Indian Economy

History of Indian Economy

The beginning of Indian Economy can be traced back to the Indus Valley Civilisation. It depended heavily on trade, which was boosted by the development in transport system. Furthermore, the citizens of the Harappan Civilisation practised agriculture, domesticated animals, used uniform weights and measures, made tools and weapons, and traded with other cities. Evidence of well-planned streets, a drainage system and running water supply reveals their knowledge of architecture and urban planning which included the first-known urban sanitation system at a city scale, which further implies the existence of a form of municipal government and a strong economy.

Maritime trade was carried out extensively between South India and Southeast and West Asia from early times until around the fourteenth century AD. Both the Malabar and Coromandel Coasts were the sites of important trading centres from as early as the first century BC, used for import and export as well as transit points between the Mediterranean region and southeast Asia.

Punch marked silver ingots were in circulation around the 5th century BCE. They were the first metallic coins minted around the 6th century BCE by the *Mahajanapadas* of the Gangetic plains and were India's earliest traces of coinage. While India's many kingdoms and rulers issued coins, barter was still widely prevalent. Villages paid a portion of their crops as revenue while its craftsmen received a stipend out of the crops for their services. Each village was mostly self-sufficient.

During the Maurya Empire (c. 321–185 BCE), important changes and developments affected the Indian economy. It was the first time most of India was unified under one ruler. With an empire in place, trade routes became more secure. The empire spent considerable resources building and maintaining roads. The improved infrastructure, combined with increased security, greater uniformity in measurements, and increasing usage of coins as currency, enhanced trade.

The Gupta Empire united much of the subcontinent, contained 33.21% of the world's population, and generated an estimated average of $450 (1990 dollars) PPP per annum, and collectively produced $33,750 million, of the world's $105,402 million (32%), the largest regional contribution.

Before and during the Delhi Sultanate (1206–1526 CE), Islam underlay a cosmopolitan civilisation. It offered wide-ranging international networks, including social and economic networks. They spanned large parts of Afro-Eurasia, leading to the escalating circulation of goods, peoples, technologies and ideas. Although initially disruptive, the Delhi Sultanate was responsible for integrating the Indian subcontinent into a growing world system.

India's GDP per capita was lower than the Middle East from 1 CE (16% lower) to 1000 CE (about 40% lower), but by the late Delhi Sultanate era in 1500, India's GDP per capita approached that of the Middle East.

Under the Mughals (1526–1858), India's economy was prosperous up to the early 18th century. It is estimated that 28,000 tonnes of bullion (mainly from the New World) flowed into the Indian subcontinent between 1600 and 1800, equal to 20% of the world's production in the period. An estimate of the annual income of Emperor Akbar the Great's treasury, in 1600, is £17.5 million (in contrast to this, the entire tax collection of Great Britain two hundred years later, in 1800, totalled £16 million). The South Asia region, in 1600, was estimated to be the second richest in the world, behind China's.

By 1700, Mughal India had become the world's largest economy, ahead of Qing China and Western Europe, and contained approximately 23% of the World's population, and was producing about a quarter of world output. Some reasons for this include an extensive road system, a uniform currency, and the unification of the country.

Cities and towns boomed under the Mughal Empire, which had a relatively high degree of urbanisation (15% of its population lived in urban centres), more urban than Europe at the time.

Under Mughal rule, Bengal was a centre of the worldwide muslin, silk and pearl trades. During the Mughal era, the most important centre of cotton production was Bengal, particularly around its capital city of Dhaka, leading to muslin being called "*daka*" in distant markets such as Central Asia. Bengal also exported cotton and silk textiles to markets such as Europe, Indonesia and Japan. Bengal produced more than 50% of textiles and around 80% of silks imported by the Dutch from Asia, for example.

With the rise of Maratha rule in the mid-17th century, economic growth came to Maharashtra as well. Chhatrapati Shivaji Maharaj was keen on promoting and encouraging trade and business activities in the region. He gave concessions to traders, levied tariffs, built permanent markets on the capital forts of Raigad and others. In the same period, Maharashtra opened up to European traders and merchants. The Portuguese, Dutch, Arabs, Iranis, Danish, French, Armenians, and the British traders established their factories on India's western coast.

The Indian economy flourished up to the eighteenth century AD, after which it began to decline, coinciding with European intervention. Karl Marx called the close and independent system of the Indian economy as the 'Asiatic Mode of Production.' Charles Metcalfe, another historian wondered about the intact nature of the village economy in spite of many external attacks.

For most of the time since independence, India has followed central planning and a capitalist system and has emerged as one of the fastest growing economies of the world.

The Indian Economy: Structures

The Indian Economy is one of the largest in the world. In the past it has used 5-year plans, which enable an effective and equal distribution of national resources for a balanced economic development. The mixed economy is an amalgam of the socialist and capitalist economy. Public expenditure in India basically constitutes capital and revenue expenditure. These are included in central plan expenditure, central assistance and non- development expenditure.

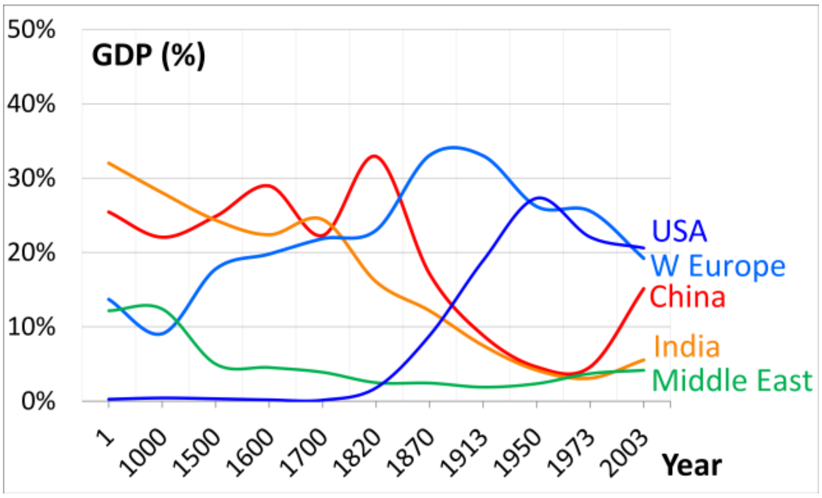
Central plan expenditure is for the allocation of resources in development schemes given in the plans of the central government and public-sector undertakings. Central assistance is the aid provided for plans of state government and union territories. Revenue expenditure consists of revenue defence expenditure, subsidies etc. The Finance Minister presents the General Budget in Parliament, which is passed by the Lok Sabha.

The Big Boss – The Reserve Bank of India makes rules and guidelines for all other banks, and its policies determine how the economy of the nation grows.

Three major entities that reflect and govern the economic activity in India are The Reserve Bank of India, National Stock Exchange and Bombay Stock Exchange, all located in Mumbai, the commercial capital of India. India's monitory regulator, authority and supervisor of the financial organisation is the Reserve Bank of India. The RBI issues currency and is also the manager of exchange control. The Bombay Stock Exchange (formerly known as Bombay Stock Exchange Ltd.) was established in 1875 and is Asia's first stock market. The NSE was established in 1992 as the first demutualized electronic exchange in the country. NSE was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered easy trading facility to the investors spread across the length and breadth of the country. Today it is the 10th largest in the world. The stock markets and other securities are regulated by The Securities and Exchange Board of India (SEBI).

Colonial exploitation

India was a victim of colonial economic exploitation for more than two hundred years. The British colonial exploitation in India can be broadly divided in three periods. They are (i) the period of merchandised capital, (ii) the period of industrial capital which leads to the drain of Indian wealth for the interest of British industry and (iii) the period of financial capital. In British times, foreign capital flowed into India but in real terms those capitals were not according to the proper needs of Indians and directly helped the capital growth of the British.



The orange line that starts declining after 1700 coincides with the period of British colonisation of India.

The overall impact of British rule in Indian economy can be summed up as stagnation of per capita income over an extended period of time, high priority to the traditional method of agricultural activities, repeated famines and acute poverty of traditional village industries, and exploitative implementation of *zamindari* practices. The basic aim of British administration in India was to transform the Indian subcontinent into a consumer market for British finished goods. Technological upgradation and development of infrastructure as well as social infrastructure were negligible. The economic problems increased because of the costs associated with the Partition of India.

Post-colonial recovery

In the 1950s, the Indian government undertook a chain of plans for economic development. These plans functioned profitably for a while but then again in the long run they showed less development. The economy was affected negatively because of many problems including structural inadequacies, the Indo-China war in 1962, The Indo-Pakistan wars of 1965 and 1971, currency devaluation in 1966, first world oil crisis and some natural calamities.

Since independence, significant reformations have taken place in the banking and financial sector of India. The process of nationalisation was initiated after independence. First the Reserve Bank was nationalised in 1949, and thereafter the Imperial Bank of India, a leading commercial bank of the time, was nationalised and renamed the State Bank of India.

During this period, some areas like industrialisation, large public sector, business regulation, state intervention in labour and financial markets and central planning were stressed upon. The economy of the country shifted from agricultural, forestry, fishing and textile manufacturing to heavy industries, telecommunications and transformation industries in the late 1970s.

Indian economy today

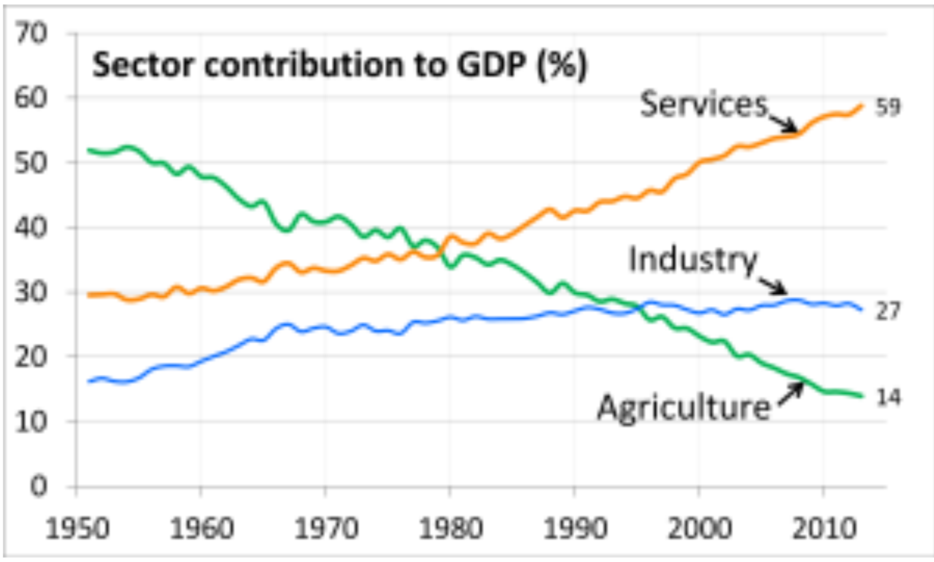
India experienced high growth rates from 2003 to 2007 averaging at an annual rate of 9%. After a short period of reduced growth from 2012-2014, India recovered and grew at a rate of 7.2%.

The Indian economy can broadly be divided into three heads:

(i) **Primary or Agricultural Sector:** This sector consists of agriculture and its allied activities including dairy, poultry, cattle rearing, fishing, forestry, animal husbandry etc. In the primary sector, most of the goods are produced by using natural resources, and since India is an agro-based economy, this sector plays an important role for economic growth.

(ii) **Secondary or Manufacturing Sector:** This sector is also known as the industrial sector. In this category, all types of manufacturing like large scale, small scale and tiny scale are included. Small and tiny scale industries include clothes, candles, poultry, match box, handloom, toys etc. These units provide huge employment. On the other hand, large scale industries like iron and steel, heavy engineering, chemicals, fertilizers, shipbuilding etc. contribute a large amount to our gross domestic production.

(iii) **Service or Tertiary Sector:** This sector produces different services like transport, communication, banking, insurance, trade and commerce, including both national and international trade. Moreover, all the professional services like doctors, engineers, teachers, lawyers etc. come under service sector. Services provided by the government itself for the welfare of citizens are also included in the tertiary sector.



The tertiary sector has galloped ahead of agriculture, traditionally the largest employer of the three, in just 30 years.

On the basis of ownership or organisation, the Indian economy can be broadly divided into two heads:

(i) Public Sector: It consists of all the economic organisations which are controlled and managed by the government. All the government-owned production units come under this head. These units produce and distribute goods and services among the masses with an objective of welfare motives.

(ii) Private Sector: It consists of all the economic enterprises which are controlled and managed by the private enterprises. All the privately-owned production units come under this head. These units will produce and distribute goods and services among the people with an objective of profit motive.

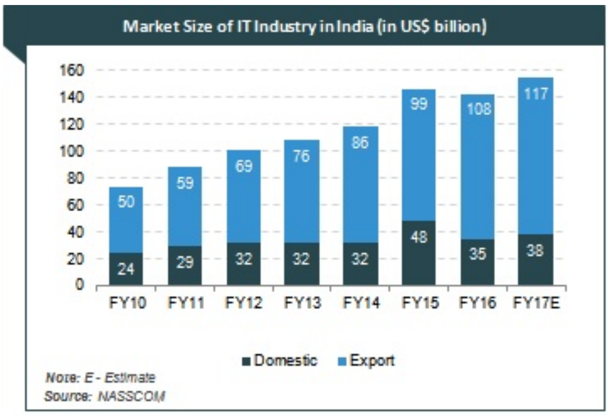
Apart from the growth in quantitative terms, there have been significant changes in India's economic structure since independence. During the second 5-year plan, priority was acceded to capital intensive manufacturing units. These industries now account for more than fifty percent of industrial production. The transport system in India over the past four decades has grown both in terms of capacity and technology. The road network is one of the largest in the world as a result of spectacular development of roads under various lanes.

Agriculture in India

Agriculture enjoys a prime role in the Indian economy. Though the share of agriculture in the national income has seen a downslide, it still has a substantial share in GDP. The contributory share of agriculture in the Gross Domestic Product was 55.4% in 1950-51, 52% in 1960-61 and reduced to 18.5% at this time. The sector provides employment to 58.4 per cent of the country's workforce.

Various important industries in India find their raw material from agriculture – cotton and jute textile industries, sugar, *vanaspati* oil, etc. are directly dependent on agriculture. Handlooms, spinning oil milling, rice threshing, etc. are various small scale and cottage industries, which are dependent on agriculture sector for their raw material. This highlights the importance of agriculture in the industrial development of the nation. India's foreign trade is deeply associated with the agriculture sector. The sector accounts for about 14.7 per cent of the total export earnings. Besides, goods made with agricultural raw material also contribute about 20 per cent in Indian exports. In other words, agriculture and its related goods contribute about 38 per cent in the country's total exports.

Indian IT Sector



Growth of the IT Sector

The Indian IT industry has achieved phenomenal growth during the post-economic reform period. The liberalised policy regime, fast technological advancement, declining prices of computer hardware, mushrooming of computer science and technology education, readiness of a large pool of talent to the industry at a relatively lower cost, have together significantly contributed to the growth of this industry in the last 25 years.

There are around 600 centres set up by Indian IT companies in 78 countries catering to IT related requirements of people in over 200 cities. These have been performing very well and showing remarkable double-digit growth in terms of national GDP (NASSCOM analysis reports). In the financial year 2015-16, revenues from IT grew from 1.2 per cent to nearly 9.3 per cent. The Indian IT sourcing market has grown from 52% in 2012 to about 56% in 2016. By 2020, this sector is expected to reach the USD 225 billion target. India is becoming one of the most preferred destinations for business process outsourcing (BPO) as far as IT enabled services are concerned. These services are boosting the Indian economy and this is evident in their contributions to national gross domestic product (GDP).

The Goods and Services Tax

The Goods and Services Tax, implemented in 2017, is undoubtedly the most significant and transformative piece of tax reform that India has seen since independence. It is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST is all set to integrate state economies and boost overall growth.

At the Central level, GST subsumes Central excise duty, counter-veiling duty, service tax and additional customs duties, while at the state level it includes value-added tax, entertainment tax, octroi and entry tax, luxury tax, lottery taxes and duty on electricity. GST is expected to provide the benefits of simplification of the tax regime, broadening of tax base, elimination of tax cascades, enhancing export competitiveness, ensuring greater regional equity, and improvement in transparency.

India on a Global Scale

Shri Narendra Modi, Prime Minister of India, has launched the 'Make in India' initiative with the aim of boosting the manufacturing sector of the Indian economy and increasing the purchasing power of the average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. The Government of India, under the 'Make in India' initiative, is trying to give a boost to the contribution made by the manufacturing sector and aims to take it up to 25 per cent of the GDP from the current 17 per cent. Besides, the Government has also come up with the *Digital India* initiative, which focusses on three core components: creation of digital infrastructure, delivery of services digitally and increase in digital literacy.

India is growing faster than any other large economy except for China. By 2050, India's economy is projected to be the world's second-largest, behind only China. In particular, India now ranks an impressive 23rd among all countries in the Global Competitiveness Index for perceived efficiency of public spending.

Broadening its tax base will enable India to make much-needed progress in increasing the inclusivity of its economic growth. A challenge faced by the government is to lift people out of extreme poverty. About one-third of the world's population living on under US$1.90 live in India – some 224 million people.

India is making a conscious effort to translate its growing economic clout into becoming a 'soft power' on the world stage – by initiatives such as International Yoga Day, and the establishment of more diplomatic missions and cultural centres. India's space agency is planning a second mission to Mars.

India is likely to reclaim its position as the fastest growing major economy in 2018, with growth expected to accelerate to 7.3% in the year, according to the World Bank's Global Economic Prospects report released on Wednesday. Direct tax collections grew by more than 18% in the first nine months (April-December) of the fiscal year 2017-18 to two-thirds of the full-year target, which is expected to provide a breather to the government as it struggles to contain the fiscal deficit.

Indian companies raised Rs 1.6 trillion (US$ 24.96 billion) through the primary market in 2017. Moody's upgraded India's sovereign rating after 14 years to BAA2 with a stable economic outlook. India received net investments of US$ 17.412 million from foreign indirect investments (FIIs) in the April-October 2017 period. The top 100 companies in India are leading in the world in terms of disclosing their spending on corporate social responsibility (CSR), according to a 49-country study by global consultancy giant, KPMG. The bank recapitalisation plan by Government of India is expected to push credit growth in the country to 15 per cent, according to a report by Ambit Capital.

India has improved its ranking in the World Bank's Doing Business Report by 30 spots over its 2017 ranking and is ranked 100 among 190 countries in the 2018 edition of the report. India's ranking in the world has improved to 126 in terms of its per capita GDP, based on purchasing power parity (PPP) as it increased to US$ 7,170 in 2017, as per data from the International Monetary Fund (IMF). The Government of India has saved US$ 10 billion in subsidies through direct benefit transfers with the use of technology, Aadhaar and bank accounts, as per a statement made by Mr Narendra Modi, Prime Minister of India.

India is expected to have 100,000 start-ups by 2025, which will create employment for 3.25 million people and US$ 500 billion in value (as per Mr T V Mohandas Pai, Chairman, Manipal Global Education). The total projected expenditure of the Union Budget 2018-19 is Rs 23.4

lakh crore (US$ 371.81 billion), 9 per cent higher than previous year's budget, as laid out in the Medium-Term Expenditure Framework (MTEF).

India received the highest ever inflow of equity in the form of foreign direct investments (FDI) worth US$ 43.4 billion in 2016-17 and has become one of the most open global economies by ushering in liberalisation measures, as per the mid-year economic survey of India. The World Bank has stated that private investment in India is expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive growth in India's GDP in FY 2018-19.

The Niti Aayog has predicted that rapid adoption of green mobility solutions like public transport, electric vehicles and car-pooling could likely help India save around Rs 3.9 trillion (US$ 60 billion) in 2030. Indian impact investments may grow 25 per cent annually to US$ 40 billion from US$ 4 billion by 2025, as per Mr. Anil Sinha, Global Impact Investing Network's (GIIN’s) advisor for South Asia.

Indian merchandise exports in dollar terms registered a growth of 30.55 per cent year-on-year in November 2017 at US$ 26.19 billion, according to data from the Ministry of Commerce & Industry. The Nikkei India manufacturing Purchasing Managers’ Index increased at the fastest pace in December 2017 to reach 54.7, signalling a recovery in the economy. With the current pace and necessary measures in place, India is set to become a global economic power and play an even greater role on the global stage.