INDIAN ECONOMIC SYSTEM

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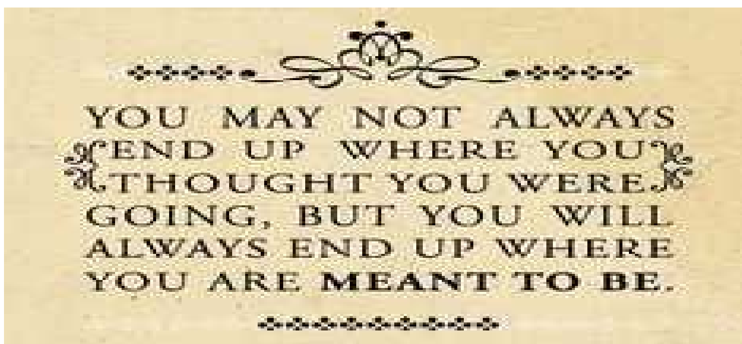
Abstract
The Indian economy is the world's twelfth largest according to market exchange rates. It is also the fourth largest economy by purchasing power parity (PPP) basis. From 1947 to 1991, the India Economic System was based on social democratic-based policies. The policies feature protectionism, extensive regulation and public ownership which led to slow growth and corruption.

But the economy has moved to a market-based system with economic liberalization starting in 1991. The growth rate of the economy increased in 2000's with healthier economic reforms and policies. India became the second-fastest growing major economy in the world by 2008.

Around 54% of the GDP comprises the service industry while 29% is the industrial sector and 17% is the agricultural sector. The main occupation in India is agriculture which employs 60% of the population. Around 28% of the population is employed in the service sector and the rest 12% are in the industrial sector. The work force amounts to half a billion workers.



Introduction
The main agricultural products are rice, wheat, jute, tea, sugarcane, cotton, oilseed, poultry and fish. Textiles, steel, chemicals, information technology enabled services and software, food processing, petroleum, machinery, steel, and cement are the major industries. With a per capita income (nominal) of US $1016, it was ranked 142nd in the world (IMF 2008 estimate) and a per capita (PPP) of US$2,762 it was ranked 129th (IMF 2008 estimate). According to the WTO the economy accounted for 1.5% of world trade in 2007.

Some of the basic features of the India Economic System are given below

GDP	$1.209 trillion (2008 est)
GDP growth	6.7% (2009)
GDP per capita	$1016
Inflation (CPI)	7.8% (CPI) (2008)
Population below poverty line	22% (2008)
Labor force	523.5 million (2008 est)
Unemployment	6.8% (2008 est)
Public debt	$163.8 billion (2008)

History of the Indian Economy

The economic history of India can be divided into three periods ranging from the pre-colonial period lasting up to the 17th century, colonial period from the 17th century till independence in 1947 and post-independence.

Pre-Colonial Period

The Indus Valley civilization which prospered between 2800 BC and 1800 BC had trade, agriculture, made weapons and tools and used uniform weights and measures. The economy was dependent on agriculture and isolated and self-sustaining. With the caste and the joint family systems, there was division of labor. Goods like shawls, muslin, pepper, cinnamon, indigo etc. were traded with the Middle East, Europe and South East Asia. The economy was an agrarian one by the time the British arrived which worked with the commercial, manufacturing and credit networks. With the decline of the Mughal Empire, the Maratha Empire administered parts of western, central south and north India. In the 1740's the budget of the Maratha Empire was ` 100 million.

Colonial Period

With the British East India Company's rule, there were changes in various taxes from property to revenue. This led to mass impoverishment, destitution of farmers and famines. The handicrafts industry went bankrupt under the economic policies of the British Raj. A revival for domestic-made products was started with the boycott of British products through the Swadeshi movement. India was a large market for quality European goods during this time.

Also at this time, free trade was encouraged, railways and telegraphs, civil service, a common-law and legal system was established. With industrialization and India's colonization, there was growth in production and trade in Britain. By the time of India's independence, its economy was one of the poorest in the developing world. With the absence of industrial development and agriculture not being able to feed a growing population, the country had one of the lowest life expectancies in the world.

Independence Till 1991

The economic policies initiated post-independence was influenced by the colonial experience. Policies included protectionism, import substitution, intervention of the state in labor and financial markets, industrialization, central planning, large public sector, business regulation. Five-Year Plans were introduced which were similar to the central planning in the Soviet Union.

In the mid-1950s, industries such as electrical plants, water, insurance, mining, telecommunications, steel, machine tools were nationalized. Between 1947 and 1990, regulations and licenses were needed to set up businesses in India. This was termed as License Raj and often included red tapism.

The economic policies in India were formulated and overseen by the first Prime Minister, Jawaharlal Nehru along with statistician Prasanta Chandra Mahalanobis which was carried on by Indira Gandhi. They hoped for a positive result as it included public and private sectors with direct and indirect intervention of the state. The Green Revolution in India was introduced with high-yielding seeds varieties, fertilizers and irrigation after 1965. This helped in making the country self-sufficient and famine became a thing of the past.

From 1991 Onwards

The government led by Rajiv Gandhi in the late 80's relaxed restrictions, reduced corporate taxes and removed price controls. There was increased rate of growth which led to high fiscal deficits and declining current account. There was a major balance-of-payments crisis with the collapse of the Soviet Union, which was the country's major trading partner and the first Gulf War which led to increasing oil prices. The country faced a crisis on defaulting on its loans. It asked a bailout loan amount of $1.8 billion from the IMF which asked for reforms.

Economic liberalization was initiated in 1991 by Prime Minister NarasimhaRao and his finance minister Manmohan Singh. The reforms abolished the License Raj, ended public monopolies which allowed automatic approval of foreign direct investment in various sectors. From that period, liberalization has been the same for all governments. India has become one of the fastest-growing developing economies since 1990. It is projected that in 2035, India will be the third largest economy of the world after US and China.

Sectors of the Economy

Agriculture

In farm output, India ranks second in the world. In 2007, agriculture and forestry, logging and fishing comprised 16.6% of the GDP which employed 60% of the population. Though its share of the GDP has declined, it is still the largest economic sector and plays a major role in the socio-economic development of the country. The country is the world's largest producer of tea, turmeric, black pepper, ginger, milk, cashew nuts. It is also the second largest producer of wheat, rice, groundnut, sugar and inland fish and third largest tobacco producer (2008 estimate). Around 10% of the world fruit production is from India with the highest production of bananas, mangoes and sapotas (2008 est). India is the world's largest silk consumer and the second largest silk producer.

Industry and Services
Around 27.6% of the GDP comprises industry which employs 17% of the population (2007 est). Around one-third of industrial labor works in simple household manufacturing processes. With economic reforms, foreign competition, privatization of public sector industries, fast-moving consumer goods production increased. Indian private sectors which were run by old family firms and needed political connections for survival were challenged with foreign competition and cheaper Chinese imports. These firms revamped management, designed new products, relied on low labor costs and technology to handle these threats.

After agriculture, textile manufacturing has the second largest employment and comprises 26% of manufacturing output. With 23% of the population in the services sector, it had a growth rate of 7.5% in 1991–2000. It accounted for 55% of the GDP in 2007. One of the fastest growing sectors is business services which includes information technology enabled services, information technology, business process outsourcing etc. In 2000, it was one third of the total output of services.

Around 7% of the GDP in 2008 was contributed by IT industries. Seven Indian firms were among the world's top 15 technology outsourcing companies in 2009. The annual revenues from outsourcing operations amounted to US$60 billion in March 2009. As of 2008, organized retail like supermarkets was 4% of the market. Tourism is also a booming industry now.

Banking and Finance
The Indian money market is divided into the organized sector and unorganized sector. The organized sector includes private, public and foreign owned commercial banks and cooperative banks known as scheduled banks. The unorganized sector includes individual or family bankers, money lenders and non-banking financial companies (NBFCs).

In 1969, 14 banks were nationalized by Prime Minister Indira Gandhi and six more nationalized in 1980. It is mandatory that banks provide 40% of their net credit to important sectors like agriculture, retail trade, small-scale industry, small businesses etc. In 2003, there were 98,910 bank branches. Around 75% of the banking industry's total assets are held by public sector banks, 18.2% are held by private banks and 6.5% are held by foreign banks (2007 est).

Natural Resources
Around 56.78% of the total land area or 1,269,219 square kilometers are cultivable. The water surface area is of 314,400 square kilometers. Around 92% of water is utilized for irrigation. The country had the third largest fishing industry in the world in 2008. Major mineral resources include manganese, bauxite, mica, titanium, limestone, chromite etc. India has 92 billion tonnes of coal reserves which is 10% of world's coal reserves. The country has 11 billion barrels of oil reserves. It also has 25% of world's thorium reserves. There are also various types of renewable sources of energy available like solar, wind and biofuels.

Global Trade Relations
The economy of India is depended on its large internal market. Around 1.45% of global merchandise trade and 2.8% of global commercial services export was done by India. Till the liberalization of 1991, the country's economy was protected from the world markets. Foreign trade included export taxes, import tariffs and restrictions. There were restrictions on foreign direct investment (FDI). For the first years after independence, exports were sluggish. Most of the imports were equipment's, raw materials, machinery as there was less industrialization.

Imports in the same period consisted predominantly of machinery, equipment and raw materials, due to growing industrialization. In 2003-04, India's international trade was ` 63,080,109 crores. Major trading partners of the country are the China, US, the UAE, the UK, Japan and the EU. In April 2007, exports amounted to $12.31 billion. Major export commodities in 2006-07 included petroleum products, gems and jewelry, iron ore, minerals etc. Since 1947, India has been the founding-member of General Agreement on Tariffs and Trade (GATT) which is now succeeded by WTO.

Balance of Payments
The India Economic System also features India's balance of payments. With liberalization in the 1990s, exports have been increasing and in 2002-03, it covered 80.3% of its imports. The large current account deficit was due to the country's oil

IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

import bill. India imported 120.1 million tonnes of crude oil in 2007–08. Since 1996–97, India's overall balance of payments has been positive. In 2008, India had $285 billion worth of foreign currency reserves. The trade deficit was reduced to $252.5 billion due to global late-2000s recession.

Foreign Direct Investment in India

The Indian economic system is the fourth-largest economy in the world in PPP terms. Therefore it is one of the most preferred destinations for foreign direct investments (FDI). In a recent liberalized FDI policy in 2005, up to 100% FDI can be invested. Up to 100 per cent FDI is allowed in the construction business. In 2007-08, the FDI inflow was $24 billion.

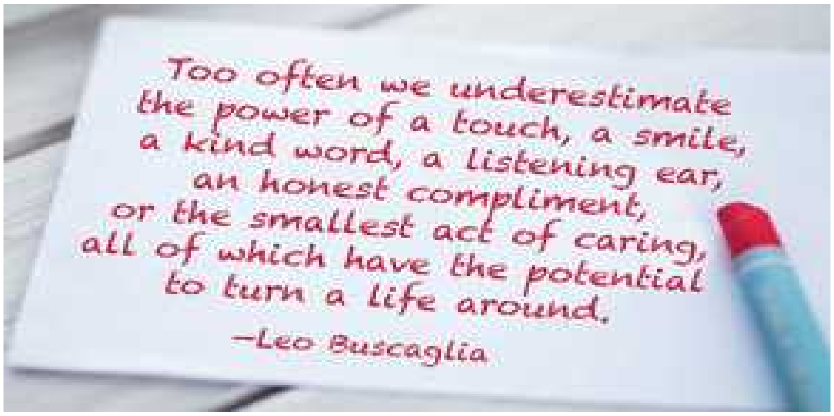
Currency

The only legal tender accepted in the country is the Indian Rupee. As of September 1, 2009, the exchange rate was 49.0003 rupees to the US dollar, 77.60 to a UK pound and 77.60 to a UK pound. The currency is also a legal tender in neighboring countries of Nepal and Bhutan. The rupee is divided into 100 paise with the 1,000 rupee note as the highest-denomination banknote and 25 paise coin the lowest-denomination coin. The Reserve Bank of India (RBI) was established on April 1, 1935. It is the country's central bank, regulates and supervises the financial system, issues currencies and manages exchange control. The bank is headed by a governor appointed by the Central government and governed by a central board.

Conclusion

Government Initiatives to Boost Indian Economy

1. **Frame Work for Investments by RBI:** In a bid to bring more investments into India’s debt and equity markets, the Reserve Bank of India (RBI) has set up a framework for investments which will enable foreign portfolio investors to take part in open offers, buyback of securities and disinvestment of shares by the Central and State governments.
2. **Opening Up Insurance Sector:** FIIs and non-resident Indians (NRIs) will now be able to invest in the insurance sector, within the 26 per cent cap on FDI. DIPP confirmed in a press note that the norms would also apply to insurance brokers, third-party administrators (TPAs), loss assessors and surveyors. The investments can be made through the automatic route.
3. **Promotion of SMEs:** The Government of India along with the industry has been working towards fashioning a more dynamic environment for small and medium enterprises (SMEs) and startups over the last few years. Indian SMEs employ about 40 per cent of the country’s workforce and contribute 45 per cent to the overall manufacturing output. A positive policy framework allied with the growth of angel funds and a vibrant entrepreneurial culture is contributing to the growth of first generation entrepreneurs in the country.
4. **Infrastructure:** The Cabinet Committee on Investments (CCI) under UPA government had approved the speedy execution of 36 infrastructure projects entailing investments of Rs 1,830 billion (US$ 29.28 billion) to boost investor confidence.



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