

# ECONOMIC ISSUES OF INDIA

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# ECONOMIC ISSUES OF INDIA

- Indian Economy - Precolonial and Colonial-from prosperity to poverty
- Cambridge University historian Angus Maddison reveals that India's share of the world income fell from 22.6% in 1700, comparable to Europe's share of 23.3%, to a low of 3.8% in 1952
- Post-colonial Indian economy: Evolution from closed to open economy
- Nehruvian Period, 1947-64; His Vision and Policies (Vedio)
- Indira Gandhi and Economic reforms—Nationalization; Privy Purses- Green Revolution
- Rajiv Gandhi-Pre liberalization phase- IT \* Infrastructure
- PV Narsimha Rao and LPG, 1991-2004
- Dr Manmohan Singh and New Economic Reforms –India as Global Player

# ECONOMIC ISSUES OF INDIA

- NEHRU-Planning, industrialization, democratic set up
- Planning and Public Sector model of USSR
- Goal “Socialist Pattern of Society” 1950
- Planning Commission established
- Multiple 5 year plans
- The annual Gross National Product increased from 1 % in 1950 to 4% in 1965
- Domestic Savings increased
- Agrarian Reforms
- Abolition of Landlordism & Tenancy Legislation

# ECONOMIC ISSUES OF INDIA

- Concept of planning and public sector “Commanding Heights”
- Basic Industry- Import substitution
- large Projects =Irrigation dams
- “Modern Temples” IIT,IIM,IISC etc
- Nehruvian concept of modernization and “Development with equity”
- Democratic polity
- Secularism
- Progress

# ECONOMIC ISSUES OF INDIA

- Colonial system transformed
- Literacy in India in 1951-16%, Rural areas Only 6%
- Big efforts & investments
- Budget increased from 198 Million rupees in 1951-52 to 1,462 Million rupees in 1964-65 (700% increase)
- Secondary Schools increased from 7,288 in 1950-51 to 24,477 in 1965-66

# ECONOMIC ISSUES OF INDIA

- Growth of scientific & technical, professional colleges
- Nehru
  - **“ It was Science alone that could solve the problems of hunger and poverty, of insanitation and illiteracy, of superstition and deadening custom and tradition, of vast resources running to waste, of a rich country inhabited by starving people.”**
- Established Council of Scientific and Industrial Research - 17 laboratories, on the model of MIT/USA
- **ATOMIC ENERGY COMMISSION** \_-1948—First Nuclear Reactor in Asia in 1956

# ECONOMIC ISSUES OF INDIA

- First Plan

- emphasis was to create the necessary economic and social overheads like power, transport public health, education etc
- to develop agriculture in order to create a solid base for industrialization in the subsequent plans

- Second Plan

- Mahalanobis

- “to increase investments in the heavy industries and also expenditure on services, to increase purchasing power and create fresh demand, and, on the other hand to increase the supply of consumer good by increasing investment and production as much as possible in the small household industries to meet the new demand”

# ECONOMIC ISSUES OF INDIA

- **Second Plan**

- strategy was conceived in such way that the Plan was to create larger employment opportunities build a strong capital base and increase productive and technical capacity within the economy
- top priority was accorded to industrialization -heavy industries like machine building, steel, non-ferrous metal, tec.
- **successful in creating a solid base for heavy industries and in starting a number of new consumer goods industries in the country**
- Massive investments in heavy industries led to the neglect of essential consumer goods industries like sugar, cloth, edible oils, etc



# ECONOMIC ISSUES OF INDIA

- The role of Private Sector –insignificant-consumer goods industries
- Licence/Permit Raj
- Protectionism
- import restrictions
- unwelcome foreign capital-investments
- Bureaucratic controls –redtape-inefficient- corruption
- limits of public sector
- economic crisis

# ECONOMIC ISSUES OF INDIA

- Through the 1950s, 1960s and 1970s - India suffered from the “Hindu rate of growth” - growth rate of the GDP between 3 and 4 %
- Population growing at about 2-1/2
- Per capita income still growing extremely slowly

# ECONOMIC ISSUES OF INDIA

- Economic Crisis "basket economy" not a model economy of Nehru Era
- GDP declined from 4% to 2.6% between 1950'-70'
- Agricultural output declined- food grain shortage by 20%
- Industrial production declined from 7.8% in 1950 to 4.9% in 1965
- Inflation & price rise 20% per annum

# ECONOMIC ISSUES OF INDIA

- Draughts, famines 1965-66,1971-72, oil shock 1973
- Fiscal deficits&foreign exchange crisis
- Food problems dependence on imports PL-480
- Wars with china&Pakistan, 1962,1965,1971

# ECONOMIC ISSUES OF INDIA

- ECONOMIC REFORMS UNDER INDIRA GANDHI
- 1969-Abolition of Privy Purses of Princes
- 1969 – Nationalization Of the big-14 banks in the country
- Series of Acts designed to control private enterprise implemented
- 1969-Monopoly and Restrictive Trade Policies Act
- 1970-Industrial Licensing Policy
- 1971-Nationalization of Insurance, Coal, Oil etc.,

# ECONOMIC ISSUES OF INDIA

- 1972-Foreign Exchange Regulation Act
- 1973-Industrial Policy&Industrial Disputes Act
- Urban Land Ceiling Act (1976) distorted land markets in urban areas, exacerbating the growth of slums
- 1976-Small-Scale Industries Policy

# ECONOMIC ISSUES OF INDIA

- “Garibi Hatao” slogan a slogan that Indira Gandhi employed in the early 1970s when she postured as a socialist
- 20-Point Programme of Indira Gandhi
  - - Helped 15 million families to acquire productive assets for raising their incomes.
  - - Generated 2030 million man days of employment through the National Rural Employment Programme and the Rural Landless labour Employment Guarantee Programme.
  - - Provided clean drinking water supply to 2.07 lakh villages.
  - - Helped 8.5 million persons in slum areas to improve their environment.
  - - Electrified 1,21,005 villages. - Energised 1.7 million pumping sets.

# ECONOMIC ISSUES OF INDIA

- 1<sup>st</sup> step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against major currencies in the international foreign exchange market
- Finance Minister Manmohan Singh said: “After four decades of planning for industrialization, we have now reached a stage where we should welcome, rather fear, foreign investment. Direct foreign investment would provide access to capital, technology and market.”
- Period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy + integration into world market



# ECONOMIC ISSUES OF INDIA

- access to Imports
- Fiscal reforms and Devaluation of Rupee
- Dismantling of Industrial Licencing System and abolition of Monopoly Trade Practices Act. Free hand to Big Business Houses
- Reform of Public Sector and Gradual Privatization
- Import liberalization, Reform of Capital markets, Stock exchanges, Banking and Financial Reforms
- Removal of restrictions on Multinational Corporations and Foreign Investments
- Economy was freed from stifling internal controls and allow competition and foreign capital & resources
- The New Industrial Policy of 1991;

# ECONOMIC ISSUES OF INDIA

- THREE D'S-- Devaluation: Disinvestment- Dismantling of The Industrial Licensing Regime
- Under the privatization scheme, most of the public sector undertakings have been/ are being sold to private sector
- Allowing Foreign Direct Investment
- Non Resident Indian Scheme.. SBI RESURGENCE BONDS, MILLINIUM BONDS etc.,
- Throwing Open Industries Reserved For The Public Sector to Private Participation. Telecommunications, Oil & Gas, Power etc.

- The rate of growth of the Gross Domestic Product of India has been on the increase from 5.6 per cent during 1980-90 to seven per cent in the 1993-2001 period.
- Prime Minister Manmohan Singh is confident of having a 10 per cent growth in the GDP in the Eleventh Five Year Plan period.
- The sectors attracting highest FDI inflows are electrical equipments including computer software and electronics (18 per cent), service sector (13 per cent), telecommunications (10 per cent), transportation industry (nine per cent), etc. In the inflow of FDI, India has surpassed South Korea to become the fourth largest recipient.
- India controls at the present 45 per cent of the global outsourcing market with an estimated income of \$ 50 billion.

# ECONOMIC ISSUES OF INDIA

- In respect of market capitalization, India is in the fourth position with \$ 894 billion after the US (\$ 17,000 billion), Japan (\$ 4800 billion) and China (\$ 1000). India is expected to soon cross the trillion dollar mark.
- As per the Forbes list for 2007, the number of billionaires of India has risen to 40 (from 36 last year) more than those of Japan (24), China (17), France (14) and Italy (14) this year.
- India ranks second worldwide in farm output.
- Agriculture and allied sectors like forestry, logging and fishing accounted for 16.6% of the GDP in 2007, employed 60% of the total workforce

# ECONOMIC ISSUES OF INDIA

- India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's largest cattle population (193 million). It is the second largest producer of wheat, rice, sugar, groundnut and inland fish. It is the third largest producer of tobacco. India accounts for 10% of the world fruit production
- India's large service industry accounts for 54% of the country's GDP while the industrial and agricultural sector contribute 29% and 17% respectively.
- The foremost casualty in the globalization process will most likely be the agriculture sector. Agriculture has been and still remains the backbone of the Indian economy.
- The number of rural landless families increased from 35 per cent in 1987 to 45 per cent in 1999, further to 55 per cent in 2005. The farmers are destined to die of starvation or suicide.

# ECONOMIC ISSUES OF INDIA

- Reforms in Telecommunications and Power /Electricity sectors.
- Foreign direct investment was liberalized dramatically→ result was liberalization in the services sectors.
- Growth of GDP about 10% per annum
- In 20 years' time, India will be about two-fifths as large as the United States
- foreign direct investment into India about
- \$19 or \$20 billion, and portfolio investment another \$15 billion. All together, that's \$35 billion.

# ECONOMIC ISSUES OF INDIA

- In 1990 there were in India 5 million telephone lines in total. Currently the expansion itself is about 8 million lines per month.
- Automobile sector - passenger vehicles are coming out on the road at the rate of about 1-1/2 million now per year
- The Nano Car - Tata poor man's car- 100,000 rupees
- Civil aviation, rising very rapidly
- Large software story

# ECONOMIC ISSUES

- India aspires to superpower status -Globalization brought India out of the Hindu rate of growth
- China and India during the 21st century will come to dominate the global economy
- China will overtake the U.S. between 2030 and 2040 and India will overtake the U.S. by roughly 2050, as measured in dollar terms
- Purchasing-power parity, India is already on the verge of overtaking Japan to become the third largest economy in the world
- Slowly returning to historical norms i.e. last year



# ECONOMIC ISSUES OF INDIA

- India is No. 1 ...
  - in Software Development
  - in Call Centers
  - in BPO & KPO
  - in Youth Power Demographic dividend for 30 years
  - in Remote Sensing Camera
  - in Diamond Cutting
  - in Milk & Tea Production
  - Fastest Super Computer in Asia

# ECONOMIC ISSUES OF INDIA

- India is No. 2 ...
  - in Truck Manufacturing
  - in Rice & Wheat Production
  - in Vegetable & fruit production
- India is No. 3 ...
  - in English speaking people
- India is No. 4 ...Internet connectivity(100Million)
  - in Pharmaceutical Production
  - that produces SUPER COMPUTERS
  - that has fast Breeder Reactors
  - that have landed on the MOON

# ECONOMIC ISSUES OF INDIA

- India is No. 5 ...
  - in Commercial Car production
- India is No. 6 ...
  - that have Satellite Technology, Rocket Launching Capabilities; ICBM & Cryogenic Engines
  - India No. 9 in conducting Nuclear Test
- HERO HONDA produces Maximum Motorbikes in the world
- BHARAT FORGE is THE LARGEST Forging Co. in the World
- FOUR INDIANS among the EIGHT Richest in the World-Ambani Brothers together the Richest in the world

# ECONOMIC ISSUES OF INDIA

- Dr. CK Prahalad the Most Intelligent Management Expert
- Laxmi Mittal the LARGES STEEL PRODUCER in the world
- Kalpana Chawla NASA Astronaut
- 40% of NASA scientists are Indians
- 30% of IBM & Microsoft professionals are Indians
- 40% of Physicians in US are Indians

# ECONOMIC ISSUES OF INDIA

- Sabeer Bhatia created HOTMAIL (world's No1 web.email provider)
- Vinod Dham - Pentium Chip
- Dr. Praveen Chaudhari- rewritable CD (CD-RW)
- Vinod Khosla - SUN Micro Co-founder
- Arun Natravalli President of AT&T Bell Labs

# ECONOMIC ISSUES OF INDIA

- Dt. Shiv Subramanya-Coordinator/JointCo.of NASA for 20 years
- Dr. R. Srinivasan-Lasik EYE surgery-Honored in US Natinal Hall of Fame along with Edison, Disney etc.,
- PANDIT --The CEO of Citi Bank
- Snajay Jha-CEO of Motorola
- Indira Nooyi -Woman CEO of Pepsi Cola
- THREE INDIANS out of 25 HIGHEST PAID CEOs of World

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- India aspires to superpower status
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- China will overtake the U.S. between 2030 and 2040 and India will overtake the U.S. by roughly 2050, as measured in dollar terms
- purchasing-power parity, India is already on the verge of overtaking Japan to become the third largest economy in the world
- things are slowly returning to historical norms i.e. last year the richest man in the U.K. was for the first time an ethnic Indian, Lakshmi Mittal

# ECONOMIC ISSUES OF INDIA

- Social Sectors like Education, Public Health, and Social Welfare Declined. Privatization & Commercialization of Education & Health Sectors and Withdraw of Government from Welfare Sector.
- Sanitation, Sewerage, Infrastructure development is not satisfactory, Unemployment, Urban Poor are growing problems.
- Despite robust economic growth, India continues to face many major problems.
- Economic development has widened the economic inequality across the country
- Approximately 80% of its population lives on less than \$2 a day (nominal), more than double the same poverty rate in China



THANKS

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