well as cities which were centres of commerce, pilgrimage and administration. Compared to villages, cities presented more opportunities for diverse occupations, trades and gainful economic activities.

Simple division of labour intertwined with attributes such as race, class, and gender was the basis of the structure of the villages and acted as a built-in mechanism of economic and social differentiation. Though agriculture was the dominant occupation and the main source of livelihood for majority of people, the country had a highly skilled set of artisans and craftsmen who produced manufactures, handicrafts and textiles of superior quality and fineness for the worldwide market.

Box.1 Ancient Economic Philosophy of India

The earliest known treatise on ancient Indian economic philosophy is 'Arthashastra' the pioneering work attributed to Kautilya (Chanakya) (321–296 BCE)Arthashastra is recognized as one of the most important works on statecraft in the genre of political philosophy. It is believed to be a kind of handbook for King Chandragupta Maurya, the founder of Mauryan empire, containing directives as to how to reign over the kingdom and encouraging direct action in addressing political concerns without regard for ethical considerations.

Artha is not wealth alone; rather it encompasses all aspects of the material well-being of individuals. Arthashastra is the science of 'artha' or material prosperity, or "the means of subsistence of humanity," which is, primarily, 'wealth' and, secondarily, 'the land'. The major focus of the work is on the means of fruitfully maintaining and using land. Kautilya emphasizes the importance of robust agricultural initiatives for an abundant harvest which will go toward filling the state's treasury. Taxes, which were charged equal for private and state-owned businesses, must be fair to all and should be easily understood by the king's subjects.

Being a multidisciplinary discourse on areas such as politics, economics, military strategy, diplomacy, function of the state, and the social organization, Kautilya's writings relate to statecraft, political science, economic policy and military strategy.True kingship is defined as a ruler's subordination of his own desires and ambitions to the good of his people; i.e. a king's policies should reflect a concern for the greatest good of the greatest number of his subjects. The preservation and advancement of this good was comprised of seven vital elements, namely the King, Ministers, Farmlands, Fortresses, Treasury, Military and the Allies.

The advent of the Europeans and the British marked a shift in the economic history of India. The period of British rule can be divided into two sub periods:

1. The rule of East India Company from 1757 to 1858
2. British government in India from 1858 to 1947

The historical legacy of British colonialism is an important starting point to illustrate the development path of India. With the onset of Industrial revolution in the latter half of the 18th

century, the manufacturing capabilities of Britain increased manifold, and consequently there arose the need to augment raw material supply as well as the need for finding markets for finished goods. This led to a virtual reversal of the nature of India's foreign trade from an exporter of manufactures to an exporter of raw materials.

The Indian exports of finished goods were subjected to heavy tariffs and the imports were charged lower tariffs under the policy of discriminatory tariffs followed by the British. This made the exports of finished goods relatively costlier and the imports cheaper. In this backdrop, the Indian goods lost their competitiveness. Consequently, the external as well as the domestic demand for indigenous products fell sharply culminating in the destruction of Indian handicrafts and manufactures. The destruction of Indian manufactures, mainly due to the hostile imperial policies to serve the British interests and the competition from machine-made goods, had far reaching adverse consequences on the Indian manufacturing sector. The problem was aggravated by the shift in patterns of demand by domestic consumers favouring foreign goods as many Indians wanted to affiliate themselves with western culture and ways of life.

The damage done to the long established production structure had far reaching economic and social consequences as it destroyed the internal balance of the traditional village economy which was characterized by the harmonious blending of agriculture and handicrafts. These were manifest as:

1. Large scale unemployment and absence of alternate sources of employment which forced many to depend on agriculture for livelihood
2. The increased pressure on land caused sub division and fragmentation of land holdings, subsistence farming, reduced agricultural productivity and poverty.
3. The imports of cheap machine made goods from Britain and an overt shift of tastes and fashion of Indians in favour of imported goods made the survival of domestic industries all the more difficult.
4. The systems of land tenure, especially the zamindari system created a class of people whose interests were focused on perpetuating the British rule.
5. Excessive pressure on land increased the demand for land under tenancy, and the zamindars got the opportunity to extract excessive rents and other payments
6. Absentee landlordism, high indebtedness of agriculturists, growth of a class of exploitative money lenders and low attention to productivity enhancing measures led to a virtual collapse of Indian agriculture.

We shall now have a look into the stagnated nature of industrialisation during the 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. The cotton milling business grew steadily throughout the second half of the 19th century, and achieved high international competitiveness. The cotton mill industry in India had 9 million spindles in the 1930s, which placed India in the fifth position globally in terms of number of spindles.

Jute mills also expanded rapidly in and around Calcutta in response to a mounting global demand for ropes and other products, and Indian jute occupied a large share of the international market by the late 19th century. At the end of the 19th century, the Indian jute mill industry was the largest in the world in terms of the amount of raw jute consumed in production. In addition, brewing, paper-milling, leather-making, matches, and rice-milling industries also developed during the century. Heavy industries such as the iron industry were also established as early as 1814 by British capital. 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.

The producer goods industries, however, did not show high levels of expansion. Perhaps, the most important of the factors that led to this state of affairs was the pressure exerted by the English producers in matters of policy formulation to positively discourage the development of industries which were likely to compete with those of the English producers.

India's industrial growth was insufficient to bring in a general transformation in its economic structure. The share in the net domestic product (NDP) of the manufacturing sector (excluding small scale and cottage industries) had barely reached 7% even in 1946.Considering its slow progress, the share of factory employment in India was also small (i.e. 0.4% of the total population in 1900 and 1.4% in 1941).

10.2 INDIAN ECONOMY: POST-INDEPENDENCE (1947-1991)

At the time of independence, India was overwhelmingly rural inhabited by mostly illiterate people who were exceedingly poor. We had a deeply stratified society characterized by extreme heterogeneity on many counts. With the literacy rate just above 18 percent and barely 32 years of life expectancy in 1951, India's poverty was not just in terms of income alone, but also in terms of human capital,

For historical reasons, the Nehruvian model which supported social and economic redistribution and industrialization directed by the state came to dominate the post-Independence Indian economic policy. Centralized economic planning and direction was at the core of India's development strategy and the economic policies were crafted to accomplish rapid economic growth accompanied by equity and distributive justice. The Planning Commission of India was established to meticulously plan for the economic development of the nation in line with the socialistic strategy. This was carried through the five-year plans which were developed, implemented and monitored by the Planning Commission.

It is pertinent here to have a look at the ideology of industrialization prevailed in the early days of independence. India's political leadership was keen on establishing an economic system in which the central government would have authority to design the economic strategy and to carry out the necessary investments in coordination with the private sector. Rapid industrialization of the economy was the cornerstone of Nehru's development strategy. The concept of 'planned modernization' meant a systematic planning to support industrialization. The bureaucrats and the technocrats envisioned a substantially significant role for the state in industrialisation.

The Industrial Policy Resolution (1948) envisaged an expanded role for the public sector and licensing to the private sector. It granted state monopoly for strategic areas such as atomic energy, arms and ammunition and railways. Also, the rights to new investments in basic Industries were exclusively given to the state.

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

1. The then prime minister Nehru's visualization to build a socialistic society with emphasis on heavy industry, and
2. The Gandhian philosophy of small scale and cottage industry and village republics

The Industrial Policy Resolution of 1956 though provided a comprehensive framework for industrial development, was lopsided as its guiding principle supported enormous expansion of the scope of the public sector. A natural outcome of the undue priority for public sector was the dampening of private initiative and enterprise. For obvious reasons, private investments were discouraged and this had long-lasting negative consequences for industrial growth.

India followed an open foreign investment policy and a relatively open trade policy until the late 1950s.A balance of payments crisis emerged in 1958 causing concerns regarding foreign exchange depletion. Consequently, there emerged a gradual tightening of trade and reduction in investment-licensing of new investments requiring imports of capital goods. The comprehensive import controls were maintained until 1966.

In the first three decades after independence (1950–80), India's average annual rate of growth of GDP- often referred to as the 'Hindu growth rate'- was a modest 3.5 percent. 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.

The first major shift in Indian economic strategy was in the mid-1960s. Agriculture was not given adequate priority during the second plan and the outlays were reduced. The strategy for agricultural development till then was reliance on institutional model i.e. land reforms, farm cooperatives etc. and not much importance was given to technocratic areas such as research and development, irrigation etc. These institutional reforms were only modestly successful and the productivity increase in agriculture was meagre.

With continuous failures of monsoon, two severe and consecutive droughts struck India in 1966 and 1967. The agricultural sector recorded substantial negative growth and India faced a serious food problem. India had to depend on the United States for food aid under PL 480. A quantum jump in the food grain production was the need of the hour. Increasing productivity in agriculture was given the highest priority. This, in fact, kick-started a strategic change in the government's agricultural policies. The new wave of change relied less on the earlier efforts at institutional change and relied more on enhancing productivity of agriculture, especially of wheat. A thorough restructuring of agricultural policy referred to as the 'green revolution' was initiated. The green revolution was materialised by innovative farm technologies, including high yielding seed varieties and intensive use of water, fertilizer and pesticides. The green revolution was successful in increasing agricultural productivity through technical progress and significantly increased food grain production enabling India to tide over the food problem.

While India drastically changed its agricultural policies, the government introduced extra stringent administrative controls on both trade and industrial licensing and launched a wave of nationalization. The government nationalized 14 banks in 1969 and then followed it up with nationalizing another 6 in 1980. The wide sweep of the interventionist policies that had come to exist in the 1960s had irreparable consequences in the next decade.

The economic performance during the period of 1965-81 is the worst in independent India's history. The decline in growth during this period is attributed mainly to decline in productivity. The *license-raj,* the autarchic policies that dominated the 1960s and 1970s, the external shocks such as three wars (in 1962, 1965, and 1971), major droughts (especially 1966 and 1967), and the oil shocks of 1973 and 1979contributed to the decelerated growth that lasted two decades. India being practically a closed economy missed out on the opportunities created by a rapidly growing world economy.

Many government policies aimed at equitable distribution of income and wealth effectively killed the incentive for creating wealth. Equity driven policies were also largely anti growth. The Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 was aimed at regulation of large firms which had relatively large market power. Several restrictions were placed on them in terms of licensing, capacity addition, mergers and acquisitions. Thus, policies restricting the possibility of expansion of big business houses kept their entry away from nearly all but a few highly capital intensive sectors.

In 1967, the policy of reservation of many products for exclusive manufacture by the small scale sector was initiated with the objective of promotion of small scale industries. 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.

10.3 THE ERA OF REFORMS

The seeds of early liberalisation and reforms were sown during the 1980s, especially after 1985. In early 1980s considerable efforts were initiated in different directions to restore reasonable price stability through a combination of tight monetary policy, fiscal moderation and a few structural reforms. These initiatives, spanning 1981 to 1989, practically referred to as 'early liberalization' were specifically aimed at changing the prevailing thrust on 'inward-oriented' trade and investment practices. In fact, this liberalization is often referred to as 'reforms by stealth' to denote its ad hoc and not widely publicized nature. Despite the fact that these efforts were not in the form of a comprehensive package (as the one in 1991) to reverse the centralised controls and the protectionist bias in policies, they started bearing fruits in the form of higher growth rate during the 1980s as compared with the previous three decades. The average annual growth rate of GDP during the sixth plan period (1980–1985) and the seventh plan period (1985–1990) were 5.7 and 5.8 percent respectively.

The early reforms of 1980's broadly covered three areas, namely industry, trade and taxation. Simultaneously, the government also embarked on a policy of skilful exchange rate management. The prominent industrial policy initiatives during this period directed towards removing constraints on growth and creating a more dynamic industrial environment were:

- In 1985 delicensing of 25 broad categories of industries was done. This was later extended to many others
- The facility of 'broad-banding' was accorded for industry groups to allow flexibility and rapid changes in their product mix without going in for fresh licensing. In other words, the firms in the engineering industry were allowed to change their product mix within

their existing capacity. For example, firms may switch production between different production lines such as trucks and car without a new licence

- To relax the hold of the licensing and capacity constraints on larger MRTP firms, in 1985–86, the asset limit above which firms were subject to MRTP regulations was raised from 20 crore to 100 crore.
- The multipoint excise duties were converted into a modified value-added (MODVAT) tax which significantly reduced the taxation on inputs and the associated distortions.
- Establishment of the Securities and Exchange Board of India (SEBI) as a non-statutory body on April 12, 1988 through a resolution of the Government of India
- The open general licence (OGL) list was steadily expanded. The number of capital goods items included in the OGL list expanded steadily reaching1,329 in April 1990.
- Several export incentives were introduced and expanded
- The exchange rate was set at a realistic level which helped expand exports and in turn reduced pressure on foreign exchange needed for imports
- Price and distribution controls on cement and aluminum were entirely abolished.
- Based on the real effective exchange rate (REER), the rupee was depreciated by about 30.0 per cent from 1985–86 to 1989–90. This reflects a considerable change in the official attitude towards exchange rate depreciation
- The budget for 1986 introduced policies of cutting taxes further, liberalising imports and reducing tariffs.

However, the growth performance of the economy was thwarted due to structural inadequacies and distortions. The private sector investments were inhibited due to reasons such as convoluted licensing policies, public sector reservations and excessive government controls. Due to reservation of goods to small scale sector as well as excessive price and distribution controls, the private sector was virtually discouraged from making investments. The public sector which led the manufacturing and service sectors was plagued by inefficiency, government controls and bureaucratic procedures. Despite the fact that they were of massive in size and enjoyed monopoly in their respective areas, their performance was far from satisfactory and yielded very low returns on investment.

The MRTP act had many restrictive conditions creating barriers for entry, diversification and expansion for large industrial houses. Import controls in the form of tariffs, quotas and quantitative restrictions ensured that foreign manufactures and components did not cross the borders and compete with the domestic industries. Foreign investments and foreign competition were not allowed on grounds of affording protection to domestic industries. Briefly put, the rules and regulations which were aimed at promoting and regulating the economic activities became major hindrances to growth and development.

Though the reforms in 1980's were limited in scope and were without a clearly observable road map as compared to the New Economic Policy in 1990, they were instrumental in bringing confidence in the minds of politicians and policy makers regarding the efficacy of policy changes to produce sustained economic growth. The belief that well-regulated competitive markets can ensure economic growth and also increase total welfare got fostered in the minds of policy makers. In other words, the idea that government intervention in markets need not always be accepted as 'the standard' and that markets should be given priority over government in the conduct of a good number of economic activities gained a broad acceptance. Thus, the liberalization in the 1980s served as the necessary foundation for the more universal and organized reforms of the 1990s.

10.4 THE ECONOMIC REFORMS OF 1991

India embarked on a bold set of economic reforms in 1991 under the Narsimha Rao government.

The causes attributed to the immediate need for such a drastic change are:

1. The fiscal initiatives for enhanced economic growth in 1980s saw the government revenue expenditure consistently exceeding revenue receipts. The fiscal deficit was financed by huge amounts of domestic as well as external debt. The high level current expenditure proved clearly unsustainable and got manifested on extremely large fiscal deficits and adverse balance of payments.
2. Persistent huge deficits led to swelling public debt and a large proportion of government revenues had to be earmarked for interest payments.
3. The surge in oil prices triggered by the gulf war in 1990 and the consequent severe strain on a balance of payments.
4. The foreign exchange reserves touched the lowest point with a reserve of only $1.2 billion which was barely sufficient for two weeks of imports. This was the major context that triggered economic reforms.
5. Tightening of import restrictions to muster forex for essential imports resulted in reduction in industrial output.
6. India had to depend on external borrowing from the International Monetary Fund which in turn put forth stringent conditions in terms of corrective policy measures before additional drawings could be made.

7. The fragile political situation along with the crises in the economic front ballooned into what may be called a 'crisis of confidence'.

The year 1991 marked a paradigm shift in the Indian policy reforms. The nation which had embraced the 'socialist model', with the state playing an overriding role in the economy had the history of the government persistently intervening in the markets. Collapse of the Soviet Union and the spectacular success of China, based on outward oriented policies were lessons for the Indian policy makers. The reforms instituted in 1991 aimed to move the economy toward greater market orientation and external openness.

The reforms, popularly known as liberalization, privatization and globalisation, spelt a major shift in economic philosophy and fundamental change in approach and had two major objectives:

1. reorientation of the economy from a centrally directed and highly controlled one to a 'market friendly' or market oriented economy.
2. macroeconomic stabilization by substantial reduction in fiscal deficit.

A detailed description of reform measures is beyond the scope of this unit. We shall now have a brief account of the major measures taken in 1991.

As we know, the momentum for reforms originated in the critical economic, fiscal and balance of payments crises. Therefore, the reform package was structured as a core package of mutually supportive reforms to address the balance of payment crisis and the structural rigidities. The policy paradigm focused on shifting from central direction to market orientation.

The policies can be broadly classified as :

1. stabilisation measures which were short term measures to address the problems of inflation and adverse balance of payment and
2. the structural reform measures which are long term and of continuing nature aimed at bringing in productivity and competitiveness by removing the structural rigidities in different sectors of the economy.

10.4.1 The Fiscal Reforms

The escalating deficit levels rendered the stabilisation efforts rather complicated. Bringing in fiscal discipline by reducing the fiscal deficit was vital because the crisis was caused by excess domestic demand, surge in imports and the widening of the current account deficit (CAD) which was to be financed by drawing down on reserves. This was attempted by radical measures to augment revenues and to curtail government expenditure. Measures to this effect included:

1. Introduction of a stable and transparent tax structure,
2. Ensuring better tax compliance,
3. Thrust on curbing government expenditure
4. Reduction in subsidies and abolition of unnecessary subsidies
5. Disinvestment of part of government's equity holdings in select public sector undertakings and
6. Encouraging private sector participation.

In order to bring in fiscal discipline, it was essential to do away with the temptation to finance deficit thorough the easy path of money creation. Therefore, the government entered into a historic agreement with the Reserve Bank in September 1994 to bring down the fiscal deficit in a phased manner to nil by 1997–98.

10.4.2 Monetary and Financial Sector Reforms

Drastic monetary and financial sector reforms were introduced with the objective of making the financial system more efficient and transparent. The focus was mostly on reducing the burden of nonperforming assets on government banks, introducing and sustaining competition, and deregulating interest rates. These included many measures, important among them are:

1. Interest rate liberalization and reduction in controls on banks by the Reserve Bank of India in respect of interest rates chargeable on loans and payable on deposits.
2. Opening of new private sector banks and facilitating greater competition among public sector, private sector and foreign banks and simultaneously removal of administrative constraints that reduced efficiency
3. Reduction in reserve requirements namely, statutory liquidity ratio (SLR) and cash reserve ratio (CRR) in line with the recommendations of the Narasimham Committee Report, 1991.
4. Liberalisation of bank branch licensing policy and granting of freedom to banks in respect of opening, relocating or closure of branches
5. Prudential norms of accounting in respect of classification of assets, disclosure of income and provisions for bad debt were introduced in tune with the Narasimham Committee recommendations to ensure that the books of commercial banks reflect the accurate and truthful picture of their financial position.

10.4.3 Reforms in Capital Markets

The Securities and Exchange Board of India (SEBI) which was set up in 1988 was given statutory recognition in 1992. SEBI has been mandated as an independent regulator of the capital market so as to create a transparent environment which would facilitate mobilization of adequate resources and their efficient allocation.

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. The New Economic Policy put an end to the 'License Raj' by removing licensing restrictions for all industries except for 18 that 'related to security and strategic concerns, social reasons, problems related to safety and overriding environmental issues'. Consequently, 80 percent of the industry was taken out of the licensing framework. This is subsequently reduced to 5,namely, arms and ammunition, atomic substances, narcotic drugs and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes and cigars as these have severe implications on health, safety, and environment.
2. Public sector was limited to eight sectors based on security and strategic grounds. Subsequently only two items remained – railway transport and atomic energy
3. The Monopolies and Restrictive Trade Practices (MRTP) Act was restructured and the provisions relating to merger, amalgamation, and takeover were repealed. This has eliminated the need for pre-entry scrutiny of investment decisions and prior approval for large companies for capacity expansion or diversification.
4. Many goods produced by small-scale industries have been de reserved enabling entry of large scale industries.
5. The policy ended the public sector monopoly in many sectors The number of areas reserved for public sector was narrowed down to ensure liberal participation by the private sector. Only eight industries which are of importance due to strategic and security concerns were reserved for the public sector. The changes continued and we find that now the industries reserved for the public sector are only a part of atomic energy generation and some core activities in railway transport.
6. Foreign investment was also liberalised. The concept of automatic approval was introduced for foreign direct investments up to 51 percent which was later extended

to nearly all industries except the reserved ones. FDI is prohibited only in four sectors viz. retail trade, atomic energy, lottery business and betting and gambling.

7. External trade was further liberalised by substituting 'the positive list approach' of listing license-free items on the OGL list with the negative list approach. The policy did away with import licensing on all but a handful of intermediate and capital goods. The consumer goods which remained under licensing was made free 10 years later. Today, except for a handful of goods disallowed on health, environmental and safety grounds, and few others such as edible oil, fertilizer and petroleum products all goods can be imported

8. In 1990-91, the highest tariff rate was 355%, The top tariff rate was brought down to 85% in 1993-94 and to 50% in 1995-96 and by 2007-08, it has come down to 10% with some exceptions such as automobile at 100%

9. Rupee was devalued by 18% against the dollar. From 1994 onwards, all current account transactions including business, education, medical and foreign travel were permitted at market exchange rate and rupee became officially convertible on current account

10. The disinvestment of government holdings of equity share capital of public sector enterprises was a very bold step. The hitherto constrained public sector units were provided with greater autonomy in decision making and opportunity for professional management for ensuring reasonable returns. The budgetary support to public sector was progressively reduced.

10.4.5 Trade Policy Reforms

The trade policy reforms aimed at:

- dismantling of quantitative restrictions on imports and exports
- focusing on a more outward oriented regime with phased reduction and simplification of tariffs, and
- removal of licensing procedures for imports.

A number of export incentives were continued and new ones were initiated for boosting exports. Export duties were removed to increase the competitive position of Indian goods in the international markets. In 1991, India still had a fixed exchange rate system, under which the rupee was pegged to the value of a basket of currencies of major trading partners. In July 1991 the Indian government devalued the rupee by between 18 and 19 percent. In March 1992 the government decided to establish a dual exchange rate regime. The government allowed importers to pay for some imports with foreign exchange valued at free-market rates and other imports could be purchased with foreign exchange purchased at a government-mandated rate In March 1993 the government unified the exchange rate and allowed, for the first time, the rupee to float. From 1993 onwards, India has followed a managed floating exchange rate system.

India has witnessed vast changes over the last 31 years of economic reforms. Changes enumerated below are only broad observations and are in no way comprehensive.

- India has increasingly integrated its economy with the global economy.
- India has progressively moved towards a market oriented economy, with a sizeable reduction in government's market intervention and controls
- There is an unprecedented growth of private sector investment and initiatives
- A number of sectors such as auto components, telecommunications, software, pharmaceuticals, biotechnology, and professional services have achieved vey high levels of international competitiveness
- Easing of trade controls has enabled easier access to foreign technology, inputs, know-how and finance
- Stable foreign direct investment inflows and substantial foreign portfolio investments
- India enjoys a solid cushion of foreign exchange reserves close to eight months of import cover. India has one of the largest holdings of international reserves in the world.
- Robust demand for information technology and financial services has kept the services trade surplus high at around 3.7 percent of GDP
- Pressure on the Indian rupee is lower compared to other emerging market economies (EMEs)
- Increased incomes, large domestic market and high levels of aggregate demand sustains the economy.
- India is better placed than most of the emerging market economies to deal with global headwinds
- Poverty has reduced substantially
- Reforms led to increased competition in sectors like banking, insurance and other financial services leading to greater customer choice and increased efficiency. It has also led to increased investment and growth of private players in these sectors.
- Infrastructure sectors have achieved phenomenal growth
- Value-added share of agriculture and allied activities has declined steadily over the past four decades.

- India's financial sector has also deepened considerably due to increased financial sector liberalisation.

However, the country is constrained by high levels of fiscal deficit, inflation and a high level of debt as a share of GDP at 86 percent of GDP in FY21/22. Among the emerging market and developing economies (EMDEs), India's debt is higher than their average of 64.5% for 2022(IMF).

10.5 GDP GROWTH RATES POST 1991 REFORMS

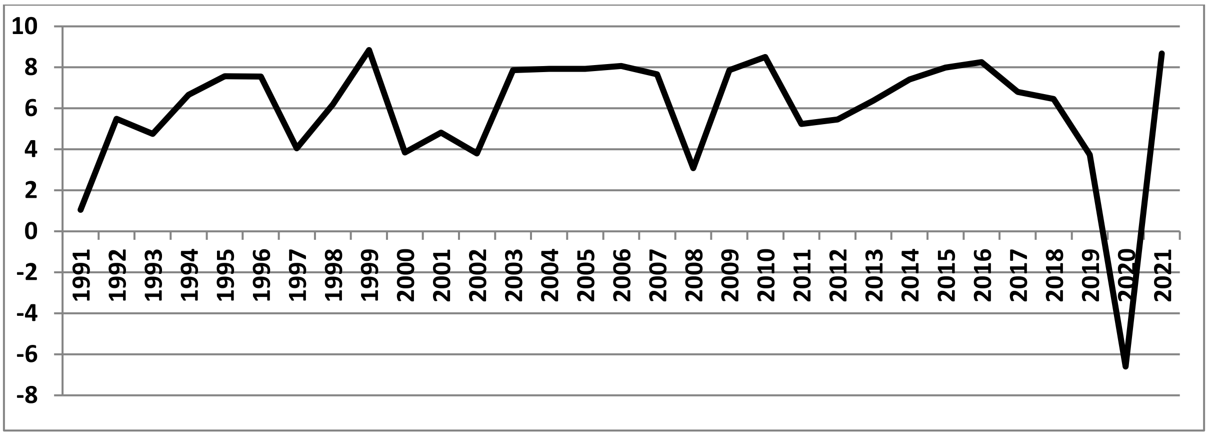
As we are aware, GDP growth rate is regarded as the most reliable indicator of economic growth. The following table and graphical presentation present data on GDP growth rate post 1991 reforms.

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

Figure 10.1

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



Source: Extracted from GDP growth (annual %) - India - World Bank Data.
data.worldbank.org › indicator › NY.GDP.MKTP.KD.ZG

10.6 NITI AAYOG: A BOLD STEP FOR TRANSFORMING INDIA

For nearly sixty four years, the Planning Commission of India - a powerful advocate of public investment-led development - was one of the most important institutions within India's central government. The new ideologies of the neoliberal era with their centre of attention on market orientation and shrinking roles of the government and the collapse of the planning system called for a change in the nature, composition and scope of institutions of governance.

On 1st January 2015, the apex policy-making body namely Planning Commission, was replaced by the National Institution for Transforming India (NITI) Aayog. The major objective of such a move was to 'spur innovative thinking by objective 'experts' and promote 'co-operative federalism' by enhancing the voice and influence of the states'. NITI Aayog is expected to serve as a 'Think Tank' of the government. [and] a 'directional and policy dynamo'.

NITI Ayog will work towards the following objectives*:

1. To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of states.

2. To foster cooperative federalism through structured support initiatives and mechanisms with the states on a continuous basis, recognizing that strong states make a strong nation.

3. To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.

4. To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
5. To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
6. To design strategic and long-term policy and programme frameworks and initiatives, and monitor their progress and their efficacy
7. To provide advice and encourage partnerships between key stakeholders and national and international like-minded think tanks, as well as educational and policy research institutions.
8. To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
9. To offer a platform for the resolution of inter-sectoral and inter departmental issues in order to accelerate the implementation of the development agenda.
10. To maintain a state-of-the-art resource centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
11. To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
12. To focus on technology up gradation and capacity building for implementation of programmes and initiatives.
13. To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above. *NITI Aaayog https://niti.gov.in/objectives-and-features

The key initiatives of NITI Aayog are:

1. ‘Life’ which envisions replacing the prevalent 'use-and-dispose' economy
2. The National Data and Analytics Platform (NDAP) facilitates and improves access to Indian government data
3. Shoonya campaign aims to improve air quality in India by accelerating the deployment of electric vehicles
4. E-Amrit is a one-stop destination for all information on electric vehicles
5. India Policy Insights (IPI)

6. 'Methanol Economy' programme is aimed at reducing India's oil import bill, greenhouse gas (GHG) emissions, and converting coal reserves and municipal solid waste into methanol, and

7. 'Transforming India's Gold Market' constituted by NITI Aayog to recommend measures for tapping into the potential of the sector and provide a stimulus to exports and economic growth

There are arguments put forth by experts about the weaknesses of the system. They argue that NITI has a limited role; it does not produce national plans, control expenditures, or review state plans. The major shortcoming of NITI is its exclusion from the budgeting process. It also lacks autonomy and balance of power within the policy making apparatus of the central government. The termination of the Planning Commission has strengthened the hand of the Ministry of Finance, with its 'fixation on near-term macroeconomic stability and the natural instinct to limit expenditure'. But NITI lacks the independence and power to perform as a 'counterweight' to act as a "voice of development" concerned with inequities.

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

On account of the enormity of the economic phenomena and the dynamic nature of economic variables, it is not possible to have an up-to-date and comprehensive documentation on the current state of the economy. Given the constraints of the unit, an attempt is made in the following sections to present the broad nature of the present day Indian economy based on the three sectors namely, primary, secondary and tertiary.

10.7.1 The Primary Sector

Agriculture, with its allied sectors, is indisputably the largest source of livelihood in India. Till the end of 1960's, India was a food deficient nation and depended on imports. India has emerged as the world's largest producer of milk, pulses, jute and spices. India has the largest area planted under wheat, rice and cotton. It is the second-largest producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton, and sugar. Indian food and grocery market is the world's sixth largest, with retail contributing 70% of the sales. India has the world's largest cattle herd (buffaloes).The Indian livestock sector attained a record growth of 6.6 per cent during the last decade (2010-19) emerging as a major producer of milk, egg and meat in the world. India grows large varieties of cash crops of which cotton, jute and sugarcane are prominent. Although the share of agriculture has been declining in overall gross value added (GVA) of India, it continues to grow in absolute terms.

According to the latest estimates, 47 per cent of India's population is directly dependent on agriculture for living. It also contributes a significant figure to the Gross Domestic Product (GDP). Gross Value Added by the agriculture and allied sector was 18.8% in 2021-22 (until 31 January, 2022).

The index numbers of agricultural production in 2021-22 (base: triennium ending 2007-08=100) for categories namely, all crops, food-grains, cereals, wheat and coarse cereals was above 140; and that of rice and pulses was 138.7 and 196.2 respectively. For non- food grains, it was 142.9. These figures show sustained increase in agricultural output. Food grains production has reached 315.7 million tonnes in 2021-22. Private investment in agriculture has increased to 9.3% in 2020-21. *(Source: Handbook of Statistics on the Indian Economy, 2021-22)*

As per the economic survey, 2022-23, agriculture remained robust, recording a growth of 3.5 per cent in 2022-23, driven by buoyant rabi sowing and allied activities. The performance of the agriculture and allied sectors has been buoyant over the past several years, much of which is on account of the measures taken by the government to:

- augment crop and livestock productivity,
- ensure certainty of returns to the farmers through price support (The Minimum Support Price (MSP) of all 23 mandated crops is fixed at 1.5 times of all India weighted average cost of production)
- promote crop diversification,
- improve market infrastructure through the impetus provided for the setting up of farmer-producer organisations and
- promotion of investment in infrastructure facilities through the Agriculture Infrastructure Fund.

India has achieved a remarkable shift from a food deficient and import dependent nation during the early nineteen sixties to a food exporting nation. India is among the top ten exporters of agricultural products in the world. Export of agricultural and allied products has witnessed significant increase during the last few years and touched an all-time peak of 374611 crore during the last one year. Exports of agricultural and processed food products rose by 25 percent within six months of the current financial year 2022-23 (April-September) in comparison to the corresponding period in 2021-22. Agricultural and Processed Food Export Development Authority (APEDA) is entrusted with the responsibility of export promotion of agri-products.

A number of liberalization measures are adopted by the government. The Government of India has allowed 100% FDI in marketing of food products and in food product E-commerce under the automatic route. Considering the diverse needs of the agricultural sector and the larger farming community, a large number of interventions are undertaken by different governments. A few such recent measures are:

- Income support to farmers through PM KISAN
- Fixing of Minimum Support Price (MSP) at one-and-a half times the cost of production
- Institutional credit for agriculture sector at concessional rates
- Launch of the National Mission for Edible Oils
- Pradhan Mantri Fasal BimaYojana (PMFBY) – a novel insurance scheme for financial support to farmers suffering crop loss/damage
- Mission for Integrated Development of Horticulture (MIDH) for the holistic growth of the horticulture sector
- Provision of Soil Health Cards
- Paramparagat Krishi Vikas Yojana (PKVY) supporting and promoting organic farming, and improvement of soil health.
- Agri Infrastructure Fund, a medium / long term debt financing facility for investment in viable projects for post-harvest management Infrastructure and community farming assets
- Promotion of Farmer Producer Organisations (FPOs) to ensure better income for the producers through an organization of their own.
- Per Drop More Crop (PDMC) scheme to increase water use efficiency at the farm level
- Setting up of Micro Irrigation Fund
- Initiatives towards agricultural mechanization
- Setting up of E-NAM -a pan-India electronic trading portal which networks the existing APMC mandis to create a unified national market for agricultural commodities.
- Introduction of Kisan Rail for improvement in farm produce logistics, and
- Creation of a Start-up Eco system in agriculture and allied sectors

Despite phenomenal increase in output of both food crops and commercial crops, Indian agriculture faces many issues such as:

- Indian agriculture is dominated by small and medium farmers. Small and fragmented landholdings, low farm productivity and subsistence farming result in very little marketable surplus and the consequent lower income levels of the agriculturists. These also reduce their ability to participate in the domestic as well as export market.

- Indian agriculture is resource intensive, cereal centric and regionally biased. There is Increasing stress on water resources and soil fertility. Unscientific and wasteful agricultural practices lead to desertification and land degradation in many parts of the country.
- Inadequate agro-processing infrastructure and failure to build competitive value chains from producers to urban centers and export markets
- Sluggish agricultural diversification to higher-value commodities
- Inadequate adoption of environmentally sustainable and climate resistant new farm technology
- Poor adoption of new agricultural technologies
- Lopsided marketing practices and ineffective credit delivery
- Complexities associated with adaptation to climate change disturbances
- High food price volatility
- Heavy dependence on monsoons and loss of crops and livelihood due to vagaries of nature
- Issues related to marketing and warehousing of agricultural products
- Inability to tap the full export potential of primary as well as value added products
- Inability to effectively channelize huge surpluses in some commodities to alternative profitable destinations
- Inadequate post-harvest infrastructure and management practices
- Incidence of poverty and malnutrition

10.7.2 The Secondary Sector

The Indian industry holds a significant position in the Indian economy contributing about 30 percent of total gross value added in the country and employing over 12.1 crores of people. The industrial sector in India broadly comprises of manufacturing, heavy industries, fertilizers, pharmaceuticals, chemicals and petrochemicals, oil and natural gas, food processing, mining, defence products, textiles, retail, micro, small & medium enterprises, cottage industries and tourism. The share of informal sector in the economy is more than 50% of GVA. Rapid industrial growth of domestic industries and diversification of industrial structure are essential elements for sustainable economic growth. The development of a robust manufacturing sector is a key priority of the Indian Government.

A detailed discussion on industrial development is beyond the scope of this unit. Starting with the industrial growth figures, we shall briefly touch upon the general aspects related to industries. In India, industrial production measures the output of businesses integrated in industrial sector of the economy. Manufacturing is the most important sector and accounts for 78 percent of total production. The manufacturing GVA at current prices was estimated at US$ 77.47 billion in the third quarter of financial year 2021-22 and has contributed around 16.3% to the nominal GVA during the past ten years. In 2022- 23 (until September 2022), the combined index of eight core industries* stood at 142.8 driven by the production of coal, refinery products, fertilizers, steel, electricity and cement industries. In Jan 31, 2023 the Manufacturing Purchasing Managers' Index (PMI) in India stood at 55.4. India's rank in the Global Innovation Index (GII) improved to 40th in 2022 from 81st in 2015.

*[*ICI measures combined and individual performance of production of eight core industries viz. Coal, Crude Oil, Natural Gas, Refinery Products, Fertilizers, Steel, Cement and Electricity. The Eight Core Industries comprise 40.27 percent of the weight of items included in the Index of Industrial Production (IIP)].*

The Department for Promotion of Industry and Internal Trade (DPIIT) has a role in the formulation and implementation of industrial policy and strategies for industrial development in conformity with the development needs and national objectives. Ever since independence, many innovative schemes are undertaken by different governments from time to time to boost industrial performance. Some of the policies are presented below:

- Introduction of goods and services tax (GST) on 1 July 2017 as a single domestic indirect tax law for the entire country replacing many indirect taxes in India such as the excise duty, VAT, services tax, etc.
- Reduction of corporate tax to domestic companies giving an option to pay income-tax at the rate of 22% subject to condition that they will not avail any exemption/incentive.
- 'Make in India' is a 'Vocal for Local' initiative launched in 2014 to facilitate investment, foster innovation, build excellent infrastructure and make India a hub for manufacturing, design and innovation. Make in India 2.0' is now focusing on 27 sectors, which include 15 manufacturing sectors and 12 service sectors.
- 'Ease of Doing Business' with key focus areas as simplification of procedures, rationalization of legal provisions, digitization of government processes, and decriminalization of minor, technical or procedural defaults. India ranks 63rdin the World Bank's annual Doing Business Report (DBR), 2020 as against 77thrank in 2019 registering a jump of 14 ranks.

- The National Single Window System is a one-stop-shop for investor related approvals and services in the country and aims to provide continuous facilitation and support to investors.
- PM Gati Shakti National Master Plan to facilitate data-based decisions related to integrated planning of multimodal infrastructure, thereby reducing logistics cost.
- National Logistics Policy (NLP) launched in September 2022, aims to lower the cost of logistics and make it at par with other developed countries.
- Keeping in view India's vision of becoming 'Atmanirbhar', the Production Linked Incentive (PLI) Scheme was initiated in March 2020 for 14 key sectors to enhance India's manufacturing capabilities and export competitiveness. PLI Scheme is now extended for white goods (air conditioners and led lights).
- Industrial Corridor Development Programme: Greenfield Industrial regions/areas/nodes with sustainable infrastructure and to make available 'plug and play' infrastructure at the plot level.
- FAME-India Scheme (Faster Adoption and Manufacturing of Hybrid and Electric Vehicles) to promote manufacturing of electric and hybrid vehicle technology and to ensure sustainable growth of the same.
- 'Udyami Bharat' aims at the empowerment of Micro Small and Medium Enterprises (MSMEs).
- PM Mega Integrated Textile Region and Apparel (PM MITRA): to ensure world-class industrial infrastructure which would attract cutting age technology and boost FDI and local investment in the textiles sector.
- Opening up for global investments: To make India a more attractive investment destination, the government has implemented several radical and transformative FDI reforms across sectors such as defence, pension, e-commerce activities etc.
- 100 per cent FDI under automatic route is permitted for the sale of coal, and coal mining activities, including associated processing infrastructure and for insurance intermediaries.
- Foreign Investment Promotion Board (FIPB) was abolished in May 2017, and a new regime namely Foreign Investment Facilitation Portal (FIF) has been put in place. Under the new regime, the process for granting FDI approvals has been simplified. 853 FDI proposals were disposed off in the last 5 years. FDI has increased jumped by 39% since FIF came into being.
- Remission of Duties and Taxes on Export Products (RoDTEP) 2021 formed to replace the existing MEIS (Merchandise Exports from India Scheme) to boost exports. It

provides for rebate of all hidden central, state, and local duties/taxes/levies on the goods exported which have not been refunded under any other existing scheme.

- Initiatives towards fostering innovation include incubation, handholding, funding, industry-academia partnership and mentorship and strengthening of IPR regime.
- National Logistics Policy (NLP) is comprehensive policy framework for the Logistics Sector.
- Start-up India Programme acts as the facilitator for ideas and innovation in the country. India's rank in the Global Innovation Index (GII) has improved from 81st in 2015 to 40th in 2022.
- Public Procurement (Preference to Make in India) Order, 2017gives preference to locally manufactured goods, works and services in public procurement thereby giving boost to industrial growth.
- The Emergency Credit Line Guarantee Scheme (ECLGS)is a fully guaranteed emergency credit line to monitor lending institutions.

India is gearing up for the fourth industrial revolution or Industry 4.0 in which manufacturing transformation needs to integrate new technologies such as cloud computing, IoT, machine learning, and artificial intelligence (AI). The National Manufacturing Policy which aims to increase the share of manufacturing in GDP to 25 percent by 2025 is a step in this direction.

India is an attractive hub for foreign investments in the manufacturing sector. Over the last few years, FDI equity inflows in the manufacturing sector have been progressively rising. India continues to open up its sectors to global investors by raising FDI limits and removing regulatory barriers in addition to developing infrastructure and improving the business environment. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India received a total foreign direct investment (FDI) inflow of US$ 58.77 billion in 2021-22.

There are many challenges to the industrial sector; a few of these are enumerated below:

- Shortage of efficient infrastructure and manpower and consequent reduced factor productivity.
- Reliance on imports, exchange rate volatility and associated time and cost overruns
- The MSME sector is relatively less favorably placed in terms of credit availability.
- Industrial locations established without reference to cost-effective points tend to experience unsustainable cost structure.
- Heavy losses, inefficiencies, lower productivity and unsustainable returns plaguing public sector industries.

- Strained labor-management relations and loss of man hours.
- Lower export competitiveness, slowing external demand and imposition of non tariff barriers by other countries.
- Global supply chain disruptions and uncertainties.
- Inflation and associated macro economic developments leading to input cost escalations and lower demand.
- Global slowdown and related negative sentiments affecting investment.
- Aggressive tightening of monetary policy and increases in cost of credit.
- High and increasing fuel prices, and
- Mounting presence of informal sector.

10.7.3 The Tertiary Sector

A remarkable feature of the post reform Indian economy is the overarching role of the services sector in generating growth of income and employment. Unlike the usual economic development process of nations where economic growth has led to a shift from agriculture to industries, or from the primary sector to the secondary sector, India has the unique experience of bypassing the secondary sector in the growth trajectory by a shift from agriculture to the services sector.

India's services sector covers a wide variety of activities. (Refer Box 2 Below)

	BOX 2. The broad classification of services as per the National Industrial Classification, 2008
1.	Wholesale and retail trade and repair of vehicles
2.	Transportation and storage
3.	Accommodation and food service activities
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 compulsory social security
10.	Education
11.	Human health and social work activities
12.	Arts, entertainments and recreation

13.	Other service activities
14.	Activities of households as employers, undifferentiated goods and services producing activities of households for own use
15.	Activities of extra territorial organizations and bodies

Source: The Service Sector in India Arpita Mukherjee ADB Economics Working Paper Series No. 352 / June 2013

The service sector refers to the industry producing intangible goods viz. services as output. The services sector is the largest sector of India and accounts for 53.89% of total India's GVA. The Gross Value Added (GVA) at current prices for the services sector is estimated at ₹ 96.54 lakh crore in 2020-21.

The service sector is the fastest growing sector in India and has the highest labour productivity. Both domestic and global factors influence the growth of the services sector. The exceptionally rapid expansion of knowledge-based services such as professional and technical services has been responsible for the faster growth of the services sector. The production and consumption of information-intensive service activities such as computing, accounting, inventory management, quality control, personnel administration, marketing, advertising and legal services has increased manifold due to application of state- of the- art information technology. Services sector growth can also complement growth in the manufacturing sector. The start-ups which have grown remarkably over the last few years mostly belong to the services sector.

India is among the top 10 World Trade Organization (WTO) members in service exports and imports. India's services exports at US$ 27.0 billion recorded robust growth in November 2022 due to software, business, and travel services. While exports from all other sectors were adversely affected, India's services exports have remained resilient during the Covid-19 pandemic. The reasons are the higher demand for digital support and need for digital infrastructure modernization.

The Indian services sector is the largest recipient of FDI inflows. FDI equity inflows into the services sector accounted for more than 60 per cent of the total FDI equity inflows into India. The World Investment Report 2022 of UNCTAD places India as the seventh largest recipient of FDI in the top 20 host countries in 2021. In 2021-22, India received the highest-ever FDI inflows of US$ 84.8 billion including US$ 7.1 billion FDI equity inflows in the services sector.

To ensure the liberalisation of investment in various industries, the government has permitted 100 per cent foreign participation in telecommunication services through the Automatic Route including all services and infrastructure providers. The FDI ceiling in insurance companies was also raised from 49 to 74 per cent. Measures undertaken by the Government, such as the launch of the National Single-Window system and enhancement in the FDI ceiling through the automatic route, have played a significant role in facilitating investment.

10.8 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.

SUMMARY

- India is believed to have had the largest economy of the ancient and the medieval world and controlled between one third and one fourth of the world's wealth. It was prosperous and self-reliant and had flourishing cities and self sufficient villages.
- The advent of the Europeans and the rule of British from 1757 to 1947 brought about a marked shift in the economic history of India.
- Higher production on account of industrial revolution in Britain necessitated raw materials and markets for finished goods for which India was made the target. This, along with adverse imperial policies towards Indian manufacturing and the ease of importing cheap machine made goods decreased the competitiveness of Indian manufactures and reduced their domestic demand leading to a virtual destruction of the Indian manufacturing sector.
- The consequence of collapse of manufacturing sector was felt heavily on agricultural sector in the form of overcrowding on farms, subdivision and fragmentation, subsistence farming, low productivity, lower incomes and aggravated poverty.
- Institutional inadequacies in land tenure and growth of a class of exploitative money lenders and zamindars resulted in vices such as absentee landlordism, high rents, high indebtedness, deterioration of fertility of land and low productivity.
- During the British period, modern industrial sector saw lopsided growth with preponderance of cotton and jute industry. Producer goods industries lagged behind

due to the discriminatory attitudes of self interested British rulers. The share of manufacturing and of employment in this sector was pathetically low.

- At the time of independence, India was overwhelmingly rural, inhabited by mostly illiterate and poor people with low life expectancy. The social structure was deeply stratified and exceedingly heterogeneous on many counts. The country was deficient in physical, financial and human capital.
- The economic development strategy adopted was the Nehruvian model which supported social and economic redistribution and industrialization directed by the state. Accordingly the Planning Commission of India was established to meticulously plan for economic development on socialistic lines with equity and distributive justice. The five-year plans were developed, implemented, and monitored by the Planning Commission with this objective.
- Rapid industrialization of the economy was the cornerstone of Nehru's development strategy. The concept of 'planned modernization' meant a systematic planning to support industrialization.
- The Industrial Policy Resolution (1948) envisaged an expanded role for the public sector and licensing to the private sector.
- The policies in 1950's were guided by both Nehruvian and Gandhian philosophies with the former visualizing a socialistic society with emphasis on heavy industries and the latter stressing on small scale and cottage industry and village republics.
- The Industrial Policy Resolution of 1956 supported undue priority and enormous expansion of the scope of the public sector which resulted in dampening of private initiative and enterprise.
- In the first three decades after independence (1950–80), India's average annual rate of growth of GDP, often referred to as the 'Hindu growth rate', was a modest 3.5 percent.
- The first major shift in Indian economic strategy was in the mid-1960s. Due to continuous failures of monsoon, droughts struck India in 1966 and 1967 and food crisis set in. The need for increased productivity in agriculture kick-started a strategic change in agriculture policies.
- The strategy for agricultural development which had so far relied on institutional model such as land reforms gave way to technological and farm management reforms giving rise to a revolutionary transformation in agricultural production and productivity.

- This radical change materialised by innovative farm technologies, including high yielding seed varieties and intensive use of water, fertilizer and pesticides is referred to as 'Green Revolution'.
- Many government policies aimed at prevention of growth of monopolies and equitable distribution of income and wealth such as reservation of many products for exclusive manufacture by the small scale sector and the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP) (which placed several restrictions on large enterprises in terms of licensing, capacity addition, mergers and acquisitions) effectively killed the incentive for creating wealth.
- The economic performance during the period of 1965-81 is the worst in independent India's history. The *license-raj,* the autarchic policies that dominated the 1960s and 1970s, and the external shocks such as three wars, major droughts, and the oil shocks of 1973 and 1979 contributed to the decelerated growth lasting two decades.
- The seeds of early liberalisation and reforms were sown during the 1980s, especially after 1985. In early 1980s considerable efforts were made to restore reasonable price stability through a combination of tight monetary policy, fiscal moderation and a few structural reforms.
- The reform initiatives- covering three areas, namely industry, trade and taxation-spanning 1981 to 1989, is referred to as 'early liberalization' or 'reforms by stealth' to denote its ad hoc and not widely publicized nature. They were aimed at changing the prevailing thrust on 'inward-oriented' trade and investment practices.
- The major reforms in 1980's included de licensing of 25 broad categories of industries, granting of the facility of 'broad-banding' to allow flexibility and rapid changes in the product mix of industries without going in for fresh licensing, increase in the asset limit of MRTP firms from 20 crore to 100 crore, introduction of modified value-added (MODVAT), establishment of the Securities and Exchange Board of India (SEBI) as a non-statutory body ,extension of the Open General Licence (OGL), export incentives, liberalisation of imports , reduction in tariffs and removal of price and distribution controls on cement and aluminium.
- The private sector investments were inhibited due to reasons such as convoluted licensing policies, public sector reservations and excessive government controls, reservation of goods to small scale sector as well as excessive price and distribution controls.

- The public sector which led the manufacturing and service sectors was plagued by inefficiency, government controls and bureaucratic procedures and yielded very low returns on investment.
- Import controls in the form of tariffs, quotas and quantitative restrictions, and restrictions on foreign trade and investments virtually insulated the economy from foreign competition.
- The reforms in 1980'swere instrumental in bringing confidence in the minds of politicians and policy makers that a well-regulated competitive market can ensure economic growth and increase in overall welfare.
- Extremely large fiscal deficits, severe strain on balance of payments, heavy internal as well as external debt, unprecedented levels of interest payments, all-time low foreign exchange reserves, lessons from collapse of Soviet Union, spectacular success of China through adoption of outward oriented policies and above all, the stringent conditions put forth by the International Monetary Fund for availing further loans were the reasons for launching the drastic economic reforms of 1991.
- The twin objectives of reforms were reorientation of the economy from a centrally directed and highly controlled one to a 'market friendly' or 'market oriented' economy and macroeconomic stabilization by substantial reduction in fiscal deficit.
- The reform policies can be broadly classified as a) stabilisation measures which were short term measures to address the problems of inflation and adverse balance of payment and b) structural reform measures which are long term and of continuing nature aimed at bringing in productivity and competitiveness by removing the structural rigidities in different sectors of the economy.
- The fiscal reforms included introduction of a stable and transparent tax structure, better tax compliance, control of government expenditure, reduction /abolition of subsidies, disinvestment of part of government's equity holdings and encouraging private sector participation.
- The monetary and financial sector reforms were in the form of interest rate liberalization, reduction in controls on banks by the Reserve Bank of India in respect of interest rates and facilitating greater competition in the banking sector by private participation and foreign competition, reduction in reserve requirements, liberalisation of bank branch licensing policy and establishing prudential norms of accounting in respect of classification of assets, disclosure of income and provisions for bad debt.

- Reforms in Capital Markets included granting of statutory recognition to the Securities and Exchange Board of India (SEBI) to facilitate mobilization of adequate resources and their efficient allocation.
- 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.
- The policy put an end to the 'License Raj' by removing licensing restrictions for all industries except for 18 on strategic considerations.
- Other initiatives included reduction in the number of industries reserved for the public sector and the small scale sector, restructuring of the polices related to merger, amalgamation, and takeover under the MRTP act, devaluation of rupee, liberalization of foreign investments and disinvestment of government holdings of equity share capital of public sector enterprises.
- The trade policy reforms included liberalisation of external trade, removal of licensing for imports, dismantling of quantitative restrictions on imports and exports and phased reduction and simplification of tariffs.
- Reforms resulted in major changes such as increasing integration with the global economy, progressive shift towards a market oriented economy, sizeable reduction in government's market intervention and controls, unprecedented growth of private sector investments and initiatives, increased levels of international competitiveness, easier access to foreign technology, inputs ,know-how and finance, steady inflow of foreign direct and portfolio investments , solid cushion of foreign exchange reserves, increased incomes, large domestic market, sustainable levels of aggregate demand, substantial reduction in poverty, greater customer choice, increased efficiency, phenomenal growth of infrastructure sector and the deepening of the financial sector.
- The GDP growth rate, on an average, has been commendable throughout the post reform period except for the pandemic ridden year 2020 when the economy registered a negative growth rate.
- Despite the above achievements, the country is constrained by high levels of fiscal deficit, growing inequalities, inflation and high levels of debt as a share of GDP.
- The Planning Commission of India was one of the most important institutions within India's central government for nearly sixty four years. The new ideologies of the neoliberal era called for a change in the nature, composition and scope of institutions of governance.

- On 1st January 2015, the apex policy-making body namely Planning Commission, was replaced by the National Institution for Transforming India (NITI) Aayog with the objective to 'spur innovative thinking by objective 'experts' and promote 'co-operative federalism' by enhancing the voice and influence of the states'.
- NITI Aayog is expected to serve as a 'Think Tank' of the government. [and] as 'directional and policy dynamo'. The key initiatives of NITI Aayog are: 'Life', The National Data and Analytics Platform (NDAP), Shoonya, E-Amrit, India Policy Insights (IPI), and 'Transforming India's Gold Market'.
- The weaknesses of the system are that NITI has a limited role; it is excluded from the budgeting process, lacks autonomy and balance of power within the policy making apparatus of the central government and that it lacks the independence and power to perform as a 'counterweight' to act as a "voice of development" concerned with inequities.
- The Primary sector i.e agriculture with its allied sectors is the largest source of livelihood for people. India has emerged as the world's largest producer of milk, pulses, jute and spices and has the largest area planted under wheat, rice and cotton. It is the second largest producer of fruits, vegetables tea, farmed fish, cotton, sugarcane, wheat, rice, cotton, and sugar. Forty seven per cent of India's population is directly dependent on agriculture for living which contributes a significant figure to the Gross Domestic Product18.8% in 2021-22 (until 31 January, 2022). Food grains production has reached 315.7 million tonnes in 2021-22.
- India is among the 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 of agri-products.
- Various measures are adopted by the government such as 100% FDI in marketing of food products and in food product E-commerce, income support to farmers through PM KISAN, fixing of Minimum Support Price (MSP) at one-and-a half times the cost of production, institutional credit for agriculture sector at concessional rates , National Mission for Edible Oils, Pradhan Mantri Fasal BimaYojana (PMFBY) a novel insurance scheme, Mission for Integrated Development of Horticulture (MIDH, Soil Health Cards, Paramparagat Krishi Vikas Yojana (PKVY), Agri Infrastructure Fund, Promotion of Farmer Producer Organisations (FPOs), Per Drop More Crop (PDMC), setting up of Micro Irrigation Fund, creation of E-NAM -a pan-India electronic trading portal, introduction of Kisan Rail and creation of a Start-up Eco system in agriculture and allied sectors.

- Indian agriculture faces many issues, such as small and fragmented landholdings, low farm productivity and subsistence farming, low marketable surplus and the consequent lower income levels, inability to participate in the domestic as well as export market, inadequate agro-processing infrastructure, failure to build competitive value chains, sluggish agricultural diversification to higher-value commodities, inadequate adoption of environmentally sustainable and climate resistant new farm technology, lopsided marketing practices, ineffective credit delivery, high food price volatility, heavy dependence on monsoons, poor warehousing, inadequate post-harvest infrastructure management practices and incidence of poverty and malnutrition.
- The industrial sector contributes about 30 percent of total gross value added and employs over 12.1 crores of people. Manufacturing is the most important sector and accounts for 78 percent of total production.
- In 2022- 23 (until September 2022), the combined index of eight core industries stood at 142.8 In Jan 31, 2023 the Manufacturing Purchasing Managers' Index (PMI) in India stood at 55.4. India's rank in the Global Innovation Index (GII) improved to 40th in 2022 from 81st in 2015.
- The Department for Promotion of Industry and Internal Trade (DPIIT) has a role in the formulation and implementation of industrial policy and strategies for industrial development.
- Some of the policies for industrial development include introduction of goods and services tax (GST) 2017 as a single domestic indirect tax law for the entire country, reduction in corporate tax of domestic companies, 'Make In India' a 'Vocal for Local' initiative, Ease of Doing Business , the National Single Window System, PM Gati Shakti National Master Plan, National Logistics Policy (NLP), Production Linked Incentive (PLI) Scheme, Industrial Corridor Development Programme, FAME-India Scheme, Udyami Bharat', PM Mega Integrated Textile Region and Apparel, Remission of Duties and Taxes on Export Products (RoDTEP) ,National Logistics Policy (NLP), Start-up India, Programme of Public Procurement (Preference to Make in India) and the Emergency Credit Line Guarantee Scheme.
- The major challenges to the industrial sector are shortage of efficient infrastructure and manpower, reduced factor productivity, heavy reliance on imports, exchange rate volatility, industrial locations established without reference to cost-effective points, heavy losses, inefficiencies, lower productivity and unsustainable returns plaguing the public sector industries, strained labour-management relations, lower export competitiveness, slowing external demand, imposition of non tariff barriers by other

countries, global supply chain disruptions and uncertainties, inflation, leading to input cost escalations and lower demand, global slowdown and related negative sentiments affecting investments , aggressive tightening of monetary policy and increases in cost of credit ,high and increasing fuel prices and the mounting presence of informal sector .

- A remarkable feature of the post reform Indian economy is the unconventional experience of bypassing the secondary sector in the growth trajectory by a shift from agriculture to the services sector.
- The services sector is the largest sector of India and accounts for 53.89% of total India's GVA. It has the highest labour productivity and is the fastest growing sector. The exceptionally rapid expansion of knowledge-based services such as professional and technical services has contributed substantially to the growth of tertiary sector.
- India is among the top 10 World Trade Organization (WTO) members in service exports and imports. India’s services exports at US$ 27.0 billion recorded robust growth in November 2022 due to software, business, and travel services.
- To ensure the liberalisation of investment in various industries, the government has permitted 100 per cent foreign participation in telecommunication services through the Automatic Route including all services and infrastructure providers.
- The India Development Update (IDU) of the World Bank published in November 2022 holds the optimistic view that compared to other emerging economies, India is much more resilient to withstand adversities in the global arena, while acknowledging the fact 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.

TEST YOUR KNOWLEDGE

Multiple Choice Type Questions

1. *The Indian industry stagnated under the colonial rule because*

   (a) Indians were keen on building huge structures and monuments only

   (b) Deterioration was caused by high prices of inputs due to draught

   (c) The Indian manufactures could not compete with the imports of cheap machine made goods

   (d) None of the above

2. *The first wave of liberalization starts in India*
   (a) *In 1951*
   (b) *In 1980's*
   (c) *In 1990*
   (d) *In 1966*
3. *The sequence of growth and structural change in Indian economy is characterized by*
   (a) *The historical pattern of prominence of sectors as agriculture, industry, services*
   (b) *The historical pattern of prominence of sectors as industry, services, agriculture*
   (c) *Unique experience of the sequence as agriculture, services, industry*
   (d) *All the above are correct*
4. *Merchandise Exports from India Scheme was replaced by -*
   (a) *Remission of Duties and Taxes on Export Products (RoDTEP) in 2021*
   (b) *National Logistics Policy (NLP) in 2020*
   (c) *Remission of Duties and Taxes on Export Products (RoDTEP) in 2019*
   (d) *None of the above*
5. *The Foreign Investment Promotion Board (FIPB)*
   (a) *a government entity through which inward investment proposals were routed to obtain required government approvals*
   (b) *no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal*
   (c) *no more exists as all inward investments are through automatic route and need no approval*
   (d) *is the body which connects different ministries in respect of foreign portfolio investments*
6. *FAME-India Scheme aims to*
   (a) *Enhance faster industrialization through private participation*
   (b) *to promote manufacturing of electric and hybrid vehicle technology*
   (c) *to spread India's fame among its trading partners*
   (d) *None of the above*

7. *In terms of Ease of Doing Business in 2020 India ranks*

   (a) *63*

   (b) *77*

   (c) *45*

   (d) *None of the above*

8. *E-NAM is -*

   (a) *An electronic name card given to citizens of India*

   (b) *National Agriculture Market with the objective of creating a unified national market for agricultural commodities.*

   (c) *a pan-India electronic trading portal which networks the existing APMC mandis*

   (d) *b) and c) above*

9. *Which of the following is not a policy reform included in the new economic policy of 1991 -*

   (a) *removing licensing requirements for all industries*

   (b) *Foreign investment was liberalized*

   (c) *Liberalisation of international trade*

   (d) *The disinvestment of government holdings of equity share capital of public sector enterprises*

10. *Imports of foreign goods and entry of foreign investments were restricted in India because -*

   (a) *The government wanted people to follow the policy of' Be Indian; Buy Indian'*

   (b) *Because foreign goods were costly and meant loss of precious foreign exchange*

   (c) *Government policy was directed towards protection of domestic industries from foreign competition*

   (d) *Government wanted to preserve Indian culture and to avoid influence of foreign culture*

11. *The 'Hindu growth rate' is a term used to refer to -*

   (a) *the high rate of growth achieved after the new economic policy of 1991*

   (b) *the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year*

(c) *the low growth of the economy during British period marked by an average of 3.5 percent*

(d) *the growth rate of the country because India is referred to as 'Hindustan'*

12. *In the context of the new economic policy of 1991, the term 'disinvestment' stands for -*

(a) *A policy whereby government investments are reduced to correct fiscal deficit*

(b) *The policy of sale of portion of the government shareholding of a public sector enterprise*

(c) *The policy of public partnership in private enterprise*

(d) *A policy of opening up government monopoly to the privates sector*

13. *The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -*

(a) *to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few*

(b) *to provide for the control of monopolies*

(c) *to prohibit monopolistic and restrictive trade practice*

(d) *all the above*

14. *Which one of the following is a feature of green revolution -*

(a) *use of soil friendly green manure to preserve fertility of soil*

(b) *grow more crops by redistributing land to landless people*

(c) *High yielding varieties of seeds and scientific cultivation*

(d) *Diversification to horticulture*

15. *The strategy of agricultural development in India before green revolution was -*

(a) *High yielding varieties of seeds and chemical fertilizers to boost productivity*

(b) *Institutional reforms such as land reforms*

(c) *Technological up gradation of agriculture*

(d) *All the above*

16. *The Industrial Policy Resolution (1948) aimed at -*

(a) *Market oriented economic reforms and opening up of economy*

(b) *A shift from state led industrialization to private sector led industrialisation*

(c) *an expanded role for the public sector and licensing to the private sector*

(d) *an expanded role of private sector a limited role of public sector*

17. *The new economic policy of 1991 manifest in -*

    (a) *State led industrialization and import substitution*

    (b) *Rethinking the role of markets versus the state*

    (c) *Emphasized the role of good governance*

    (d) *Bringing about reduction in poverty and redistributive justice*

18. *The post independence economic policy was rooted in -*

    (a) *A capitalist mode of production with heavy industrialization*

    (b) *social and economic redistribution and industrialization directed by the state*

    (c) *social and economic redistribution through private sector initiatives*

    (d) *Industrialization led by private entrepreneurs and redistribution by state*

ANSWERS

1.	**(c)**	2.	**(b)**	3.	**(c)**	4.	**(a)**	5.	**(b)**	6	**(b)**
7.	**(a)**	8.	**(d)**	9.	**(a)**	10.	**(c)**	11.	**(b)**	12.	**(b)**
13.	**(d)**	14.	**(c)**	15.	**(b)**	16.	**(c)**	17.	**(b)**	18.	**(b)**