



EduTap



Concept Notes

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An Overview of Indian Economy

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1 Evolution of the Indian Economy

The Indian Economy is **one of the fastest growing major economies** in the world and in terms of **GDP purchasing power parity (PPP)**, **India is ranked 3rd** in the world only after USA and China, while it was very insignificant during British rule in India. The evolution can be understood as follows:

1. Changes in contribution of India in Global GDP - According to the **Angus Maddison database**, India and China contributed **50.5 per cent of global GDP** in 1000 AD (GDP computed in 1990 dollars and in purchasing power parity terms). The changes in India's contribution to global GDP is as follows:

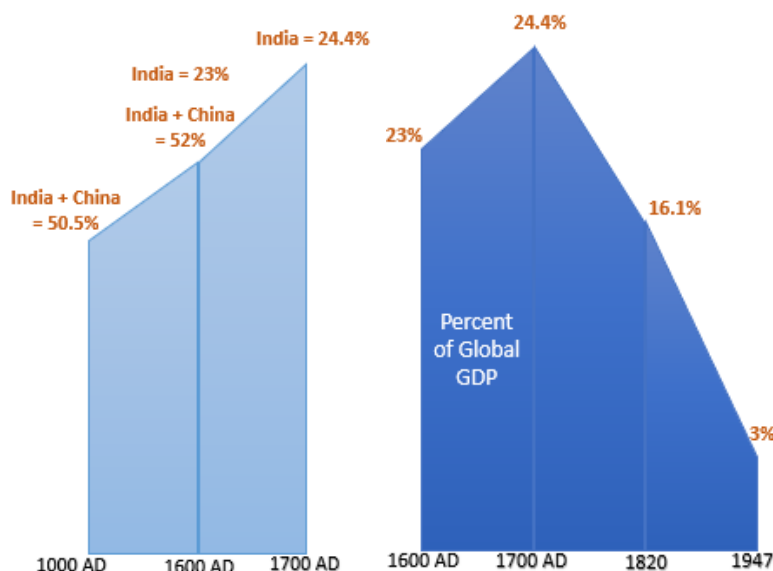


Fig.1 Percentage contribution of India in Global GDP

2. Changes in contribution of India in Global Trade - India accounted for **33 per cent** of global trade in 1600 but fell to less than **3 per cent** in 1947.

3. Indian Economy during British Rule - India's economic performance during the British Raj was dismal as British policies were significant barriers to India's growth during the 19th and 20th Centuries. The characteristics are described as follows:

- **Near stagnant Economy** - It was characterised by near-stagnation, with little change in the organisation of production or productivity levels.
- **Infrastructure created not for Indian Economic growth** - The British East India Company ignored industrialisation in the nation, and infrastructure was created not to industrialise India but to exploit its raw materials.

When India gained independence, the administration of the time had a significant challenge in systematic organisation of the economy.

2 Basic characteristics of the Indian Economy

The following are the characteristics of the Indian Economy:

- **Lower Middle-Income Country** - **World Bank** classifies economies considering per capita income.
 - There are **4 categories** namely Low Income; Lower Middle-Income; Upper Middle-Income and Higher Income.
 - **Indian economy** falls under the category of **lower-middle income economy**. Countries that have Per Capita Income (PCI) between \$996 and \$3895 fall in this classification and India as on 2019 had PCI of \$1891.
- **Low Per Capita Income (PCI)** - Indian economy in terms of in terms of PCI, India ranks very low. The low per capita income is mainly attributed to **high levels of poverty, unemployment, illiteracy, etc.**
- **Sectoral variation** - India was an agricultural economy, with a very low per capita income.
 - Following independence and the start of the planning process, **agriculture's share decreased** while industry and services increased.
 - There was a clear and significant compositional shift in **favour of the services sector after 1980**. The changes have been described as follows:

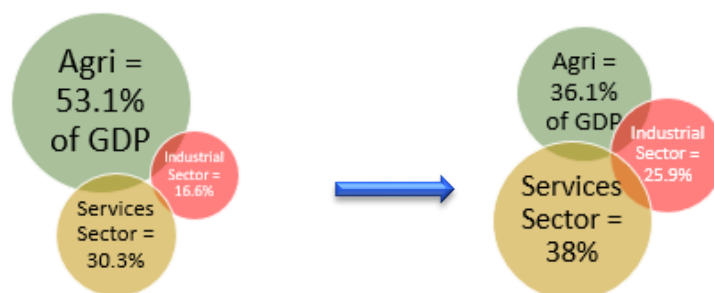


Fig.2 Changes in the sectors of Indian Economy

- **Other Factors that influence Indian Economy** –
 - (i) low per capita real income, (ii) rapid population growth, (iii) a high rate of unemployment underemployment, and disguised unemployment, (iv) excessive reliance on the primary sector, (v) a vicious circle of poverty, and (vi) rising unemployment.

DO YOU KNOW?

Dadabhai Naoroji published the first estimates of national income in India in his book "**Poverty and Un-British Rule in India**" for the year 1867-1868 as per which, British India's national income was Rs. 340 crore, and per capita income was Rs. 20 per annum at current prices. Other economists of the period (**William Digby, Findlay Shirras, VKR.V Rao and R.C. Desai**) produced estimates of India's national income, and the findings were almost identical.

3 Developments in the Indian Economy

The developments in Indian Economy can be discussed by dividing the period based upon important events during this period which include – Economy in pre-British time and Economy during the 2008 global economic crisis. This is described as follows:

3.1 Indian Economy in pre-British period

The British impact on the Indian economy can be discussed in **three different phases** namely, **Early British Period** from 1600-1757.A.D., from **1757-1857 AD**, and **British Crown Period**: 1858 onward.

1. Early British Period from 1600-1757 - The foundation of the **East India Company** took place in 1600. It had two goals-procure raw materials for their factories and find a market for their completed goods.

2. Second phase, 1757-1857 – This phase was marked by **blatant robbery** by the East India Company, camouflaged as trade, exploitative land revenue policies, and dishonest and unscrupulous company officers accumulating vast fortunes.

3. British Crown Period: 1858 onward - This phase began in 1857, when the British crown dissolved the company and assumed exclusive control of India.

- This period was marked by British exploitation through **de-industrialisation, agricultural commercialisation, wealth drain, and Westernisation** of Indian education systems.
- During the time of direct British control from 1858 to 1947, the colonial government's official transfers of monies to the United Kingdom were referred to as "**Home Charges**" **Dividends** to East India Company shareholders, **interest on loans** raised by the Government of India in England, **expenditure on British army** stationed in India and bringing them to India, pensions, annuities, etc., of retired British officers, **payment of guaranteed interest** to railway companies, and **salaries of the secretary of state** for India and his staff were all included in home charges.
- **India's per capita income** from 1600-1947 increased by 12 per cent, whereas the increase for Britain for the same period was 553 per cent. India's **total GDP** during 1600-1947 increased by 2.44 times, but for Britain the rise was 52 times.

3.2 Indian Economy till 2008 & after 2008

1951-1980

In 1978, **Professor Raj Krishna** coined the phrase **Hindu rate of growth** to describe the slow growth of the Indian economy which refers to India's planned economy's **low annual growth**

rate, which hovered around **3.5 per cent** from the 1950s to the 1980s, while per capita income growth averaged 1.3 per cent.

1980-1990

Only during the sixth five-year plan (1980-1985), India could break the curse of the Hindu Rate of Growth. The **liberalised import** policies of the government, increased **imports**.

1992 to 2008

This is popularly referred as the **post-reform period**. Following the 1991 economic crisis, the implementation of reforms and the adoption of **LPG (Liberalisation - Privatisation - Globalisation)** policies paved the way for positive economic outcomes and higher GDP growth rates, making it the **world's second fastest growing economy** after China.

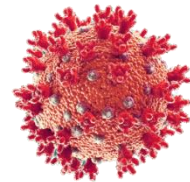
2008 to 2021

The **2008 growth** euphoria had led to a widespread belief that the Indian economy was **decoupled** from that of the developed world. In order to mitigate the effects of the crisis, the government provided **fiscal stimulus** to the economy.

4 Structural changes in Indian Economy

4.1 Indian Economy Post COVID-19

Since the first COVID-19 case was recorded in Kerala on January 30, 2020, India has had **three waves** of infections as on June 2022. The Government of India imposed a **stringent lockdown**



4.2 Sectoral Impact of COVID-19

Due to stringent restrictive measures, contact-intensive services were almost halted during the pandemic.

- **Services Sector** - The **services sector**, which encompasses the bulk of **contact-intensive activities** in India suffered the brunt of the pandemic's impact. and the has **reduced the profitability** of contact-intensive businesses such as **retail trading, hotels and restaurants**, air transportation services, transportation logistics services, and education.
- **Labour** - The **Indian labour market suffered a severe decline during the first wave** of the epidemic, with unemployment hitting an all-time high.
- **Manufacturing** - Manufacturing, mining and quarrying, and electricity, gas, and water supply all saw significant drops, with manufacturing reaching a new low.
- **Agriculture** - **Agriculture remained robust** in terms of production during the pandemic since agriculture and allied activities were spared from the lockdown restrictions.

4.3 Economic Recovery Post COVID

While agriculture survived the pandemic's multiple waves, industry and construction are on the rebound. The recovery has been **uneven** among services.

- Financial, real estate, and professional services, as well as public administration, defence, and other services, gaining traction and **exceeding** their respective pre pandemic levels.
- Recovery in the **trade, hotel, transportation, communication, and broadcasting**- related sectors, on the other hand, has been gradual.
- An empirical examination of the nature and causes of structural change in the Indian economy reveals that the **services sector drives the industry** and the **overall economy**, and the sector's growth and dominance is influenced by external factors such as foreign direct investment.
- **RBI has predicted** that India to offset COVID-19 losses in **2034-35** Hence, India is expected to overcome COVID-19 pandemic losses in 12 years' period.
- **Structural change** refers to the fundamental changes that have occurred in the critical components of the Indian economy over time.
 - The **primary sector's contribution to GDP decreases** over time, while the secondary and tertiary sectors increase.
 - In the long run, the **tertiary sector surpasses** the secondary sector, as the major contributor to the economy In India, the services sector has largely replaced the industrial sector, and it now dominates the economy.
 - The role of the **primary sector declines** as income rises, and India is no exception.