

# HISTORY OF INDIAN ECONOMY

## Ancient times till 1707 AD

The history of India begins with the dawn of Indus Valley civilization which flourished between 3500 BC to 1800 BC. The Indus civilization's economy appears to have depended significantly on trade, which was facilitated by advances in transport. Its citizens practiced agriculture, domesticated animals, made sharp tools and weapons from copper, bronze and tin and traded in terracotta pots, beads, gold and silver, coloured gem stones such as turquoise and lapis lazuli, metals, flints, seashells and pearls. They used to ships to reach Mesopotamia where they sold gold, copper and jewellery. Around 600 BC, the Mahajanapadas minted punch-marked silver coins. The period was marked by intensive trade activity and urban development. By 300 B.C., when Middle East was under the Greek Seleucid and Ptolemaic empires the Maurya Empire (c. 321 -185 BC) united most of the Indian subcontinent. The political unity and military security allowed for a common economic system and enhanced trade and commerce, with increased agricultural productivity. The empire spent considerable resources building roads and maintaining them throughout India. The improved infrastructure combined with increased security, greater uniformity in measurements, and increasing usage of coins as currency enhanced trade. For the next 1500 years, India produced its classical civilizations which generated wealth in huge amount. Between 1st and 17th centuries AD, India is estimated to have had the largest economy of the ancient and medieval world, controlling between one third and one fourth of the world's wealth.

During the **Mughal period (1526–1858 AD)** India experienced unprecedented prosperity in history. The gross domestic product of India in the 16th century was estimated at about 25.1% of the world economy. An estimate of India's pre-colonial economy puts the annual revenue of Emperor Akbar's treasury in 1600 AD at £17.5 million (in contrast to the entire treasury of Great Britain two hundred years later in 1800 AD, which totalled £16 million). The gross domestic product of Mughal India in 1600 AD was estimated at about 24.3% the world economy, the second largest in the world. By this time the Mughal Empire had expanded to include almost 90 per cent of South Asia, and enforced a uniform customs and tax-administration system. In 1700 AD the exchequer of the Emperor Aurangzeb reported an annual revenue of more than £100 million.

Given below are the figures produced by **Professor Angus Maddison**, Emeritus Professor at the University of Groningen, Netherlands, and Honorary Fellow at Cambridge University, estimating India's wealth relative to world GDP for the years 1000 AD, 1500 AD, 1600 AD, and 1700 AD. India's share of world GDP was slightly more than a quarter in the year 1000 AD, and slightly less than a quarter between 1500 AD and 1700 AD.

## GDP in millions of 1990 International Dollars

Years	1000AD	1500 AD	1600 AD	1700 AD
India	33,750	60,500	74,250	90,750
China	26,550	61,800	96,000	82,800
West Europe	10,165	44,345	65,955	83,395
World Total	116,790	247,116	329,417	371,369

In the 18th century, Mughals were replaced by the Marathas in much of central India while the other small regional kingdoms who were mostly late Mughal tributaries such as the Nawabs in the north and the Nizams in the south. The British imperial empire began to grow in India in the middle of 18<sup>th</sup> Century. The phase of decline of Indian industry set in.

## British rule

The British East India Company whose political power gradually expanded in India from 1757 onwards, used huge revenue generated by the provinces under its rule for purchasing Indian raw materials, spices and goods. Thus the continuous inflow of bullion that used to come into India on account of foreign trade stopped altogether. The Colonial government used land revenue for waging wars in India and Europe leaving little for development of India. In short span of 80 years (1780-1860 AD) under Colonial rule, India changed from being an exporter of processed goods for which it received payment in bullion, to being an exporter of raw materials and a buyer of manufactured goods. More specifically, in the 1750s, mostly fine cotton and silk was exported from India to markets in Europe, Asia, and Africa; by 1850s raw materials, which chiefly consisted of raw cotton, opium, and indigo, accounted for most of India's exports.

The ruthless exploitation under British colonial rule completely devastated India's economy. India's population was subject to frequent famines, had one of the world's lowest life expectancies, suffered from pervasive malnutrition and was largely illiterate. As per British economist, Angus Maddison India's share of the world income went from 27% in 1700 AD (compared to Europe's share of 23%) to 3% in 1950.

## INDIA AFTER INDEPENDENCE

### 1950-1979

After India got independence from colonial rule in 1947, the process of rebuilding the economy started. India went for centralized planning . The Five Year Plans which successfully transformed erstwhile USSR were made a tool for development. First five year plan for the development of Indian economy came into implementation in 1952.

Being largely a agrarian economy, investments were made in creation of irrigation facilities, construction of dams and laying infrastructure. Due importance was given to establishment of modern industries, modern scientific and technological institutes, development of space and nuclear programmes. However, despite all efforts on economic front, the country did not develop at rapid pace largely due to lack of capital formation, cold war politics, defense expenditure, and rise in population and inadequate infrastructure. From 1951 to 1979, the economy grew at an average rate of about 3.1 percent a year in constant prices, or at an annual rate of 1.0 percent per capita. During this period, industry grew at an average rate of 4.5 percent a year, compared with an annual average of 3.0 percent for agriculture.

### **1980-1990**

The rate of growth improved in the 1980s. From FY 1980 to FY 1989, the economy grew at an annual rate of 5.5 percent, or 3.3 percent on a per capita basis. Industry grew at an annual rate of 6.6 percent and agriculture at a rate of 3.6 percent. A high rate of investment was a major factor in improved economic growth. Investment went from about 19 percent of GDP in the early 1970s to nearly 25 percent in the early 1980s. Private savings had financed most of India's investment, but by the mid-1980s further growth in private savings was difficult because they were already at quite a high level. As a result, during the late 1980s India relied increasingly on borrowing from foreign sources. This trend led to a balance of payments crisis in 1990; in order to receive new loans, the government had no choice but to agree to further measures of economic liberalization. This commitment to economic reform was reaffirmed by the government that came to power in June 1991.

### **Liberalisation and its effects (1991 Onwards) :**

While commending his first budget in 1991 Dr Manmohan Singh had quoted Victor Hugo and said, "No power on earth can stop an idea whose time has come. The emergence of India as a major economic power in the world happens to be one such idea". Since then economy has progressed immensely with GDP progressing at the rate of 6-8% per annum. The GDP (nominal) has grown from US\$ 267.52 billion in 1992 to US\$ 1.85 trillion in 2012. India is third largest economy of the world and a preferred FDI destination. India's foreign trade reached US\$ 785 billion in 2012. India's major industries include information technology, telecommunications, textiles, chemicals, food processing, steel, transportation equipment, engineering goods, cement, mining, petroleum, machinery, software and pharmaceuticals. Major agricultural products include rice, wheat, oilseed, cotton, jute, tea, sugarcane, potatoes, cattle, sheep, goats, poultry and fish. In 2011–2012, India's top five trading partners are China, United Arab Emirates, United States, Saudi Arabia and Switzerland. The percentage share of various sectors in the economy in the year 2011-12 is given below. The high contribution of services and manufacturing sector indicates the huge progress made by Indian economy since its Independence when it was predominantly agrarian economy (59% in 1951).

Sectors	Percentage Share in GDP in	
	1950-51	2011-12
Primary Sector	59.0	16.1
Secondary Sector	13.0	24.9
Tertiary sector or Service Sector	28.0	59.0

India is a leading country in services sector so much so that she is referred to as 'the back office of the world'. However, India has made significant progress in various spheres of science and technology over the years and can now take pride in having a strong network of S&T institutions, trained manpower and an innovative knowledge base. India has already become hub for manufacturing of small cars and engineering goods. The Government had devised the National Manufacturing Policy (NMP) in 2011 with an aim to enhance the share of manufacturing in India's GDP to 25 per cent and add at least 100 million jobs by 2025. India is poised to become the second largest economy in manufacturing by 2017, followed by Brazil as the third ranked country, according to consulting major Deloitte. The manufacturing exports from India could increase to about US\$ 300 billion by 2015, according to a report titled 'Made in India-the Next Big Manufacturing Export Story', jointly prepared by industry body CII and McKinsey. McKinsey analysis finds that rising demand in India, together with the multinationals' desire to diversify their production to include low-cost plants in countries other than China, could together help India's manufacturing sector to grow six fold by 2025, to \$1 trillion, while creating up to 90 million domestic jobs.

India is one of the largest and fastest-growing markets for food and agricultural products in the world. India is the world's third largest producer of food. Agriculture accounts for about 16.1% of India's GDP. India has emerged as the largest milk producing country, with annual milk production of over 100 million tonnes. This is expected to grow to 135 million tonnes by 2015. The Indian retail market for fresh fruit and vegetables is estimated at US\$35 billion. Organised retailing is US\$73 million and growing at a rate of 30 percent. India has vast resources of livestock, estimated at 485 million. In terms of population, India ranks first in buffaloes, second in cattle and goats, and third in sheep. According to a recent study by the Federation of Indian Chambers of Commerce and Industry (FICCI) and Ernst & Young, the India food industry is set to grow by 42.5% from US\$181 billion now to US\$ 258 billion by 2015 and by 76% to US\$ 318 billion by 2020.

### **India: Global R&D Hub**

The Indian government has put in significant effort in last 50 years to develop the scientific and technical infrastructure of the country. With more than 250 universities, 1,500 research institutions and 10,428 higher -education institutes, India churns out 200,000 engineering graduates and another 300,000 technically trained graduates every year. Besides, another 2 million other graduates qualify out in India annually. The combination of state-of-the-art infrastructure and highly qualified manpower ensures that

India is poised to be the next Global R&D hub. This is increasingly being observed in Industry as large MNCs including GE, Microsoft, Bell Labs etc have opened their R&D Centers in India – a first outside US for most of these companies. More than 100 multinational companies (MNCs), including Delphi, Eli Lilly, Hewlett-Packard, Heinz, Honeywell and Daimler Chrysler, have set up (R&D) facilities in India in the past few years. For some, such as the US\$12.6 billion Akzo Nobel's car-refinishes business, the center came even before the company began selling its products in India. This makes India second only to USA and ahead of other more established hubs, such as Japan, Israel and Western Europe, and China.

## **INDIAN ECONOMY – FUTURE PROSPECTS:**

The Indian economy is one of the fastest growing economies in the world today. The rising income and savings levels, investment opportunities, huge domestic consumption and younger population will ensure growth for decades to come. The main engines of Indian economy are sectors such as Information Technology, Telecommunications, ITES, Pharmaceuticals, Banking, Insurance, Light Engineering Goods, Auto Components, Textiles & Apparels, Steel, Machine Tools and Gems & Jewellery are sectors which are likely to grow at rapid pace world over creating demand for Indian products and services. India is at present US\$ 4.5 trillion economy on PPP basis and is likely to maintain its growth trajectory in times to come. The coming few decades are likely to witness tectonic shift in world economic structure of the world. India's share in world output is projected to jump from 5% as of today to 20.8% by 2040 as per one estimate.

**World Economy: Future Economic Power Shifts (2008-2040)**  
(% Share of World GDP in PPP)

	<b>2008</b>	<b>2014</b>	<b>2020</b>	<b>2030</b>	<b>2040</b>
Germany	4.2	3.8	3.4	2.8	2.3
USA	20.4	19.2	17.6	15.3	13.9
Japan	6.2	5.6	4.7	3.7	2.9
China	11.3	16.3	22.2	30.9	37.4
India	4.9	6.3	8.5	14.3	20.8

*Source: World Bank for GDP in terms of purchasing power parity in 2008; Projections for 2014-2040 by Mr. Mathew Joseph, Senior Consultant, ICRIER*