

# The Indian Economy

Ankur Jain  
Chief Knowledge Expert  
T.I.M.E.



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# Part 1: Historical Overview

# History of Indian Economy

- “Golden Bird”
- Geography, Climate, Natural Resources
  - Surplus
  - Surplus storage - Gold
- Trade Linkages
  - Europe – Land route
  - Asia – Land and sea route
  - Africa – Sea route
  - Silk Route
- Search for Sea Route to India – WHY?

# Vasco Da Gama's Route to India



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# History of Indian Economy

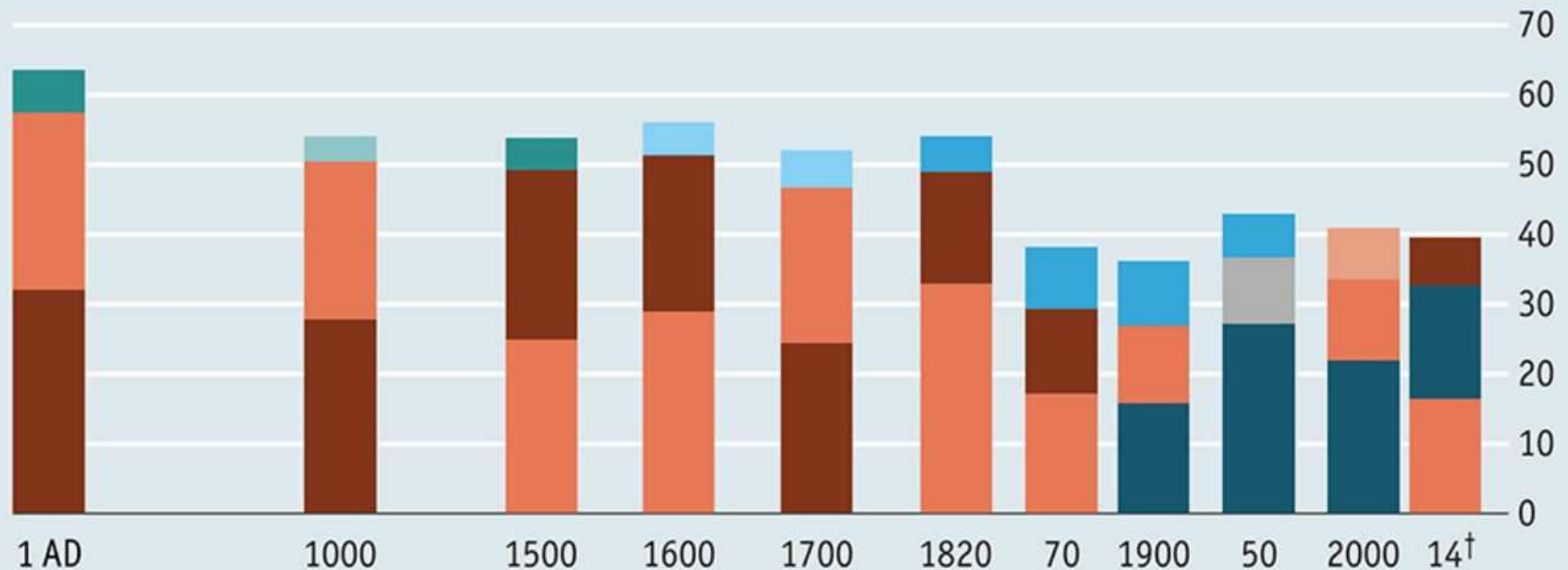
- % share of India in World trade and GDP
  - 3<sup>rd</sup> Century AD – 33%
  - 1757 – 22%
  - 1947 – 3.8%
- Why did it drop?
  - Value Chain systematically snatched
  - India - Resource base and final market but not earning the value added
  - Cash crops – forcibly grown

# Time is money

World's biggest three economies, GDP at PPP\* as % of world total

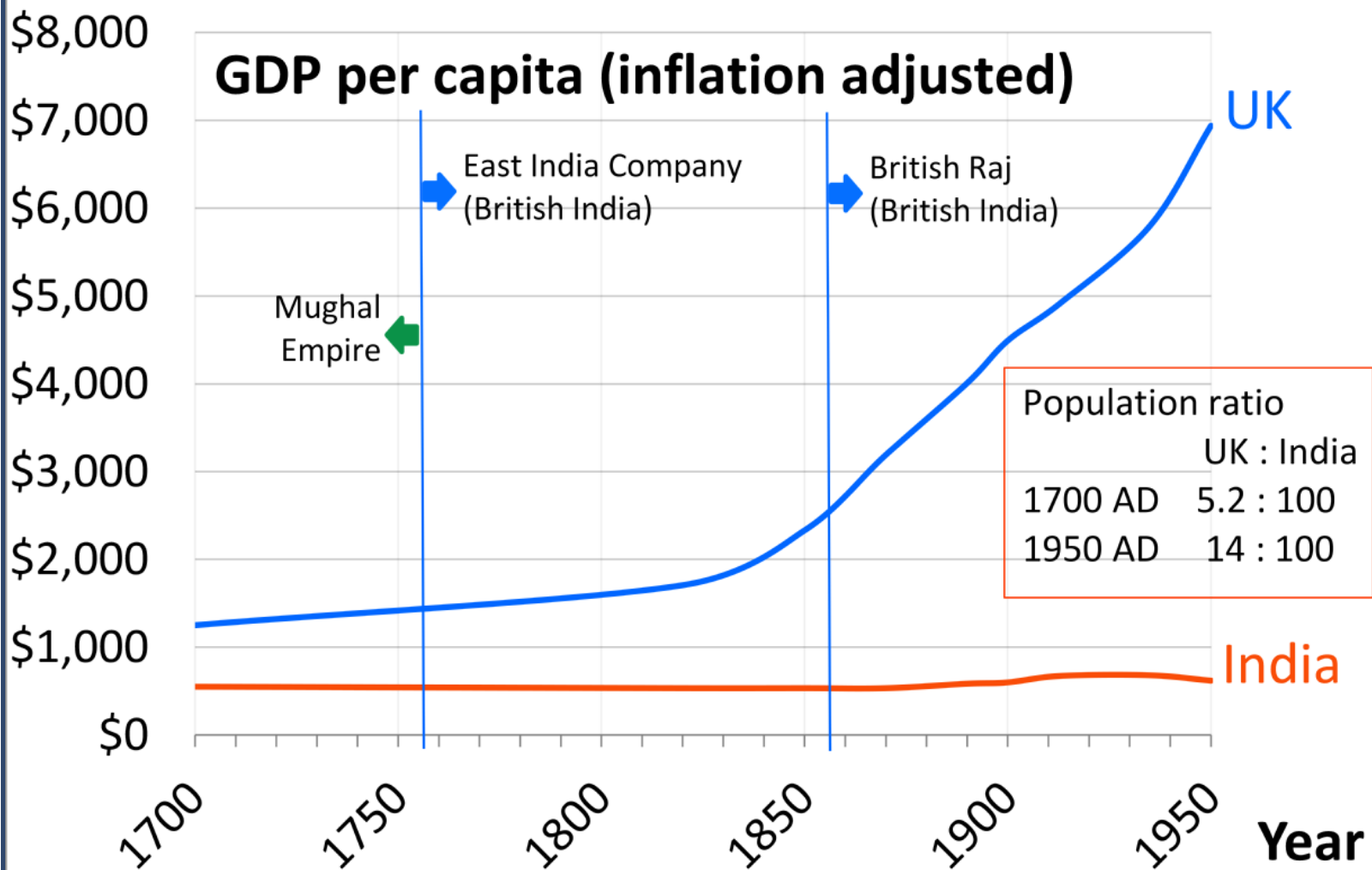
Historical output within the boundaries of modern countries

India China Italy Turkey France Britain US Russia Japan

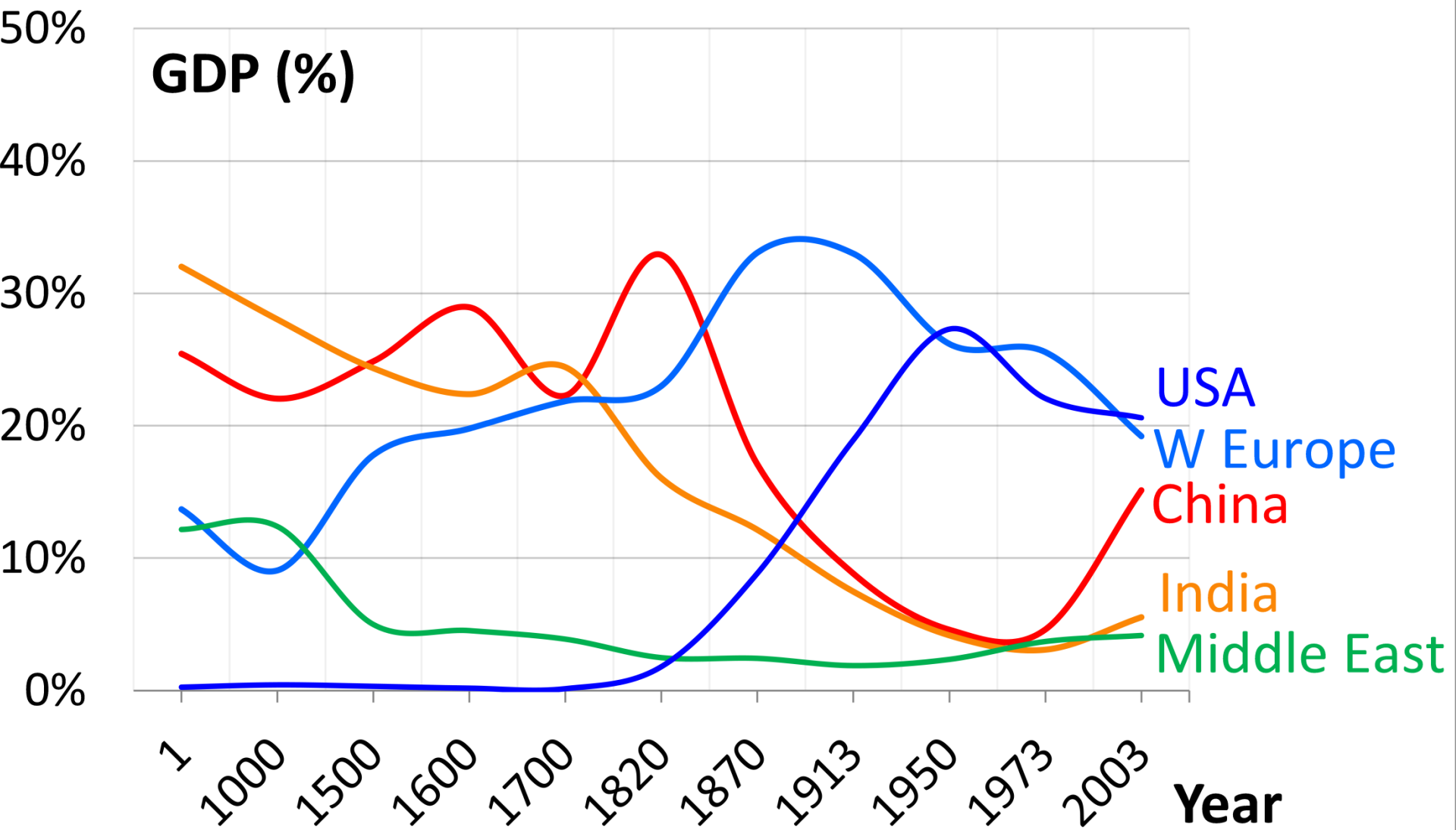


Sources: Angus Maddison; IMF; *The Economist*

\*Purchasing-power parity †Forecast



“There is no doubt that our grievances against the British Empire had a sound basis. As the painstaking statistical work of the Cambridge historian Angus Maddison has shown, India's share of world income collapsed from 22.6% in 1700, almost equal to Europe's share of 23.3% at that time, to as low as 3.8% in 1952. Indeed, at the beginning of the 20th century, "the brightest jewel in the British Crown" was the poorest country in the world in terms of per capita income. “ - Dr. Manmohan Singh (2005)



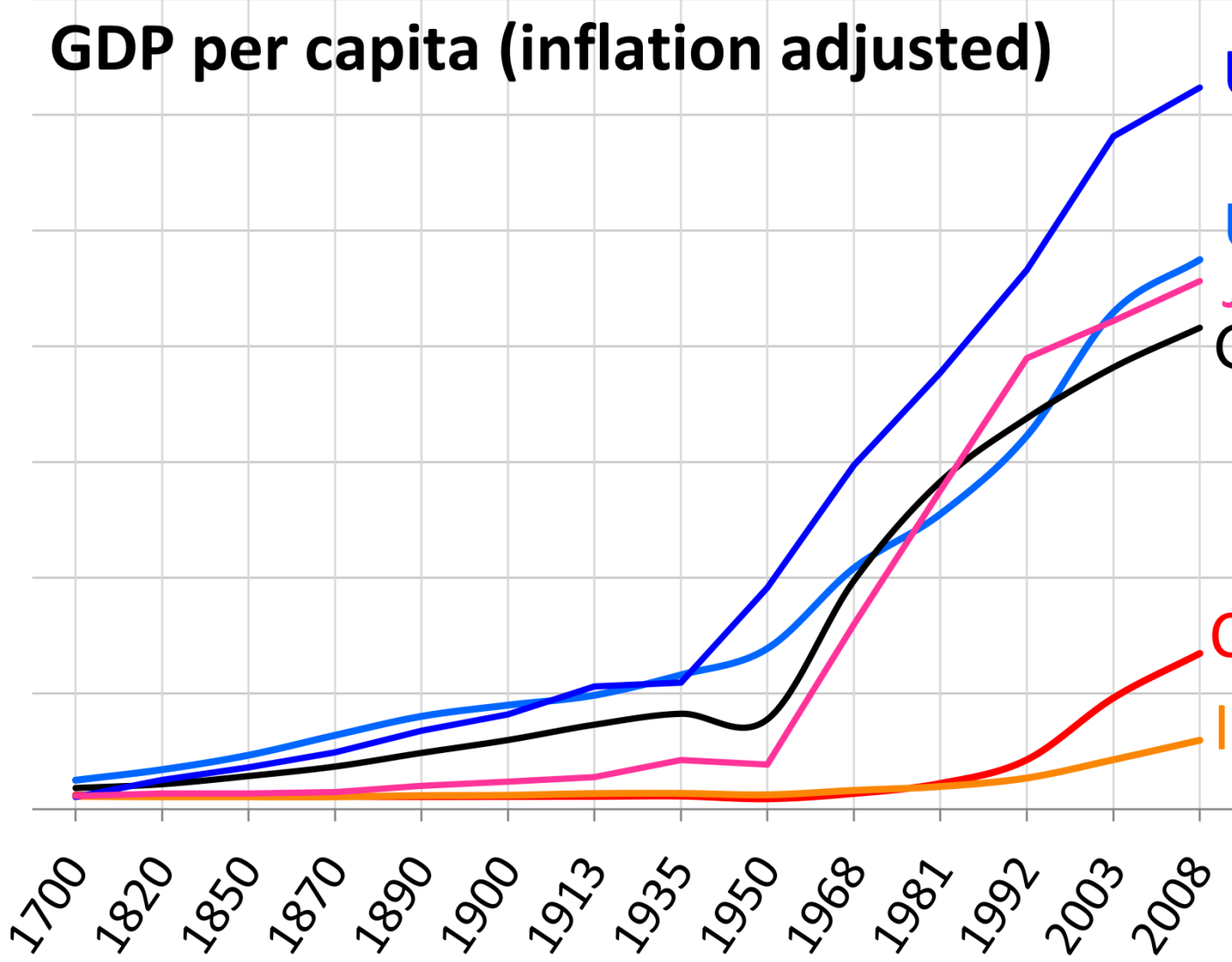
# GDP per capita (inflation adjusted)

\$35,000  
\$30,000  
\$25,000  
\$20,000  
\$15,000  
\$10,000  
\$5,000  
\$0

1700 1820 1850 1870 1890 1900 1913 1935 1950 1968 1981 1992 2003 2008

Year

USA  
UK  
Japan  
Germany  
China  
India



# Pre-Independence

1. Agrarian economy  
(70% GDP from Agri. in 1947)
2. Food-deficient
3. Colonial exploitation
4. Zamindari system
5. Traditional industries  
(Cotton Textiles – low value-addition)

# Factors shaping India's economic policies

- Exploitative Capitalism – Colonialism
- Fabian Socialism impact on Nehru
- Manufacturing led growth
- Nationalist fervor
- Growth of the USSR through centrally planned economy
- 1930s – The Great Depression and US government's role in reviving the US economy

# Pre-LPG

- Resource poor economy
- Role of investment for the Government
- Socialistic thinking – WHY ?
- Optimally use resources – 5 yr plans – License Raj
- Sellers market
- No pressure on manufacturer to improve quality
- Ready market – no price for innovation
- Cost plus pricing
- Industrial Policy, 1956

# Pre-LPG

- Shortage and premiums
- Sellers market created corruption, inefficiency and obsolescence
- Lack of customer service
- Monopoly
- Inward looking economy, Conserve foreign exchange. Import substitution
- Few luxuries. Feeling of shortage in the economy
- High Taxes
- Huge trade deficit

# Snippets!

- Never talk to me about profit, Jeh, it is a **dirty word**. (Nehru to JRD Tata, when he suggested state-owned companies should be profitable)
- (In the current Indian regulatory system,) I cannot decide how much to borrow, what shares to issue, at what price, what wages and bonus to pay, and what dividend to give. I even need the government's permission for the salary I pay to a senior executive. (JRD Tata in 1969)

# Pre-LPG

- China – 1978 reforms
- India some reforms – 1974, 1980-84, 1984-89
  - Telecom
  - NEP, 1986
  - Computerisation
- Some more reforms -1989-91
- Forex reserves - \$1 bn – 1991

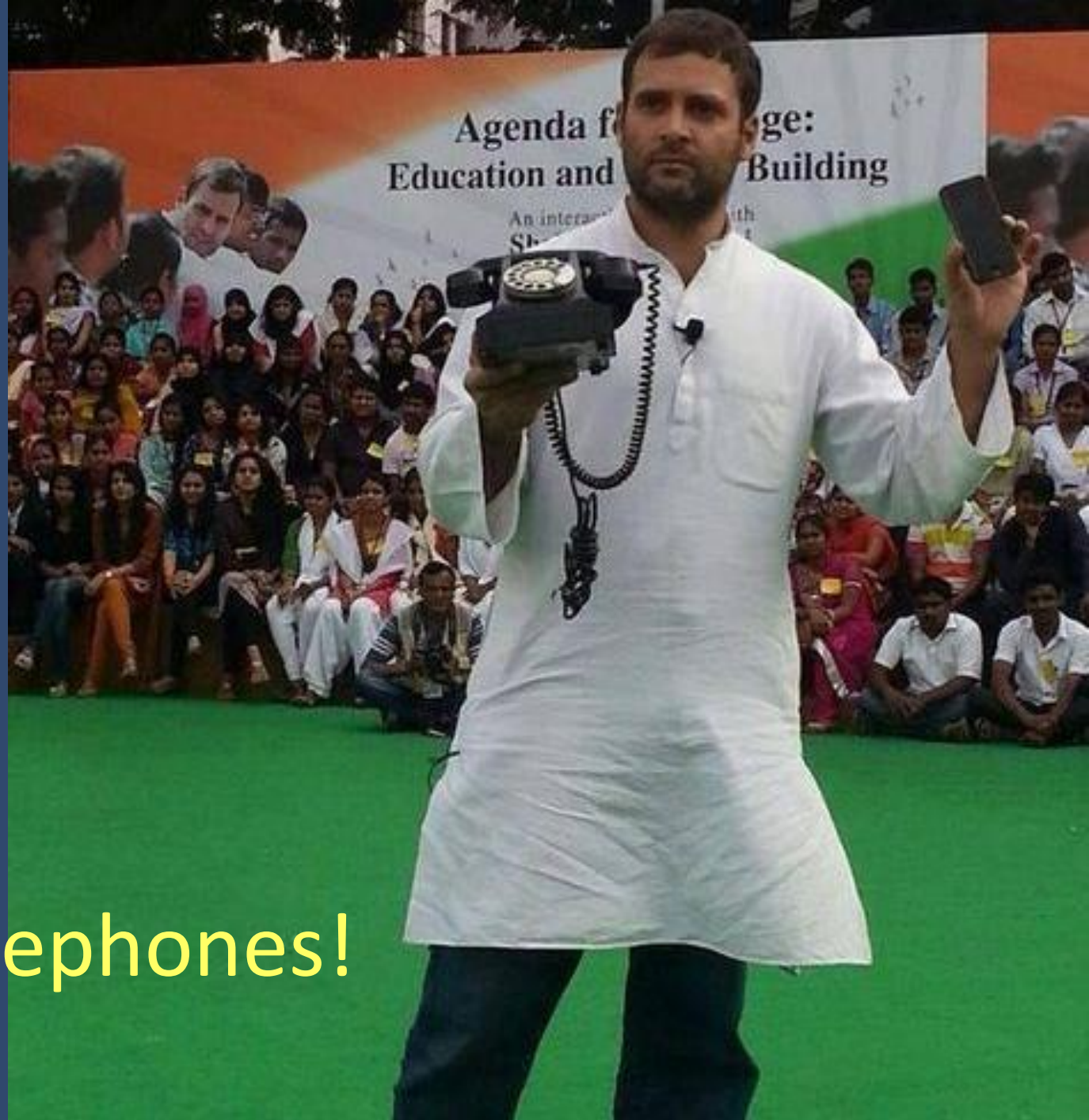
Identify!





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Telephones!





Celebrating 20 years of liberalisation

# 1<sup>st</sup> Generation Reforms

- Industrial Policy, 1991
- De – License
- Import liberalization
- Taxation Reform – Direct & Indirect
- Forex norms – Allowed FII & FDI
- Dividend repatriation
- Stock Exchange reforms – SEBI
- Banking sector reforms
- RBI relaxes controls
- Coal – Limited Privatisation

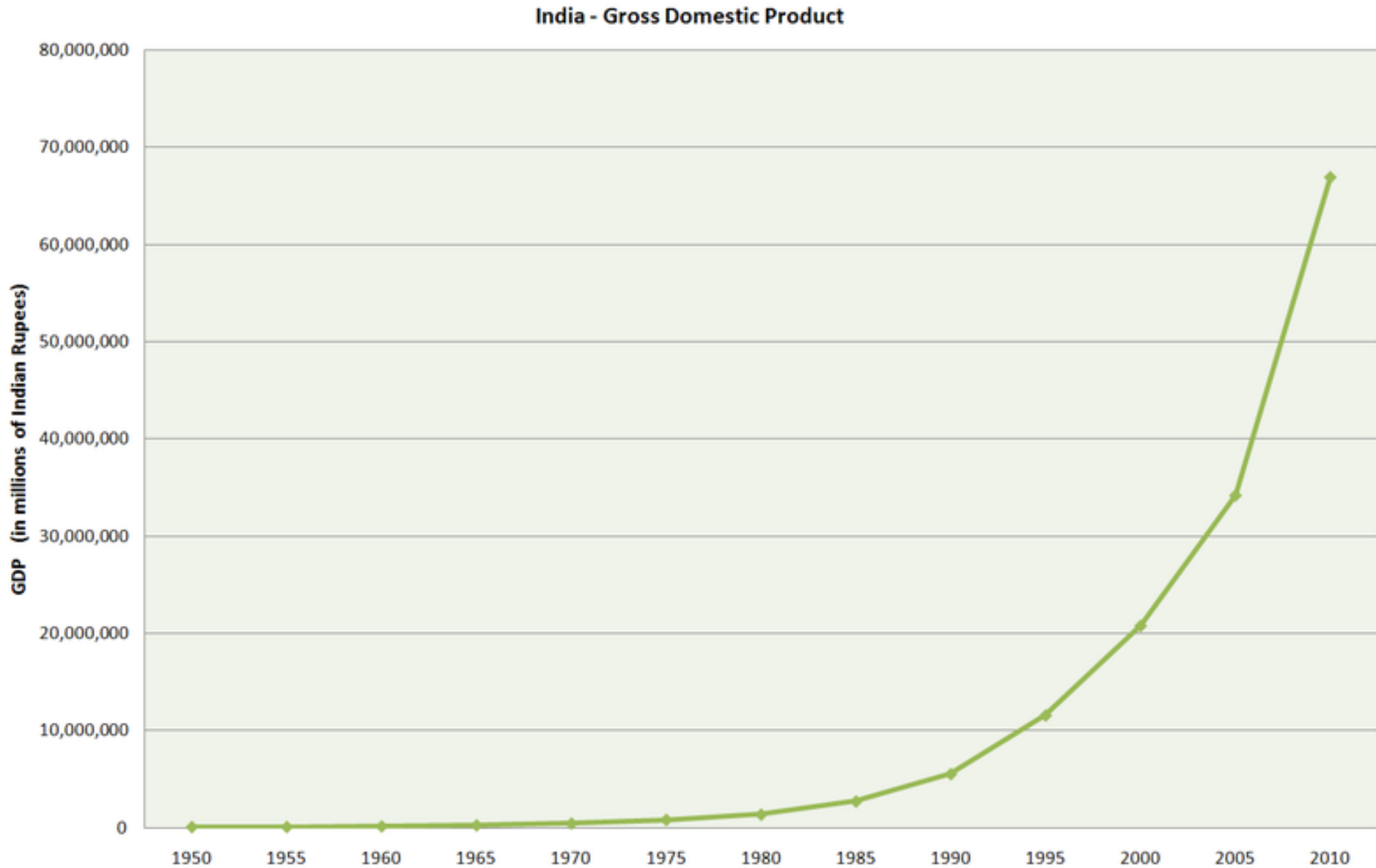
# 2<sup>nd</sup> Generation Reforms

- Infrastructure – build roads, airports through PPP
- Telecom reforms – private players in basic and cellular telephony
  - New Telecom Policy, 1999
- Insurance – GIC & LIC; private players
- Labour law reforms – hire and fire
- Disinvestment
- Power sector reforms
- Tax Reforms
  - Income Tax Rate

# 3<sup>rd</sup> Generation Reforms

- Social Security Reforms
  - MNREGA, Jan Swastha Bima Yojana, NHM, NHRM, NUHM
- Local Self Governments
- Information and Communication Technology
- Taxation
  - VAT
- Lokpal Bill and other anti-corruption measures
  - Why has corruption risen in the past few years?

# India's GDP has risen sharply after 1991



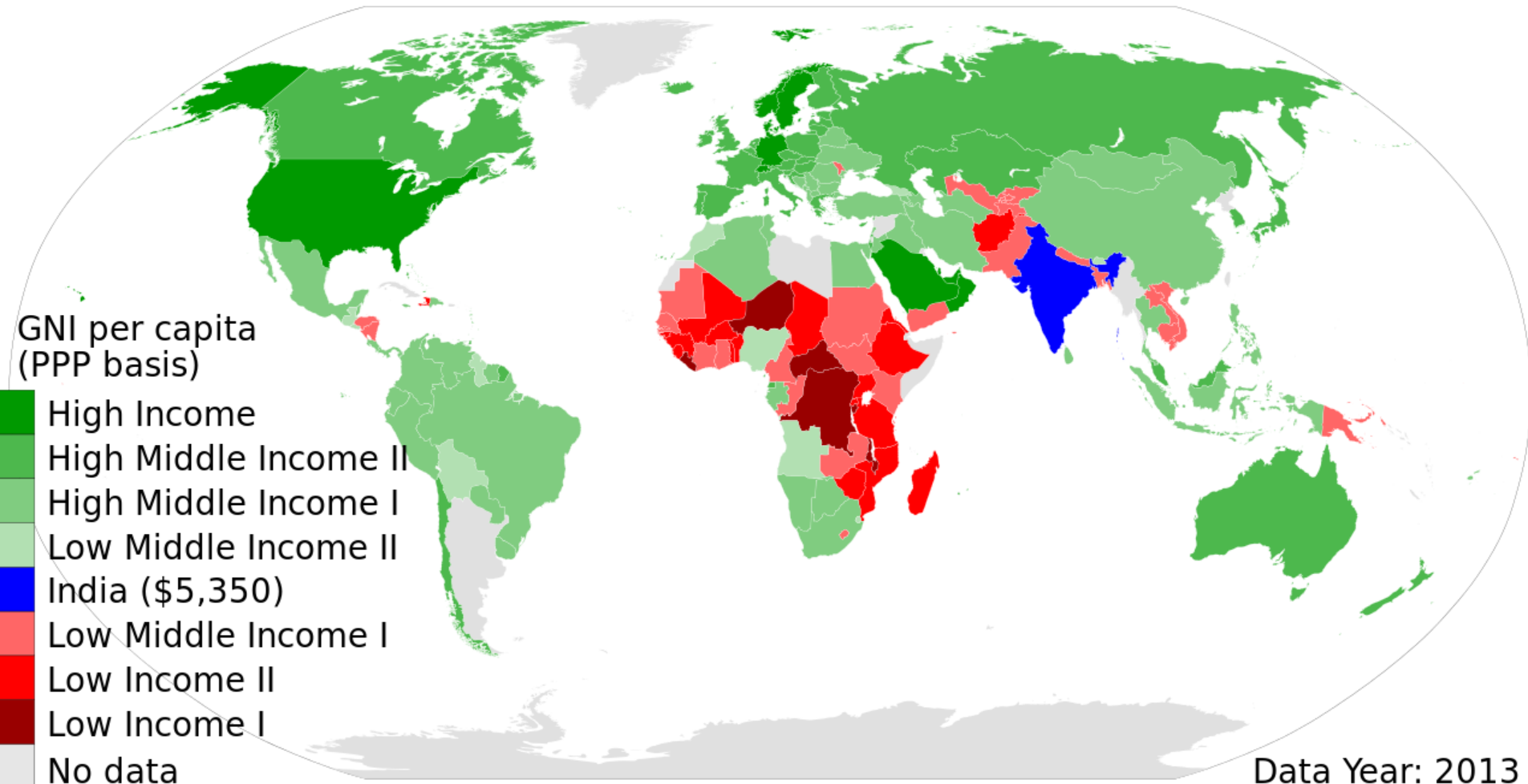
# Pending Reforms

- Corruption
- Land Acquisition Reforms
- Educational and Employability Upgradation
- Administrative Reforms
- Judicial and Legal Reforms
- Taxation Reforms
- Labour Reforms
- Social Security
- Financial Inclusion
- Environmental Concerns
- E-Governance
- Urbanisation Challenges
- Emergency Services and Disaster Management

# Pending Reforms – 4<sup>th</sup> Generation

- Corruption – Demonetisation, SIT, Political Funding
- Land Acquisition Reforms – Land ordinance – Now in Trouble
- Educational and Employability Upgradation – Skill India
- Administrative Reforms – Some ad hoc measures on promotions
- Judicial and Legal Reforms – Obsolete Laws, Judicial Appointments (Now in trouble)
- Taxation Reforms – GST
- Labour Reforms – Labour law changes, Rajasthan State Laws
- Social Security – Insurance Schemes (Health, Life, Crop)
- Financial Inclusion - PMJDY
- Environmental Concerns – Paris Climate Talks
- E-Governance – Digitisation, Digital India, E-money, E-courts
- Urbanisation Challenges – PURA, RURBAN, AMRUT
- Emergency Services and Disaster Management – On Ground work (e.g. Orissa Disaster, Tamil Nadu Floods)

# Still a long way to go !



# India is now:

- The world's 6<sup>th</sup> largest economy by nominal GDP
- The world's 3<sup>rd</sup> largest economy by PPP GDP
- The world's 2<sup>nd</sup> largest phone user market (more than 1 Billion active connections)
- The world's 2<sup>nd</sup> largest smart phone market (244 million active users)
- But half our population defecates in the open, 44% children under the age of 5 are underweight, 72% of infants and 52% married women have anaemia !!!

# Priorities or economic logic?





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# PART 2: SOME STATISTICS

# Some Vital Statistics

|                             |  |
|-----------------------------|--|
| Population                  | 1.33 billion (17.86% of world, 2017 figures)                 |
| Population growth rate      | 1.18% (2017 estimate)  |
| GDP (nominal)               | \$2.384 trillion – 6 <sup>th</sup> Rank                      |
| GDP (PPP)                   | \$8.727 trillion – 3 <sup>rd</sup> Rank                      |
| GDP growth rate             | 6.5-7.0 % (2016 estimates)                                   |
| Per capita income           | \$ 1,718 (Nominal) – 2016 estimates – 140 <sup>th</sup> rank |
|                             | \$ 6,658 (PPP) – 2016 estimates – 122 <sup>rd</sup> rank     |
| Forex Reserves              | \$368 billion (11 <sup>th</sup> Nov 2016)                    |
| Literacy Rate               | 74.04% (2011)  |
| Unemployment                | 5.1% Rural, 4.9% Urban                                       |
| Ease of Doing Business Rank | 130 <sup>th</sup> (Up from 142 two years ago)                |

*Source: CIA Fact file and Wikipedia, 2010-2017 estimates*

# Some Vital Statistics

|                              |                                |
|------------------------------|--------------------------------|
| Public Debt as a % of GDP    | 66.5% (2016)                   |
| Budget Deficit as a % of GDP | 3.9% (2015-16)                 |
| % below PL                   | 21.2% (2011)                   |
| Working Age Population       | 40% (appx)                     |
| HDI                          | 130 (2016)                     |
| Labour Force                 | 502.1 million (2015)           |
| Life Expectancy              | 68.45 (167 <sup>th</sup> Rank) |
| Fertility Rate               | 2.3 per woman (2016)           |
| Education Expenditure        | 3.9% of GDP                    |
| Inflation rate               | 3.63 %                         |

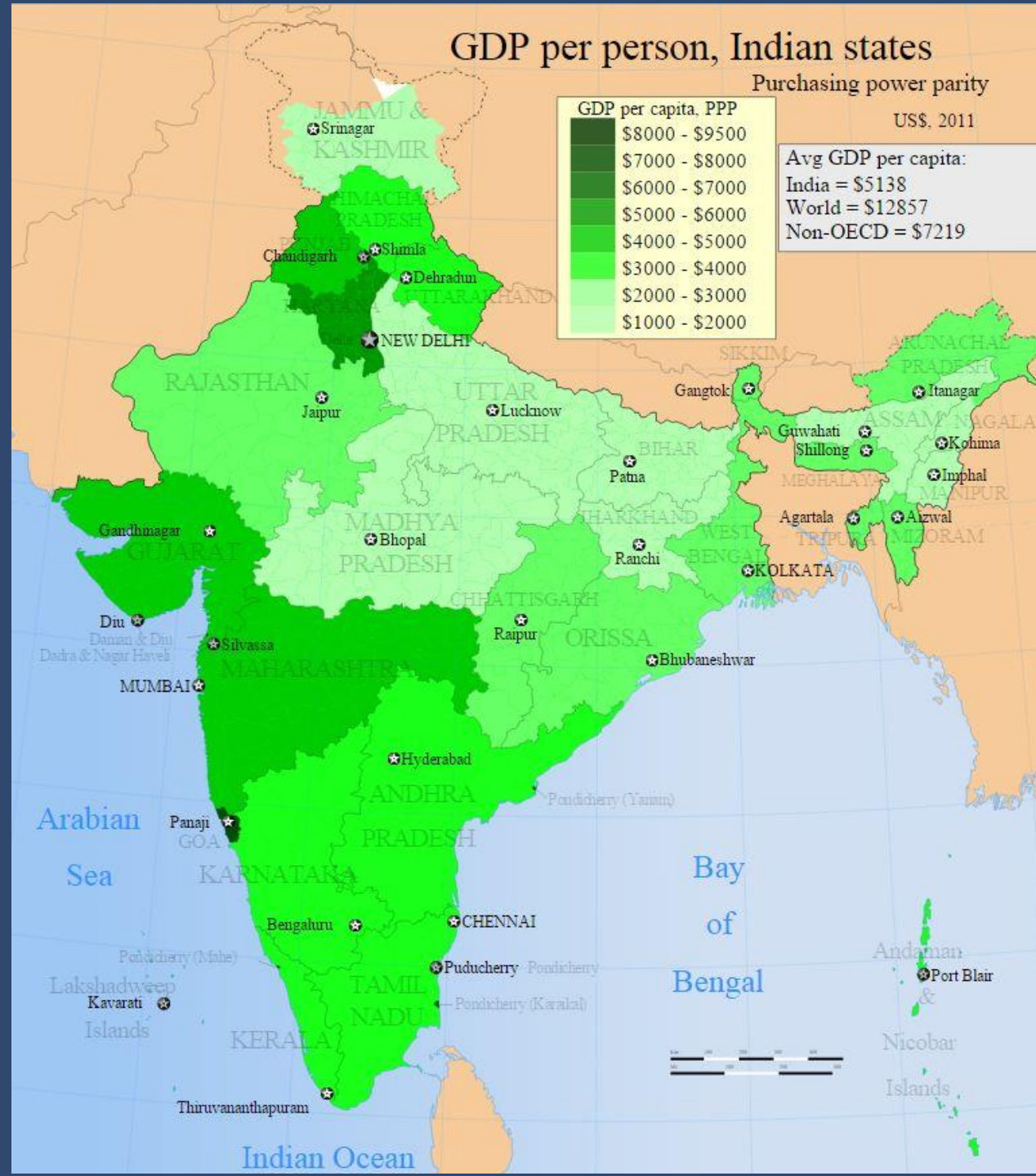
# GDP per person, Indian states

Purchasing power parity

US\$, 2011



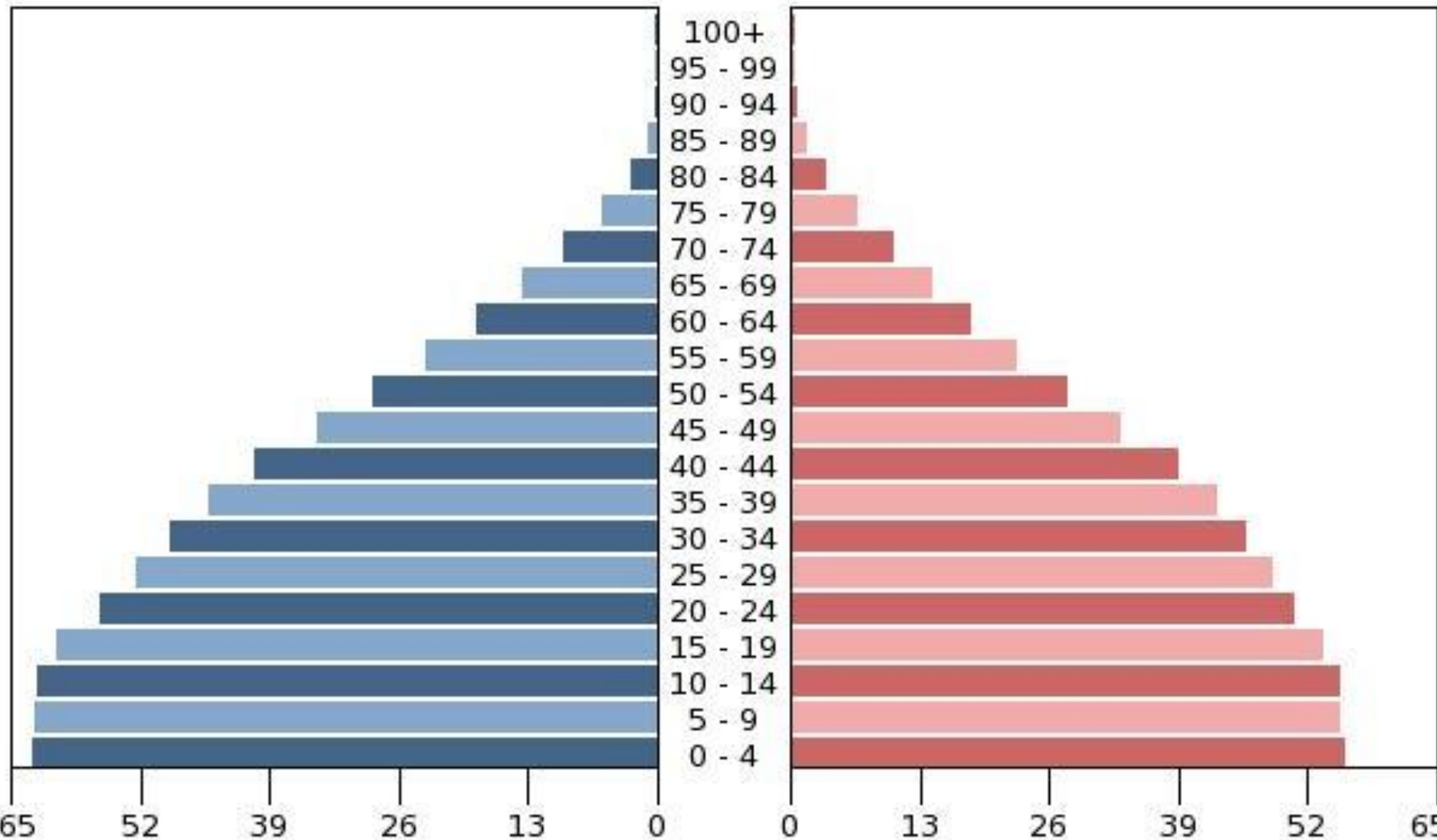
Avg GDP per capita:  
 India = \$5138  
 World = \$12857  
 Non-OECD = \$7219



Male

# India - 2012

Female



Population (in millions)

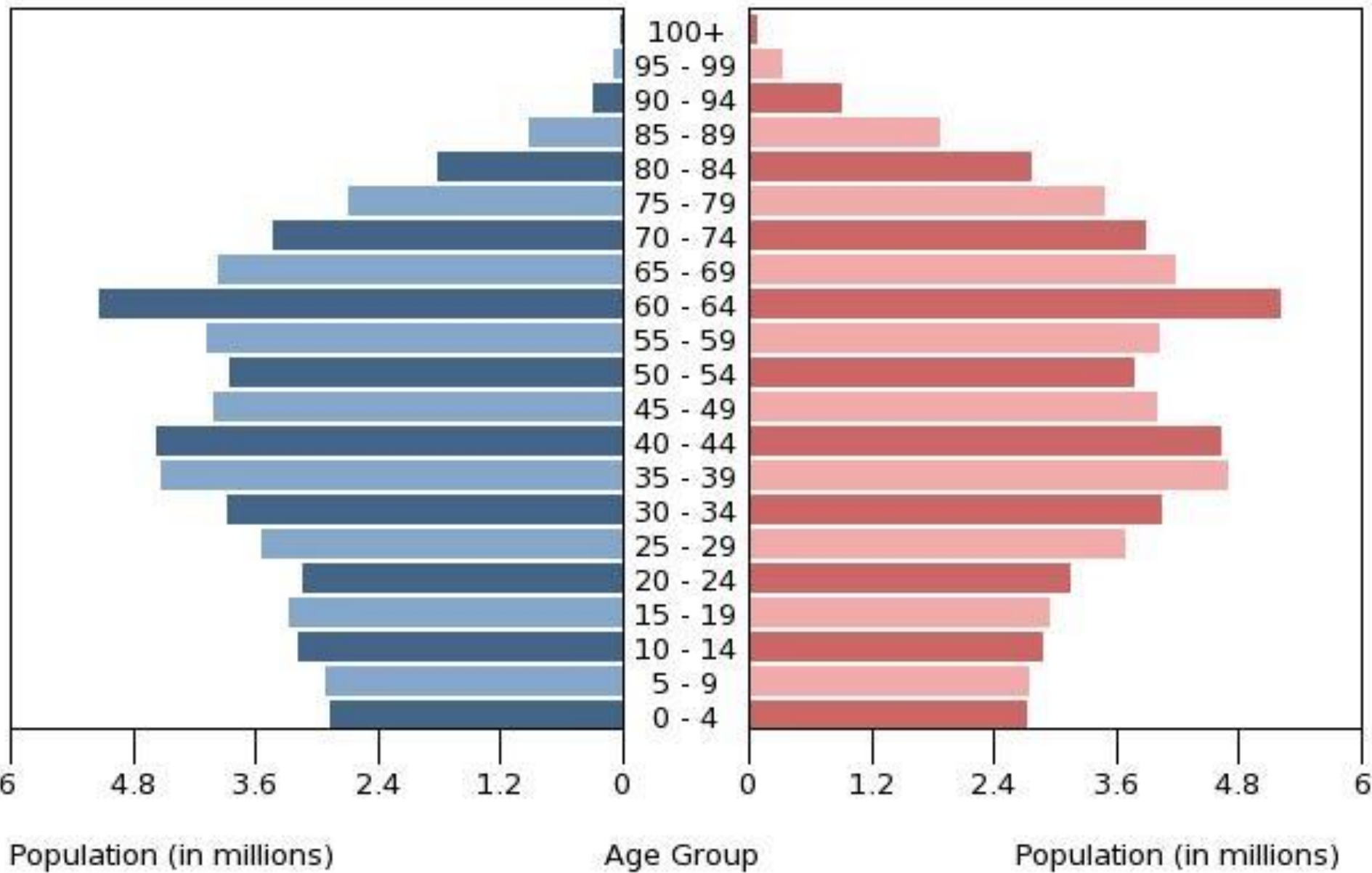
Age Group

Population (in millions)

Male

# Japan - 2012

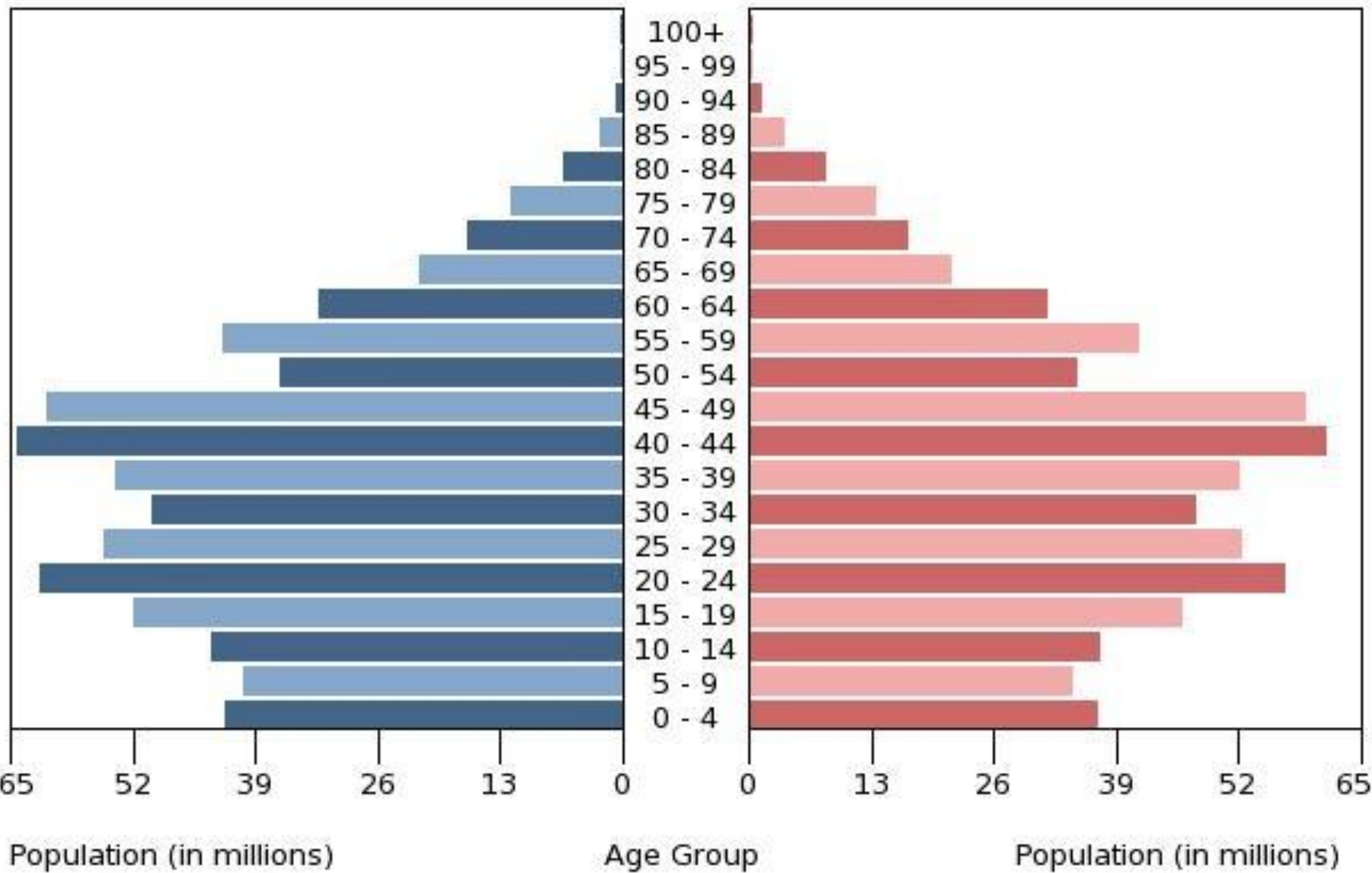
Female



Male

# China - 2012

Female



# Aging population of China – One Child policy

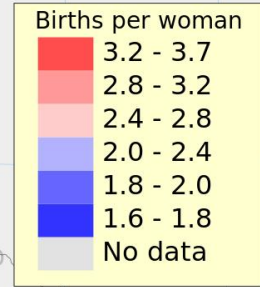


# Declining Fertility Rate in India

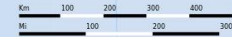
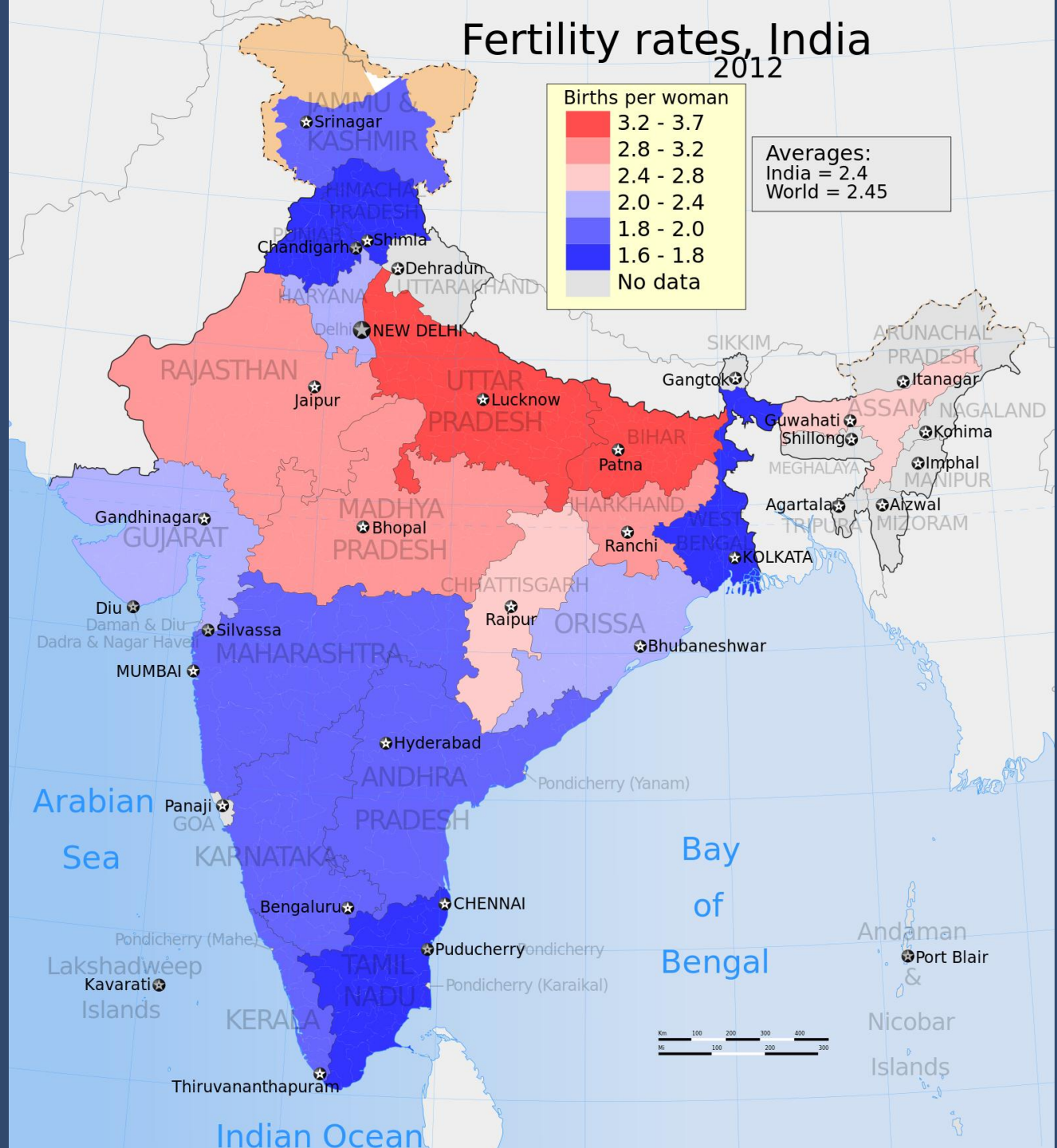
- 1990 – 3.81
- 1995 – 3.55
- 2000 – 3.14
- 2004 – 2.94
- 2007 – 2.76
- 2010 – 2.53
- 2013 – 2.34
- Target 2025 – 2.1 (Replacement rate)

# Fertility rates, India

2012



Averages:  
 India = 2.4  
 World = 2.45



# INDIA

- Low per capita real income
- Over sized population (1.18% growth, 2017 figures)
- Dependence on primary production
- High percentage of the people live in villages
- High density of population – 382/sq.km
- High rate of unemployment
- Improper distribution of wealth

# INDIA

- Illiteracy  
(Literacy – 74% - 82% male and 65% female literates)
- Low HDI – 130<sup>th</sup>  
(Life expectancy at birth, primary education, Per capita income)
- Low level of technology and productivity
- Poverty
- 46% of children suffer from malnutrition.
- High savings and low capital formation

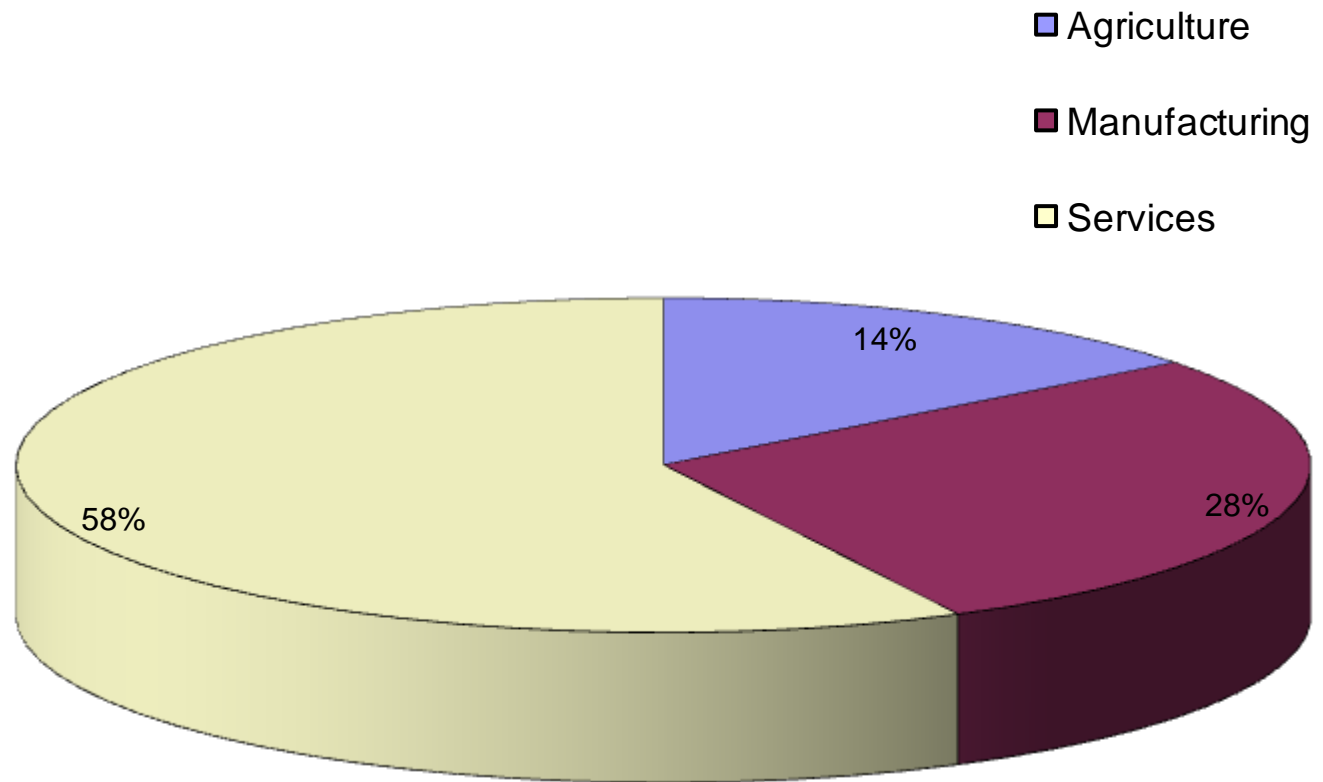
# Indian Economy Today

Three main sectors of the economy:

1. **Agriculture:** 2<sup>nd</sup> in the world in farm output
2. **Manufacturing:** 6<sup>th</sup> in the world in industrial output
3. **Services:** 7<sup>th</sup> in the world in output

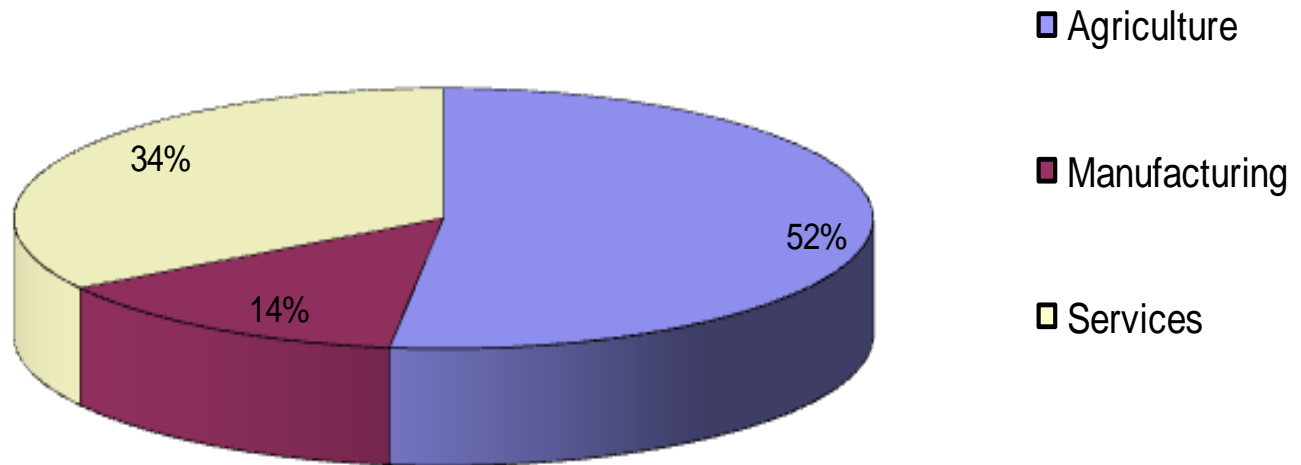
*Source: Wikipedia*

# Distribution of GDP



Source: CIA Factfile, 2012 estimates

# Distribution of Workforce



Source: CIA Factfile, 2012 estimates

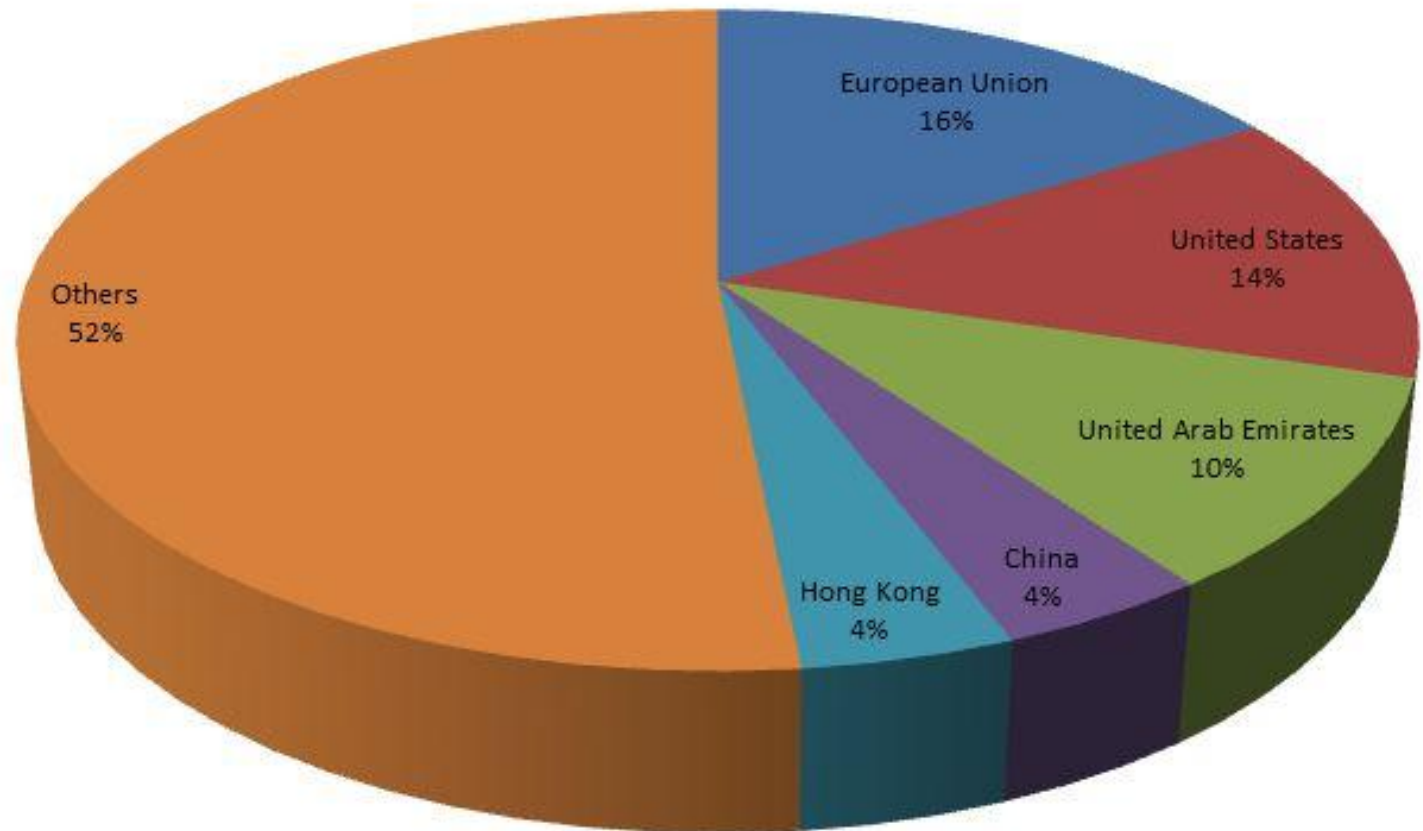


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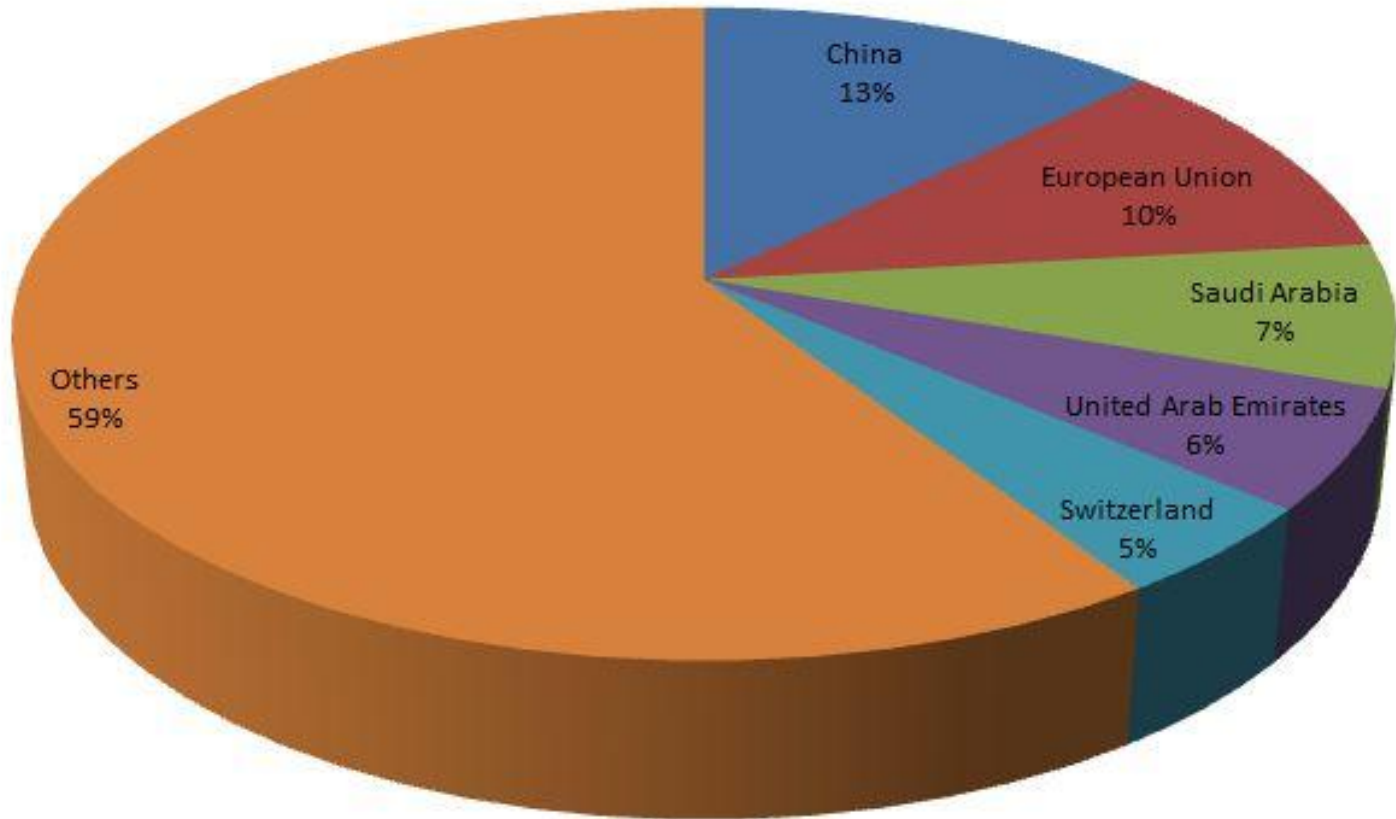
# Part 3: India and the World

# Our Main Export Partners (Billion USD 477.1)



WTO, 2014 estimates

# Our Main Import Partners (USD Billion 609)



WTO, 2014 estimates





# GS BRIC Report

- The term **BRIC** coined in a Goldman Sachs report of 2003
- South Africa added in 2011
- By 2050, BRICS will be among the 7 largest economies along with US and Japan
- Two – thirds of growth to come from higher real growth, balance from currency appreciation
- India only country to retain 3%+ growth by 2050
- Individuals in BRICS still likely to have low per capita income
- Assumes growth–friendly policies, openness, macro stability, high levels of education



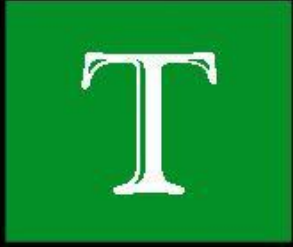
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# Part 4: Sector-wise Analysis



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# Agriculture Sector Overview

- Growth rate of 2%
- Green Revolution
- Blue, White, Yellow Revolutions
- 43% land arable
- 60% of arable land - monsoon dependent
- MSP on pulses, oilseeds, sugarcane

# Main Crops



- Rice
- Wheat
- Coarse cereals –Jowar, Bajra etc.
- Oilseeds
- Sugarcane

# Main Exports

- Rice
- Cashewnuts
- Tea
- Coffee
- Horticulture products



# Main Imports

- Vegetable oil
- Pulses



# We are the...

- Largest producer (and consumer) of tea
- Largest producer of jute
- Largest producer of milk
- Largest buffalo livestock
- Largest producer of pulses
- Second largest producer of wheat and rice

# We are the...

- Second largest producer of groundnuts
- Third largest producer of fruits
- Second largest producer of vegetables
- Third largest producer of fish
- Second largest area under cultivation

# Strengths

- Huge arable land area
- Diverse soil types, climate
- Huge labour force
- Government focus, subsidies

# Weaknesses

- Fragmented land holdings
  - 59% of holdings are marginal (<1 hectare)
  - 21% of holdings are small (1–2 hectare)
- Low productivity
  - Average yield is 2890 kg per hectare which is much lower than others, e.g. China, Japan
  - NPK abuse
- Monsoon dependence
  - 60% arable land without irrigation

# Weaknesses

- Sharecropping, landless labour
- Seasonal and disguised unemployment
- Poor infrastructure
  - Electricity
  - Roads and transport
  - Farm Mechanisation
- Illiteracy
  - Low awareness about improved methods / products

# Weaknesses

- State disparity
- Distortion of production by subsidies
- Financing at usurious rates by local moneylenders
- Low remuneration to farmer – middleman
- Antiquated laws

# Opportunities

- Horticulture
- Floriculture
- Organic Farming
- Fisheries
- Packaged / processed farm products
- Productivity improvements
- Use of IT / Communications



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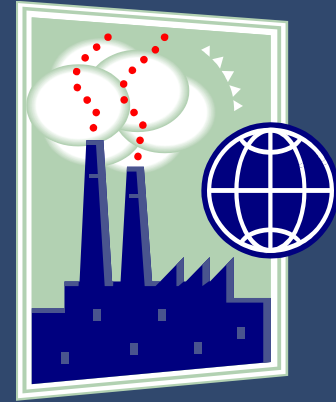
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**INDUSTRY**

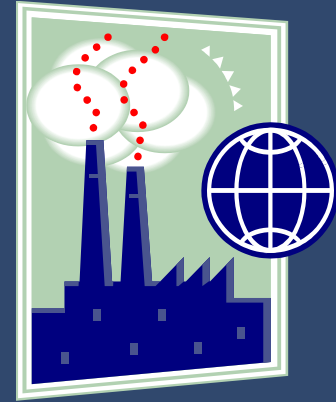
# Industrial Sector Overview

- Growth rate
- Size: <20% of Chinese industry.
- Huge unorganized sector: 100+ times size of organized sector
- Effective corporate tax rate of 35%.
- FII, FDI, SEZ, VAT, GST.



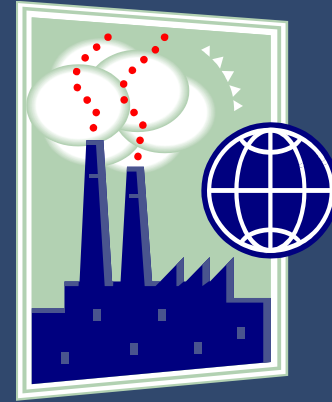
# Main Industries

- Textile (largest employer, 4% GDP)
- Synthetic Fibres  
(RIL largest in Polyester fibre+yarn)
- Mineral products
- Chemicals
- Automobiles + Components
- Cement
- Machinery and equipment



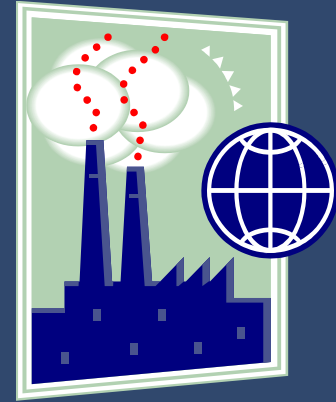
# Main Exports

- Gems and Jewellery (15%)
- Petroleum Products (12%)
- Textiles (12%)
- Engineering goods (8%)
- Chemicals (5%)
- Leather goods (4%)



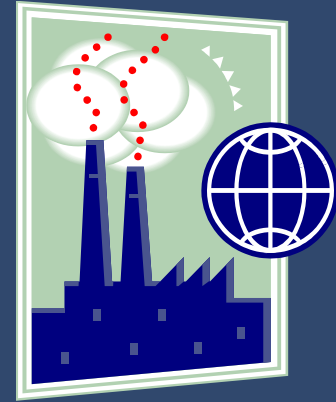
# Main Imports

- Crude oil (34%)
- Machinery (25%)
- Uncut gems (13%)
- Fertilizers (2%)
- Chemicals (2%)



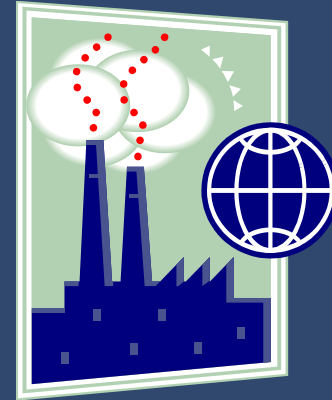
# Strengths

- Huge, low-cost labour force
- Educated, skilled workforce
- English language skills
- Good managerial skills
- A variety of raw materials available
- Strong Economy
- Stable Polity



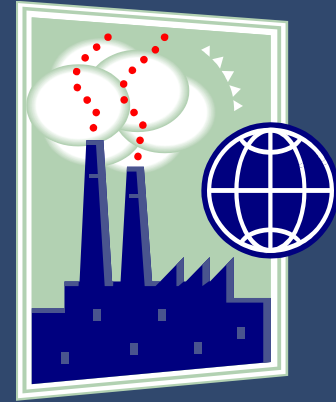
# Weaknesses

- Lack of infrastructure
- High cost of utilities
- Red tape
  - Number of days to start a business in India is 89 days
- Cascading effect of indirect taxes
- High cost of finance
- Tardy Judicial System



# Opportunities

- Drugs & Pharmaceuticals
- Light infrastructure
- Transport
- Biotechnology
- Automobiles + Components



# Services Sector Overview

- High growth rate
- Growth largely fuelled by IT and BPO industries (20% growth)
- Concentration in urban areas
- STPs in Gurgaon, Bangalore, Hyderabad, Mumbai etc.



# Key Sectors

- Hotels + Tourism
- Transport
- Communication
- Financial services
- ITES
- BPO



# Important Areas

- Second largest scientific and technical manpower
- Among 10 largest retail markets
- Most sought after destination for retail
  - Multi-brand FDI in Retail
- 11<sup>th</sup> biggest exporter of commercial services



# Strengths

- Huge educated labour force:  
21 lakh graduates per annum
- Low labour cost:  
Appx 20% of US labour cost
- Outsourcing to India can result in 50% savings for  
foreign companies
- Less capital – intensive than manufacturing
- Inherent advantages in tourism, health industries



# Weaknesses

- High attrition rates in IT and BPO industry (10-25%)
- Lack of world – class infrastructure
- Dearth of highly – skilled labour
- Low investment in R&D + Education



# Opportunities

- Health – Medical Tourism / Wellness
- Hospitality
- Off – shore Consultancy
- Retail
- KPOs





Thanks!  
Questions?

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