

# The strengths and weaknesses of the indian economy economics essay



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This assignment will help me identify the strengths and weaknesses of Indian economy. It will help to know about the future of Indian economy and also the role of entrepreneurship in the growth of Indian economy. It will tell whether the Indian economy is progressing or not. It will also explain the role of government in helping the country to progress.

The world today presents a picture of sharp contrasts between the advanced and backward countries. About one-sixth of world's population lives in countries which are classified as rich, advanced or developed economy. Developed countries include USA, Canada, Europe, Australia, Japan, etc. These developed countries together account for just about 16% of world population with over 77% share in world income, thus enabling their people to have high living standards and better quality of life. On the other hand, four-fifths of world population inhabits the poor or backward countries spread over much of Asia, Africa, Eastern Europe and South America. These backward or underdeveloped countries accounting for over 72% of world population have a mere 13% share in world income. In between these developed and underdeveloped countries are some high middle income countries such as Poland, Romania, Hungary, Russia, etc., who account for about 13% of world population and 10% of world income. The underdeveloped or the developing countries are also known as countries of the 'Third World' or the Third World Nations. India comes under this category.

Economic growth is a process whereby a country's real national income increases over a long period of time. It thus refers to, increase in country's real national and per capita income and that this increase is sustained over a

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long period of time. Economic development not only concerns itself with increase in income, but with its composition and distribution as well. It thus covers the process of achieving long term increase in income, as well as a more equitable income distribution along with adopting some measures of poverty alleviation. In other words, economic development includes growth plus change: change in the structure of output wherein non- agricultural output contributes a larger share of national income than the agricultural output, changes in occupational structure, associated with changes in production structure, changes in institutional and organizational setup, changes in allocation of resources in various lines of production, etc. It includes improvements in material welfare, especially of persons with lowest incomes, eradication of mass poverty, illiteracy, disease and early death.

## **ANALYSIS**

India is a large economy with the world's second largest population and a huge growing market. The economy is predominately agrarian in nature where agriculture employs nearly two-third of workforce, contributes about a quarter share of national income and accounts for a significant part of export trade. Industry is still not much developed and the country is short of capital goods production and infrastructural facilities. Poverty is quite widespread. Unemployment among the educated youth, as well as worklessness among agriculturalists and industrial workers is quite visible. We can say that, India even today is an underdeveloped economy which is struggling to move ahead and get rid of its age old poverty, unemployment and various other features associated with underdevelopment. India is home to 1. 21 billion

people, which is about 17.4 % of the global population. India's national income was placed at Rs. 8650 crores for the year 1948-49.

The Indian economy is the eleventh largest in the world in terms of nominal GDP and the third largest in terms of Purchasing Power Parity (PPP). It is one of the G-20 economies and a member of BRICS. According to IMF, India ranked 140th in nominal GDP and 129th in PPP in 2011 on the basis of per capita income. India has seen the highest growth rates in the mid-2000, and is growing at a very rapid rate. It is one of the fastest-growing economies in the world. India is the 19th largest exporter and 10th largest importer in the world. It has seen a growth of over 200 times in per capita income in a period from 1947 (Rs 249.6) to 2011. The growth was due to increase in the size of the middle class consumers, a large labor force, rise in the manufacturing sector because of rising education levels and technical skills and considerable foreign investments. Economic growth rate stood at around 6.5% for the fiscal year 2011-12, as against 8.4% achieved in two preceding years. The decline in India's GDP growth rate is mainly because of the RBI's policy. RBI's high-interest regime is the main cause and it is believed that reduction in interest rates will immediately increase India's growth rate to over 8 per cent, making it the world's fastest economy. But the RBI is keen in controlling inflation to less than 5 per cent as against present levels of approximately 7.5 per cent and so it has refrained from cutting down interest rates which will cause the inflation to get out of control which will ultimately neutralize growth rates.

During the eleventh 5-year plan (2007-12), India's GDP grew by 47 per cent from Rs. 35.64 trillion in 2007 to Rs. 52.22 trillion in 2012. The average  
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comes out to be 7.94 per cent p. a. The target of the growth rate for the years 2007-2012 was 9 per cent. During this period India's GDP at market price grew from Rs. 42.95 trillion in 2007 to Rs. 89.12 trillion in 2012 averaging 208 per cent. If the trend continues, the market price GDP will cross Rs. 200 trillion by the year 2017.

India is the most preferred destination for FDI. During 2011, FDI inflow was \$ 36.5 billion, which is 51.1 per cent higher than the year 2010 which stood at \$ 24.15 billion. India has strengths in information technology, telecommunications and other important areas like auto components, apparels, chemicals, jewellery and pharmaceuticals. Rigid FDI policies were a hindrance to the development of the country. But, due to positive economic reforms, India has gained itself as a front-runner of the growing Asia Pacific region. The size of the middle-class population is 300 million and it represents a growing consumer market.

During 2000-10, India attracted \$178 billion as FDI. Mauritius is a huge investor. The high investment from Mauritius is because of the routing of international funds which gives significant tax advantages- double taxation is avoided due to the tax treaty between Mauritius and India, creating a zero-taxation FDI channel. This shows that Indian economy is on rise. Now India has allowed 51 percent FDI in multi brand retail.

India is regarded as the 15th best economy in terms of production of service sector. A sizeable amount of Indian workforce is also employed by the service sector. In the 10 year period between 1990 and 2000, the rate of

growth has been 7.5%, up from 4.5% during the 30 year period from 1951 to 1980.

## **FINDINGS**

### **WILL INDIAN ECONOMY WILL FLOURISH OR STAGNATE?**

Indian economy is progressing but at a very slow rate. With the ongoing progress there are certain problems which our country is facing and so it can happen that it might just stagnate because of the government's loose fiscal and monetary policy and strong rise in real rural wage growth without the increase in productivity. The reasons because of which our country might stagnate are:

**Inflation-** Inflation is a rise in price of goods and services. It results in loss of value of money. It causes the price of any good to rise over time, therefore consumers and businesses may choose to make purchases earlier than later before the worth of their money declines. This will keep an economy active in the short term by influencing spending and borrowings of the people. But it will also reduce incentives to save, so the effect on savings and investments is negative. In the quarterly monetary policy review, RBI has lowered the economic growth projection for the current fiscal year to 6.5% from its earlier estimate of 7.3%, stating that the increase in government expenditure poses risks to economic stability.

**Earnings slowdown-** high inflation and rising interest rates not only affects individuals and tax-payers but also affects corporate profitability. High input costs leads to low corporate profits at operating level or a spread to

generalized inflation if the same is passed on to final consumers. While the pure commodity players are likely to benefit from the demand and supply mismatch, others involved in processing of raw-materials and turning them into finished goods might see an impact on the cost of their products and operating margins of the company.

## **STEPS TAKEN UP BY GOVERNMENT FOR HELPING ECONOMY TO FLOURISH**

Government plays a very important role in helping the economy to grow.

Some of the steps taken by the Government are-

**Anti-poverty programs-** The government has initiated many programs since independence to help the poor attain self sufficiency in food production. Most important initiative taken is the supply of basic commodities like food at subsidized prices, available throughout the country. The poor spends almost 80% of their income on food while the rest of the population spends around 60%.

**Production of services-** Private firms are either unwilling to produce or due to some reasons are not allowed to produce services for the country. This public provision may be to provide immediate benefits like defence, law and order or deferred benefits like investment in roads.

**Regulatory responsibilities-** the Government also has a regulatory responsibility which enables it to control various macroeconomic aspects of the economy. It levies taxes which enables it to preserve and safeguard home industries.

Stabilization of the economy- Government tries to reduce fluctuations in income and employment to control inflation. The effect can be seen in the volume and the mix of transactions between the government and the rest of the economy. Policies of the country which places emphasis on the control of the money supply and interest rates pays close attention to the government's budget deficit or surplus.

## **CONCLUSION**

The Indian economy is one of the largest economies in the world. The country began to develop as a fast-paced economic growth, due to free market principles which were initiated in 1990 for international competition and foreign investment. The economy includes manufacturing industries, services, agriculture, and textiles and handicrafts. Agriculture is a major contributor to the Indian economy, as around 66 per cent of the Indian population earns its livelihood from this area. But now the service sector is rising and plays a very important role. India has become the hub of outsourcing activities for some of the economies of the world like the U. K. and the U. S. A. Other areas where India is expected to make progress are aviation, manufacturing, construction of ships, biotechnology, pharmaceuticals, nanotechnology , tourism, retailing and telecommunications. The role of government has changed from being a controller to a regulator. Role of government is important as it is the one which decides about the various factors controlling our economy and makes the rules and regulations for the public welfare.