

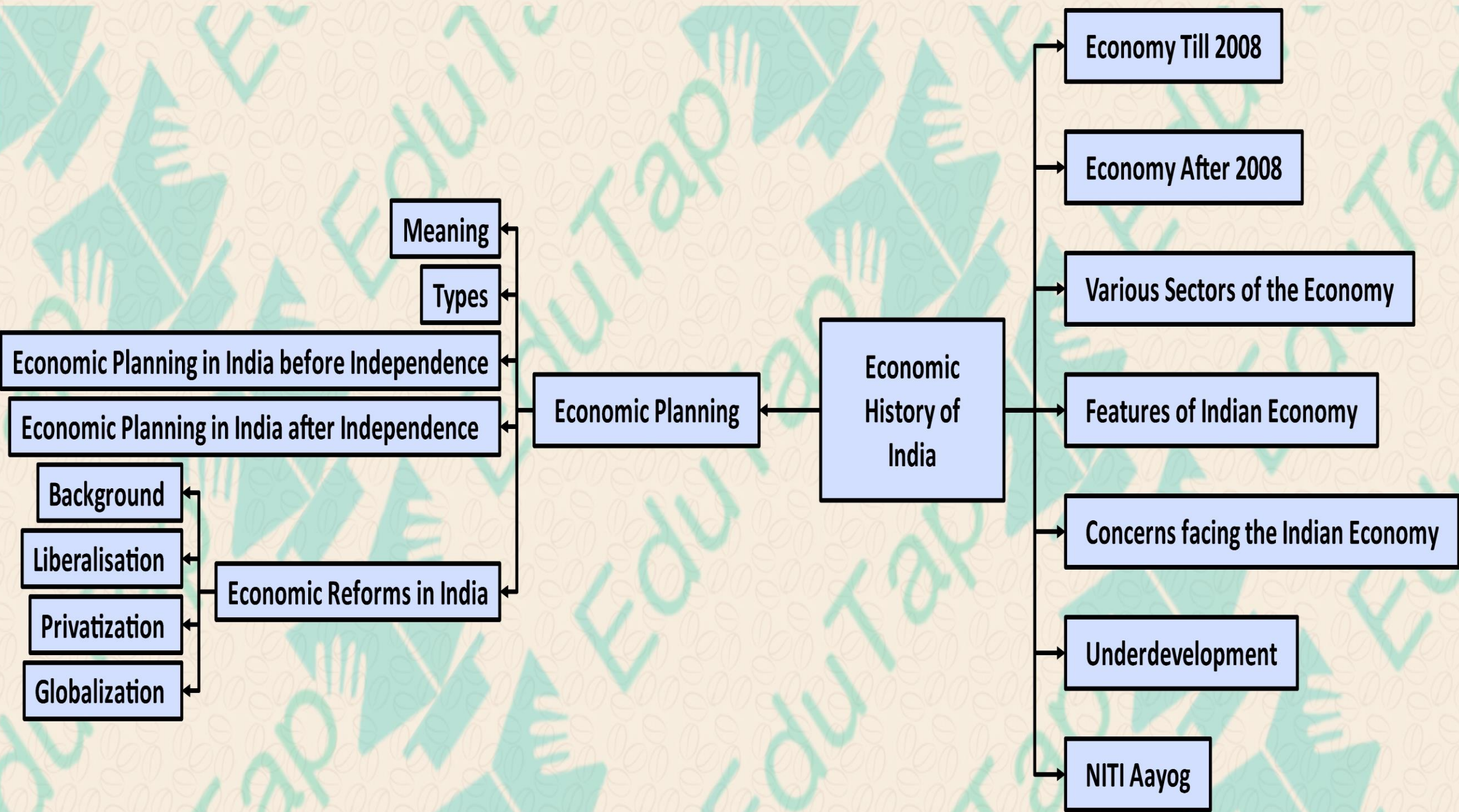
MIND MAP

for Instant Revision



*Economic History of India
- Globalisation and
Privatisation*





Economic History of India

Economic Planning

Economic Reforms in India

Economy Till 2008

Economy After 2008

Various Sectors of the Economy

Features of Indian Economy

Concerns facing the Indian Economy

Underdevelopment

NITI Aayog

Meaning

Types

Economic Planning in India before Independence

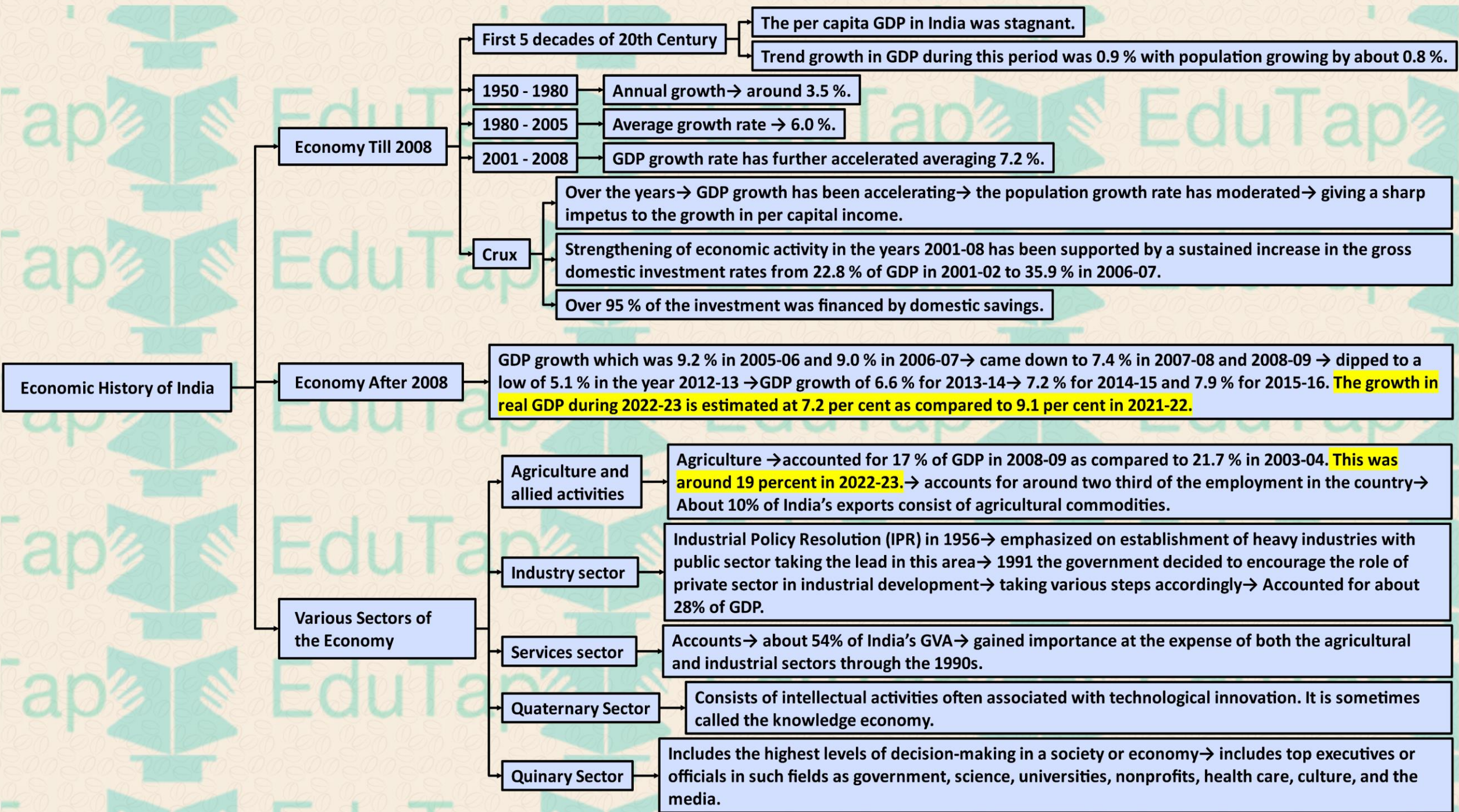
Economic Planning in India after Independence

Background

Liberalisation

Privatization

Globalization



Economic History of India

Economy Till 2008

First 5 decades of 20th Century

The per capita GDP in India was stagnant.

Trend growth in GDP during this period was 0.9 % with population growing by about 0.8 %.

1950 - 1980

Annual growth → around 3.5 %.

1980 - 2005

Average growth rate → 6.0 %.

2001 - 2008

GDP growth rate has further accelerated averaging 7.2 %.

Crux

Over the years → GDP growth has been accelerating → the population growth rate has moderated → giving a sharp impetus to the growth in per capital income.

Strengthening of economic activity in the years 2001-08 has been supported by a sustained increase in the gross domestic investment rates from 22.8 % of GDP in 2001-02 to 35.9 % in 2006-07.

Over 95 % of the investment was financed by domestic savings.

Economy After 2008

GDP growth which was 9.2 % in 2005-06 and 9.0 % in 2006-07 → came down to 7.4 % in 2007-08 and 2008-09 → dipped to a low of 5.1 % in the year 2012-13 → GDP growth of 6.6 % for 2013-14 → 7.2 % for 2014-15 and 7.9 % for 2015-16. The growth in real GDP during 2022-23 is estimated at 7.2 per cent as compared to 9.1 per cent in 2021-22.

Various Sectors of the Economy

Agriculture and allied activities

Agriculture → accounted for 17 % of GDP in 2008-09 as compared to 21.7 % in 2003-04. This was around 19 percent in 2022-23. → accounts for around two third of the employment in the country → About 10% of India's exports consist of agricultural commodities.

Industry sector

Industrial Policy Resolution (IPR) in 1956 → emphasized on establishment of heavy industries with public sector taking the lead in this area → 1991 the government decided to encourage the role of private sector in industrial development → taking various steps accordingly → Accounted for about 28% of GDP.

Services sector

Accounts → about 54% of India's GVA → gained importance at the expense of both the agricultural and industrial sectors through the 1990s.

Quaternary Sector

Consists of intellectual activities often associated with technological innovation. It is sometimes called the knowledge economy.

Quinary Sector

Includes the highest levels of decision-making in a society or economy → includes top executives or officials in such fields as government, science, universities, nonprofits, health care, culture, and the media.

Economic History of India

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graph LR; A[Economic History of India] --> B[Features of Indian Economy]; B --> C[Low per capita income]; B --> D[Heavy population pressure]; B --> E[Dependence on Agriculture]; B --> F[Poverty and inequality]; B --> G[Higher rate of capital formation or investment]; B --> H[Planned economy];
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The diagram is a flowchart with a light green background featuring a repeating pattern of stylized leaves. It starts with a box on the left labeled 'Economic History of India'. An arrow points from this box to a central box labeled 'Features of Indian Economy'. From the right side of this central box, six arrows branch out to a vertical list of six boxes, each containing a feature of the Indian economy: 'Low per capita income', 'Heavy population pressure', 'Dependence on Agriculture', 'Poverty and inequality', 'Higher rate of capital formation or investment', and 'Planned economy'.

Features of Indian Economy

Low per capita income

Heavy population pressure

Dependence on Agriculture

Poverty and inequality

Higher rate of capital formation or investment

Planned economy

Economic History of India

Concerns facing the Indian Economy

Achieving and Sustaining Higher Growth

India is facing a balance-sheet slowdown.

Concerns relating to ecology.

Strengthening the manufacturing capability.

Expanding the Process of Economic Reforms

Crucial reforms in the areas of land procurement, taxes, labour, foreign investment and energy are pending.

Reforms in the field of subsidies have seen some progress with the pricing of petrol and diesel becoming market oriented.

Strengthening of public sector institutions.

Improving the Infrastructure

Lack of infrastructure and its poor quality, be it power generation or distribution facilities, roads, ports, railways, airports, irrigation facilities, etc. → long affected the Indian economy.

Inadequate infrastructure acts as a major barrier to FDI → hinders the objective of inclusive development + retards GDP growth by about 2 %.

Issues like Human Development, Financial Literacy etc.

Working age population in India will become about 68% coming years with the average of about 28.4 years.

Improving the quality of education is necessary to provide education, skill and employment to all for which higher investment is required.

Gender inequality and financial inclusion are another important aspects.

Economic History of India

Underdevelopment

Low Per Capita Income

Inadequacy and Poor utilisation of Natural Resources

Predominance of Primary Sector

Population Pressure

Chronic Unemployment

Malnutrition and Illiteracy

Low Urbanization

Low Savings and Capital Formation

Poverty, Inequality, Lack of Food Security

Low Development of Market and Monetization

Inadequate and Inefficient Institutions and Agencies

Political Instability, Social Rigidity, Lack of Dynamism, Self-Esteem and Freedom

The Vicious Circle of Poverty

Economic History of India

NITI Aayog

Objectives

- National Institution for Transforming India → also called NITI Aayog → formed on January 1, 2015.
- Premier policy 'Think Tank' of the Government of India.
- Prime Minister of India as the Chairperson

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.

Functions

- Design Policy & Programme Framework
- Foster Cooperative Federalism
- Monitoring & Evaluation
- Think Tank and Knowledge & Innovation Hub

Economic History of India

Economic Planning

Meaning

Arrangement of resources which are scarce in relation to the needs for their alternative uses in such a way that the satisfaction yielded by them is maintained at an optimum level.

Democratic Planning

A system of economic order in which the authority that vests in the state is based on the support of common masses → the state does not control all the means of production and does not regulate economic operations of the private economy directly.

Totalitarian (Authoritarian) Planning

Under this planning, state fully controls the economic affairs, productive resources and economic decisions.

Centralized Planning

The framing, adopting, executing, supervising and controlling the plan is done by central planning authority. Planning authority determines targets and priorities.

Decentralized Planning

Under this planning, responsibility lies with local and regional officials who take economic decisions about the plan.

Functional Planning

There is no need to build up new structure, rather the existing structure is corrected and modified.

Structural Planning

The present social and economic structure is changed and a new structure emerges.

Types

Economic History of India

Economic Planning

Types

Perspective Planning

Long run planning where targets are fixed for long periods, for example 20 to 25 years → broader objectives are to be achieved in a fixed period by dividing the perspective plan into short-run plans of 4 to 6 years.

Annual Planning or Prospective Planning

Refers to 4 to 6 years plans which are further divided into annual plans so that each annual plan may fit in short-run plan and each short-run plan may ultimately fit in the long-run plan.

Indicative Planning

Private sector is not rigidly controlled to achieve the targets and priorities of the plan → State gives full assistance to private sector but does not control it.

Imperative Planning

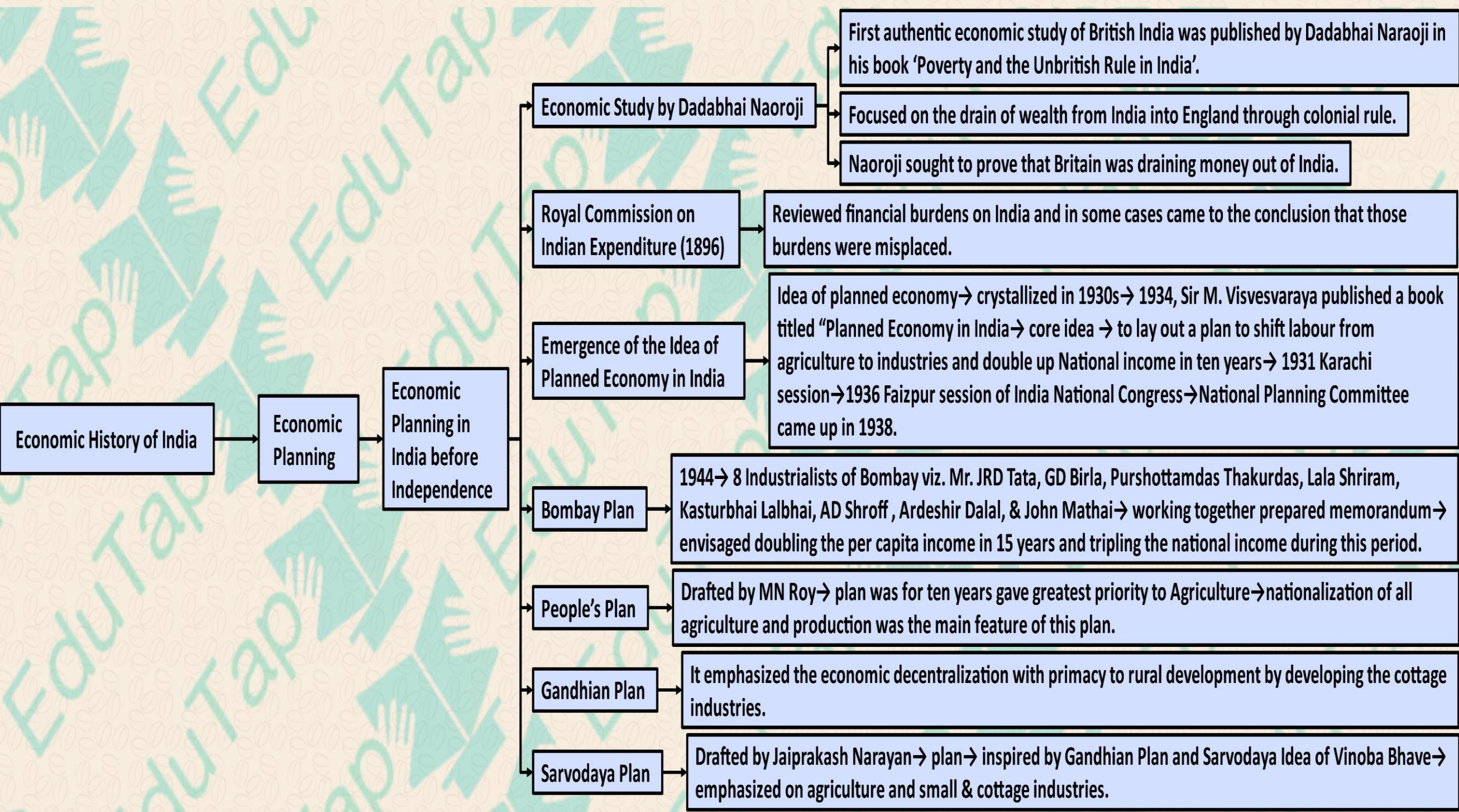
Where all economic activities and resources of the country operate under the direction of the state.

Rolling Planning

There is a plan for the current year which includes annual budget and the foreign exchange budget + There is a plan for number of years for example 3 to 5. It is changed every year keeping in view the needs of the economy + A perspective plan for 10 to 20 years or more is presented where broader goals are stated → The annual plan is fitted into same year's new 3 to 5 years plan and both are framed in the light of perspective plan.

Fixed Planning

Some fixed period, say four or five or six or seven years → A fixed plan fixes definite objective which has to be achieved during the plan period.



Economic History of India

Economic Planning

Economic Planning in India before Independence

Economic Study by Dadabhai Naoroji

First authentic economic study of British India was published by Dadabhai Naoroji in his book 'Poverty and the Unbritish Rule in India'.

Focused on the drain of wealth from India into England through colonial rule.

Naoroji sought to prove that Britain was draining money out of India.

Royal Commission on Indian Expenditure (1896)

Reviewed financial burdens on India and in some cases came to the conclusion that those burdens were misplaced.

Emergence of the Idea of Planned Economy in India

Idea of planned economy -> crystallized in 1930s -> 1934, Sir M. Visvesvaraya published a book titled "Planned Economy in India -> core idea -> to lay out a plan to shift labour from agriculture to industries and double up National income in ten years -> 1931 Karachi session -> 1936 Faizpur session of India National Congress -> National Planning Committee came up in 1938.

Bombay Plan

1944 -> 8 Industrialists of Bombay viz. Mr. JRD Tata, GD Birla, Purshottamdas Thakurdas, Lala Shriram, Kasturbhai Lalbhai, AD Shroff, Ardeshir Dalal, & John Mathai -> working together prepared memorandum -> envisaged doubling the per capita income in 15 years and tripling the national income during this period.

People's Plan

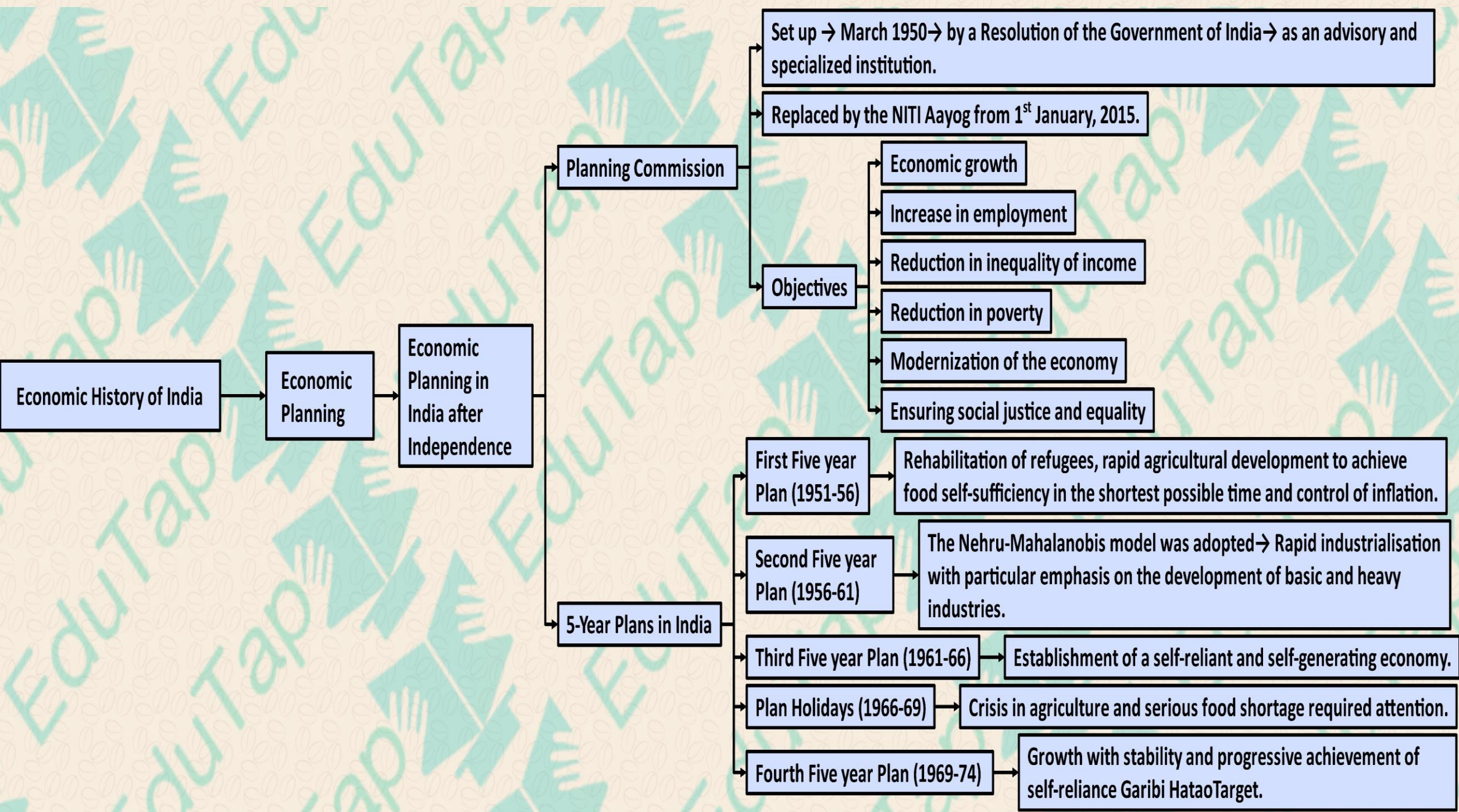
Drafted by MN Roy -> plan was for ten years gave greatest priority to Agriculture -> nationalization of all agriculture and production was the main feature of this plan.

Gandhian Plan

It emphasized the economic decentralization with primacy to rural development by developing the cottage industries.

Sarvodaya Plan

Drafted by Jaiprakash Narayan -> plan -> inspired by Gandhian Plan and Sarvodaya Idea of Vinoba Bhave -> emphasized on agriculture and small & cottage industries.



Economic History of India

Economic Planning

Economic Planning in India after Independence

Planning Commission

Set up → March 1950→ by a Resolution of the Government of India→ as an advisory and specialized institution.

Replaced by the NITI Aayog from 1st January, 2015.

Objectives

Economic growth

Increase in employment

Reduction in inequality of income

Reduction in poverty

Modernization of the economy

Ensuring social justice and equality

5-Year Plans in India

First Five year Plan (1951-56)

Rehabilitation of refugees, rapid agricultural development to achieve food self-sufficiency in the shortest possible time and control of inflation.

Second Five year Plan (1956-61)

The Nehru-Mahalanobis model was adopted→ Rapid industrialisation with particular emphasis on the development of basic and heavy industries.

Third Five year Plan (1961-66)

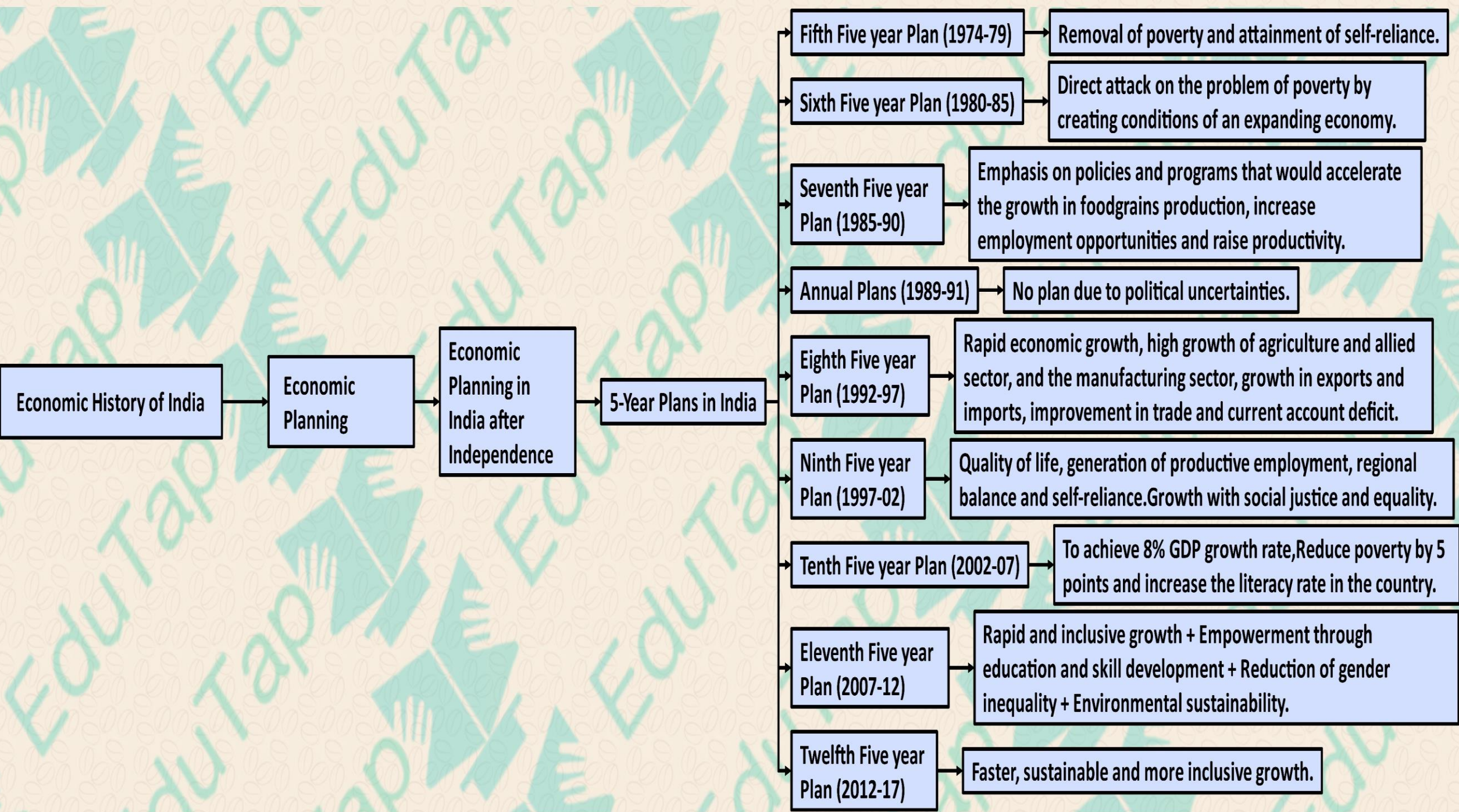
Establishment of a self-reliant and self-generating economy.

Plan Holidays (1966-69)

Crisis in agriculture and serious food shortage required attention.

Fourth Five year Plan (1969-74)

Growth with stability and progressive achievement of self-reliance Garibi Hatao Target.



Economic History of India

Economic Planning

Economic Planning in India after Independence

5-Year Plans in India

Fifth Five year Plan (1974-79)

Removal of poverty and attainment of self-reliance.

Sixth Five year Plan (1980-85)

Direct attack on the problem of poverty by creating conditions of an expanding economy.

Seventh Five year Plan (1985-90)

Emphasis on policies and programs that would accelerate the growth in foodgrains production, increase employment opportunities and raise productivity.

Annual Plans (1989-91)

No plan due to political uncertainties.

Eighth Five year Plan (1992-97)

Rapid economic growth, high growth of agriculture and allied sector, and the manufacturing sector, growth in exports and imports, improvement in trade and current account deficit.

Ninth Five year Plan (1997-02)

Quality of life, generation of productive employment, regional balance and self-reliance. Growth with social justice and equality.

Tenth Five year Plan (2002-07)

To achieve 8% GDP growth rate, Reduce poverty by 5 points and increase the literacy rate in the country.

Eleventh Five year Plan (2007-12)

Rapid and inclusive growth + Empowerment through education and skill development + Reduction of gender inequality + Environmental sustainability.

Twelfth Five year Plan (2012-17)

Faster, sustainable and more inclusive growth.

Economic History of India

Economic Planning

Economic Reforms in India

Background

Inefficient management of the economy in the 1980s → continued spending on development programmes → did not generate additional revenue → the government was not able to generate sufficiently from internal sources such as taxation → Income from public sector undertakings was also not very high → not sufficient foreign exchange to pay the interest that needs to be paid to international lenders → India approached the World Bank and IMF → agreed to the conditionalities.

Liberalisation

- To do away with the necessity of having a license for most of the industries.
- Freedom in determining the scale of business activities.
- Removing restrictions for the movement of goods and services from one place to another.
- Reduction in the rate of taxes.
- Simplifying import-export procedure.

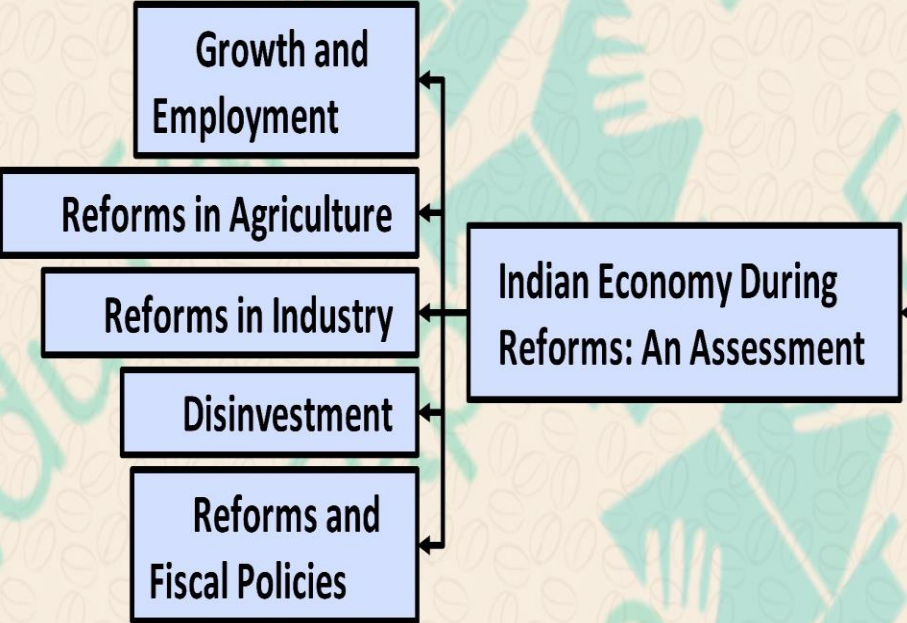
Privatization

- Reducing the role of public sector and increasing the role of private sector.
- Reducing fiscal burden of the government.
- Reducing the size of the government machinery.
- Improving management of enterprises.

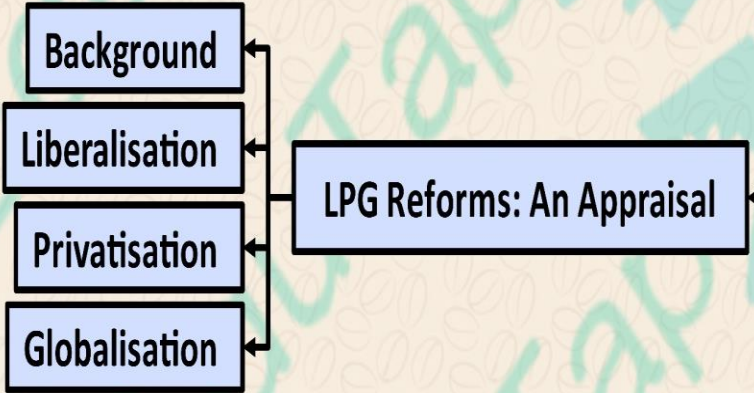
Globalization

- Free flow of goods and services in all the countries.
- Free flow of capital in all the countries.
- Free movement of people in all the countries.
- Free flow of information and technology in all the countries.

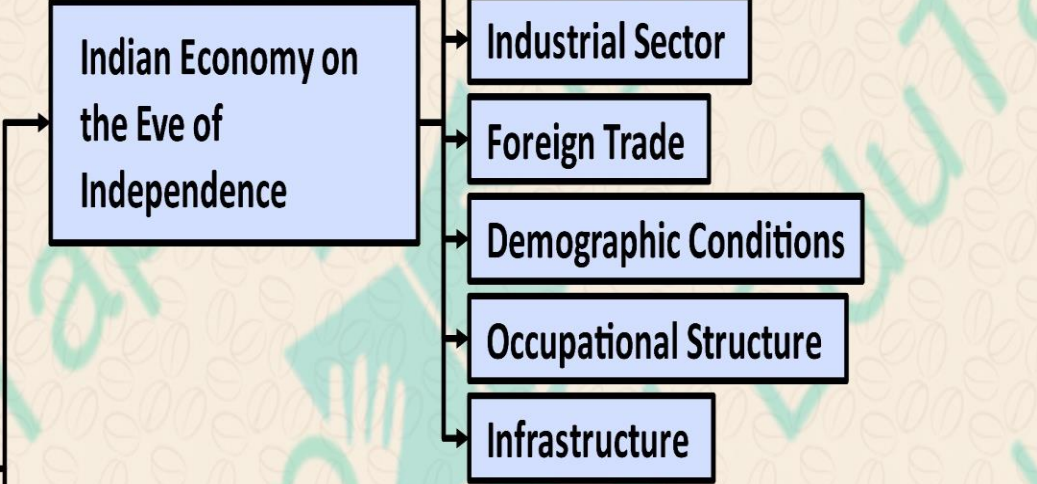
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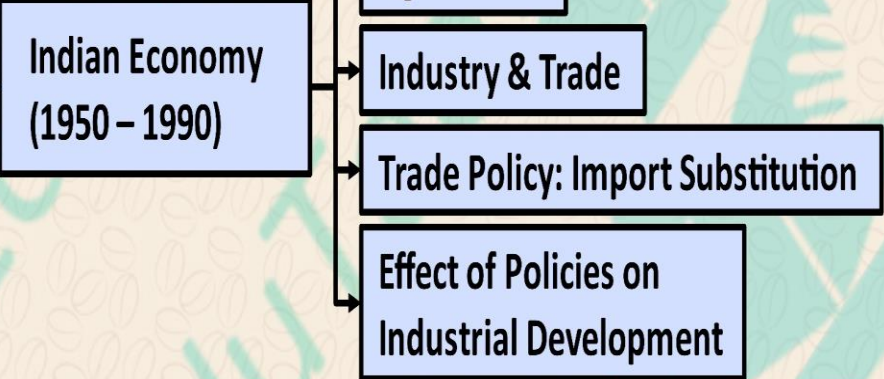
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Discussed further in mindmap



Discussed further in mindmap



Economic History of India

Economic History of India

Indian Economy on the Eve of Independence

Low Level of Economic Development Under the Colonial Rule

Economic policies pursued by the colonial government → concerned more with the protection and promotion of the economic interests of Britain → Such policies brought fundamental change in the structure of the Indian economy → transforming the country into supplier of raw materials + consumer of finished industrial products from Britain.

Agriculture Sector

About 85 % population → in villages → dependent on agriculture → but due to various systems of land settlement → stagnation → low levels of technology + lack of irrigation facilities + negligible use of fertilizers → commercialisation of agriculture.

Industrial Sector

Handicraft industries declined + no corresponding modern industries → India became mere exporter of important raw materials + market for the finished products.

Foreign Trade

Restrictive policies of commodity production, trade and tariff adversely affected → India became an exporter of primary products such as raw silk, cotton, wool, sugar, indigo, jute etc. and an importer of finished consumer goods like cotton, silk and woollen clothes and capital goods → more than half of India's foreign trade was restricted to Britain.

Demographic Conditions

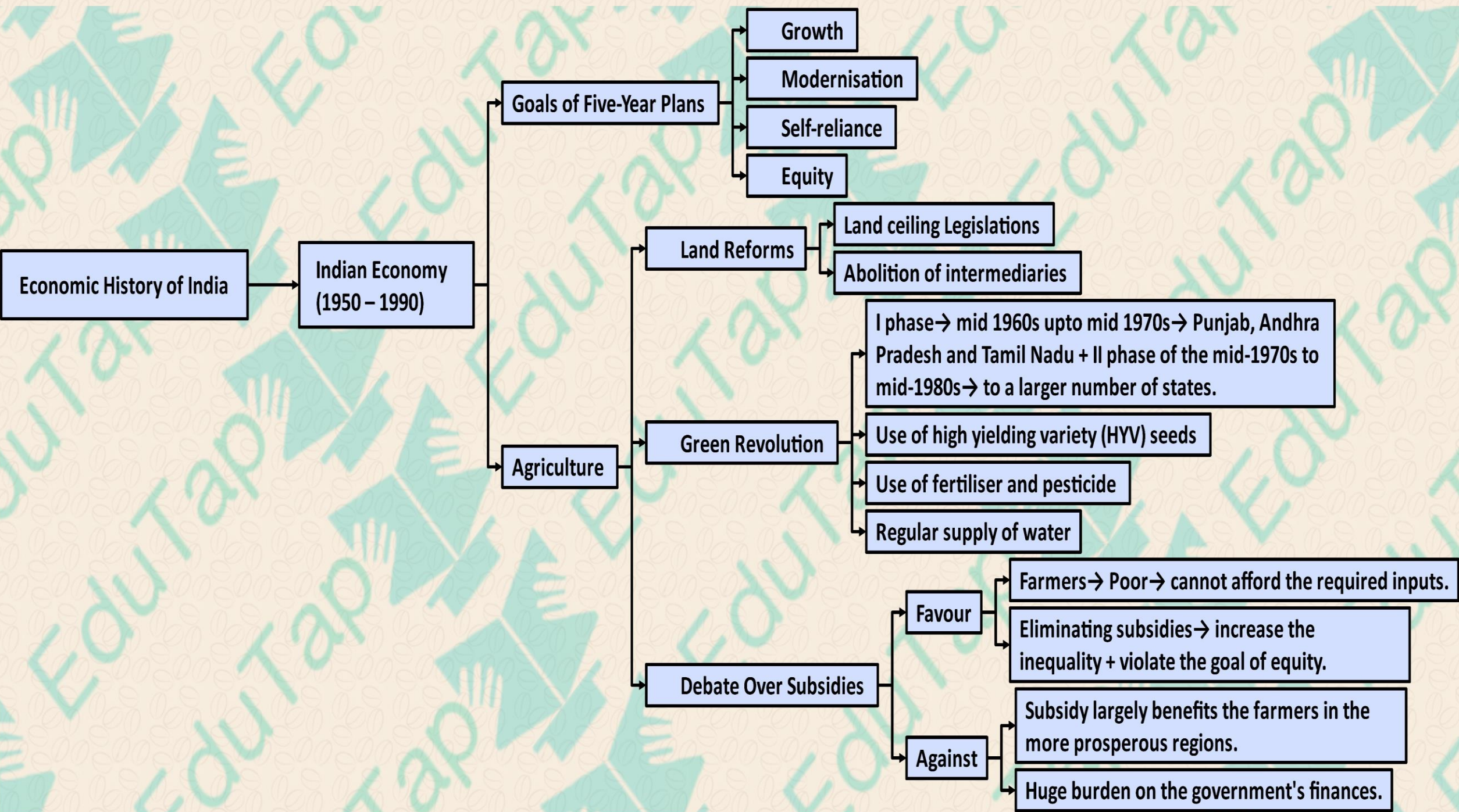
Literacy → < 16 % → female literacy → about 7 % → Public health facilities were either unavailable or highly inadequate → IMR — about 218/1000 → Life expectancy — 44 years.

Occupational Structure

Agricultural sector → accounted for the largest share of workforce (70-75 %) while the manufacturing and the services sectors accounted for only 10 and 15-20 % respectively.

Infrastructure

Basic infrastructure such as railways, ports, water transport, posts and telegraphs did develop → real motive → to subserve various colonial interests.



Economic History of India

Indian Economy (1950 – 1990)

Industry & Trade

Public and Private Sectors in Indian Industrial Development

State would have complete control of those industries that were vital for the economy.

Policies of the private sector would have to be complimentary to those of the public sector.

Industrial Policy Resolution 1956 (IPR 1956)

Formed the basis of the II Five Year Plan → the plan which tried to build the basis for a socialist pattern of society.

Classified industries into 3 categories → I → industries which would be exclusively owned by the state + II → industries in which the private sector could supplement the efforts of the state sector with the state taking the sole responsibility for starting new units + III → remaining industries which were to be in the private sector (sector was kept under state control through a system of licenses).

Effect of Policies on Industrial Development

Proportion of GDP contributed by the industrial sector increased in the period from 11.8 % in 1950-51 to 24.6 % in 1990-91.

6% growth rate of the industrial sector.

Industrial sector became well diversified by 1990, largely due to the public sector (not confined to cotton & jute textiles).

Promotion of small-scale industries gave opportunities to those people who did not have the capital to start large firms to get into business.

Need to obtain a license to start an industry was misused by industrial houses.

Economic History of India

Indian Economy
(1950 – 1990)

Trade Policy:
Import Substitution

First seven plans → trade was characterised by what is commonly called an inward-looking trade strategy → this strategy is called import substitution.

Aimed at replacing or substituting imports with domestic production.

In this policy the government protected the domestic industries from foreign competition.

Protection from imports took two forms: tariffs and quotas.

Policy of protection is based on the notion that industries of developing countries are not in a position to compete against the goods produced by more developed economies.

It is assumed that if the domestic industries are protected, they will learn to compete in the course of time.

Economic History of India

LPG Reforms:
An Appraisal

Background

Inefficient management of the economy in the 1980s → continued spending on development programmes → did not generate additional revenue → the government was not able to generate sufficiently from internal sources such as taxation → Income from public sector undertakings was also not very high → not sufficient foreign exchange to pay the interest that needs to be paid to international lenders → India approached the World Bank and IMF → agreed to the conditionalities.

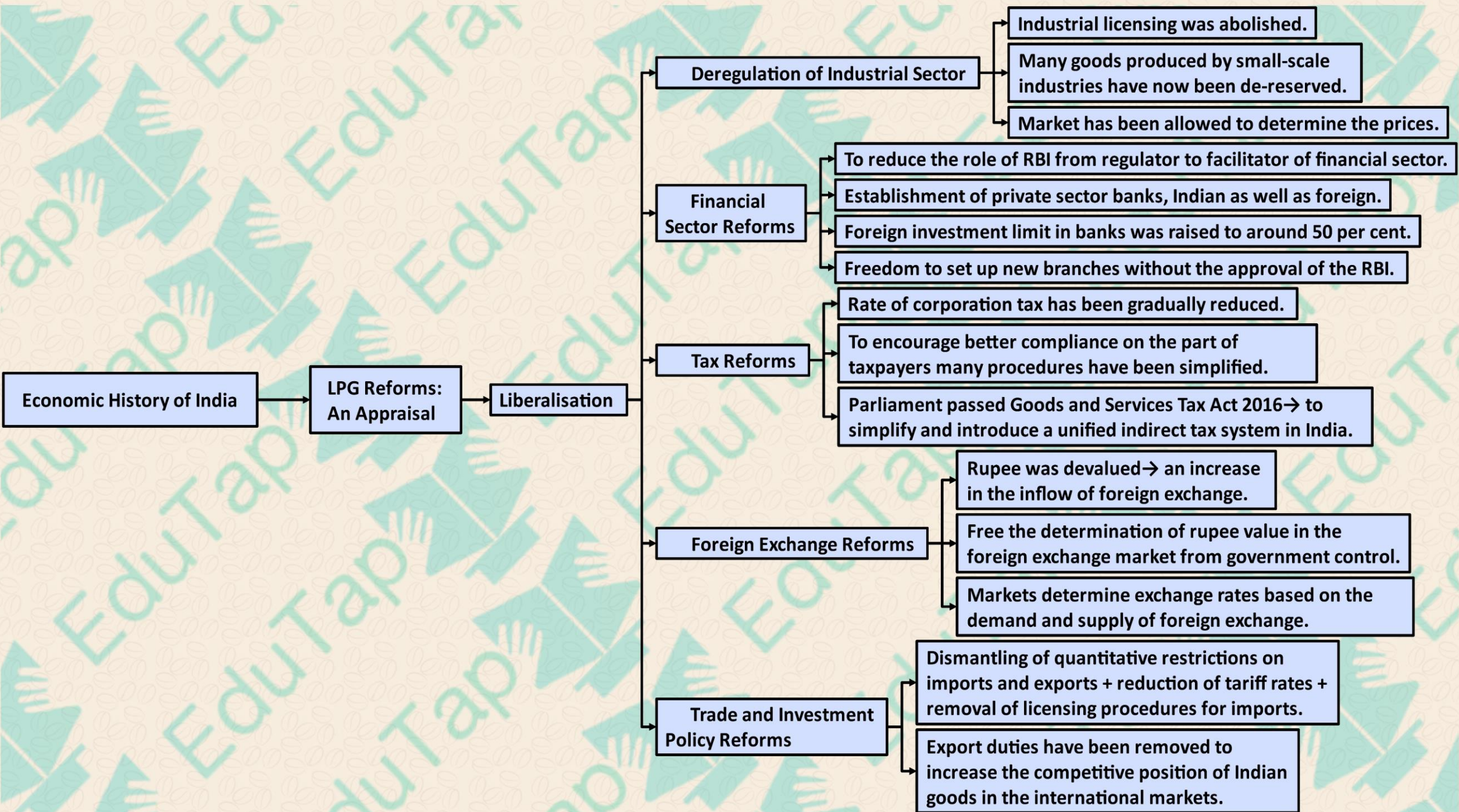
Privatisation

The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions. For instance, some PSUs have been granted special status as maharatnas, navratnas and miniratnas.

Globalisation

It established links in such a way that the happenings in India can be influenced by events happening miles away. It is turning the world into one whole or creating a borderless world.

Increase in external trade + rise in foreign exchange etc.



Economic History of India

LPG Reforms:
An Appraisal

Liberalisation

Deregulation of Industrial Sector

Industrial licensing was abolished.

Many goods produced by small-scale industries have now been de-reserved.

Market has been allowed to determine the prices.

Financial Sector Reforms

To reduce the role of RBI from regulator to facilitator of financial sector.

Establishment of private sector banks, Indian as well as foreign.

Foreign investment limit in banks was raised to around 50 per cent.

Freedom to set up new branches without the approval of the RBI.

Tax Reforms

Rate of corporation tax has been gradually reduced.

To encourage better compliance on the part of taxpayers many procedures have been simplified.

Parliament passed Goods and Services Tax Act 2016 -> to simplify and introduce a unified indirect tax system in India.

Foreign Exchange Reforms

Rupee was devalued -> an increase in the inflow of foreign exchange.

Free the determination of rupee value in the foreign exchange market from government control.

Markets determine exchange rates based on the demand and supply of foreign exchange.

Trade and Investment Policy Reforms

Dismantling of quantitative restrictions on imports and exports + reduction of tariff rates + removal of licensing procedures for imports.

Export duties have been removed to increase the competitive position of Indian goods in the international markets.

Economic History of India

Indian Economy
During Reforms:
An Assessment

Growth and
Employment

Growth of GDP ↑ from 5.6 % during 1980–91 to 8.2 % during 2007–12. During the reform period, the growth of agriculture has ↓. While the industrial sector reported fluctuation, the growth of the service sector has gone up → growth is mainly driven by growth in the service sector.

The foreign investment (foreign direct investment (FDI) and foreign institutional investment (FII)) → increased from about US \$100 million in 1990-91 to US \$ 36 billion in 2016-17. There has been an ↑ in the foreign exchange reserves from about US \$ 6 billion in 1990-91 to about US \$ 589 billion in May 2021.

India is seen as a successful exporter of auto parts, engineering goods, IT software and textiles in the reform period.

Reform-led growth has not generated sufficient employment opportunities.

Reforms in Agriculture

- Public investment in agriculture - ↓
- Removal of fertiliser subsidy - ↑ in cost of production
- Reduction in import duties on agricultural products → increased international competition.

Economic History of India

Indian Economy
During
Reforms: An
Assessment

Reforms in Industry

- Industrial growth has also recorded a slowdown → because of decreasing demand of industrial products due to various reasons such as cheaper imports, inadequate investment in infrastructure etc.

Disinvestment

- For instance, in 1991-92, it was targeted to mobilise Rs 2500 crore through disinvestment. The government was able to mobilise Rs 3,040 crore more than the target. In 2017-18, the target was about Rs 1,00,000 crore, whereas, the achievement was about Rs 1,00,057 crore.

Reforms and
Fiscal Policies

- Economic reforms → placed limits on the growth of public expenditure, especially in social sectors.
- The tax reductions in the reform period → aimed at yielding larger revenue and curb tax evasion → have not resulted the same.
- In order to attract foreign investment, tax incentives were provided to foreign investors which further reduced the scope for raising tax revenues.