The Indian Economy

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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

Lisbon, Portugal (Began voyage in July 1497) (Returned in Sept. 1499)

Cape Verde Islands

Voyage to India

Cape of Good Hope (Nov. 1497)

Indian Ocean

St. Helena Bay

Natal

South Atlantic Ocean

Moçambique

Malindi

Mombasa

Arabia

India

Goa

Calicut (May 1498)

Return to Portugal (Aug 1498)

Equator

North Atlantic Ocean

Azores

Europe

Africa

Asia
History of Indian Economy

• % share of India in World trade and GDP
  – 3rd 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

1 AD 1000 1500 1600 1700 1820 70 1900 50 2000 14†
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)
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
• 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
Telephones!
Celebrating 20 years of liberalisation
1st 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
2nd 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
3rd 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 – 4th 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\textsuperscript{th} largest economy by nominal GDP
- The world’s 3\textsuperscript{rd} largest economy by PPP GDP
- The world’s 2\textsuperscript{nd} largest phone user market (more than 1 Billion active connections)
- The world’s 2\textsuperscript{nd} 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?
PART 2:
SOME STATISTICS
## Some Vital Statistics

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Population</strong></td>
<td>1.33 billion (17.86% of world, 2017 figures)</td>
</tr>
<tr>
<td><strong>Population growth rate</strong></td>
<td>1.18% (2017 estimate)</td>
</tr>
<tr>
<td><strong>GDP (nominal)</strong></td>
<td>$2.384 trillion – 6(^{th}) Rank</td>
</tr>
<tr>
<td><strong>GDP (PPP)</strong></td>
<td>$8.727 trillion – 3(^{rd}) Rank</td>
</tr>
<tr>
<td><strong>GDP growth rate</strong></td>
<td>6.5-7.0 % (2016 estimates)</td>
</tr>
<tr>
<td><strong>Per capita income</strong></td>
<td>$1,718 (Nominal) – 2016 estimates – 140(^{th}) rank</td>
</tr>
<tr>
<td></td>
<td>$6,658 (PPP) – 2016 estimates – 122(^{rd}) rank</td>
</tr>
<tr>
<td><strong>Forex Reserves</strong></td>
<td>$368 billion (11(^{th}) Nov 2016)</td>
</tr>
<tr>
<td><strong>Literacy Rate</strong></td>
<td>74.04% (2011)</td>
</tr>
<tr>
<td><strong>Unemployment</strong></td>
<td>5.1(^{th}) Rural, 4.9(^{th}) Urban</td>
</tr>
<tr>
<td><strong>Ease of Doing Business Rank</strong></td>
<td>130(^{th}) (Up from 142 two years ago)</td>
</tr>
</tbody>
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*Source: CIA Fact file and Wikipedia, 2010-2017 estimates*
### Some Vital Statistics

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>Public Debt as a % of GDP</td>
<td>66.5% (2016)</td>
</tr>
<tr>
<td>Budget Deficit as a % of GDP</td>
<td>3.9% (2015-16)</td>
</tr>
<tr>
<td>% below PL</td>
<td>21.2% (2011)</td>
</tr>
<tr>
<td>Working Age Population</td>
<td>40% (appx)</td>
</tr>
<tr>
<td>HDI</td>
<td>130 (2016)</td>
</tr>
<tr>
<td>Life Expectancy</td>
<td>68.45 (167th Rank)</td>
</tr>
<tr>
<td>Fertility Rate</td>
<td>2.3 per woman (2016)</td>
</tr>
<tr>
<td>Education Expenditure</td>
<td>3.9% of GDP</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>3.63 %</td>
</tr>
</tbody>
</table>

**Source:** CIA Fact file and Wikipedia, 2010-2016 estimates
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)
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 – 130th
  (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\(^{nd}\) in the world in farm output
2. **Manufacturing**: 6\(^{th}\) in the world in industrial output
3. **Services**: 7\(^{th}\) in the world in output

*Source: Wikipedia*
Distribution of GDP

- Agriculture: 14%
- Manufacturing: 28%
- Services: 58%

Source: CIA Factfile, 2012 estimates
Distribution of Workforce

Source: CIA Factfile, 2012 estimates
Part 3:
India and the World
Our Main Export Partners (Billion USD 477.1)

- Others: 52%
- United States: 14%
- United Arab Emirates: 10%
- China: 4%
- Hong Kong: 4%
- European Union: 16%

WTO, 2014 estimates
Our Main Import Partners (USD Billion 609)

- China: 13%
- European Union: 10%
- Saudi Arabia: 7%
- United Arab Emirates: 6%
- Switzerland: 5%
- Others: 59%

WTO, 2014 estimates
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
Part 4:
Sector-wise Analysis
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
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

• 11th 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?

Ankur Jain
Selected Bibliography

- www.swaminomics.org