INDIAN ECONOMY AND REFORMS: AN ASSESSMENT

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ECONOMIC development implies the process of securing levels of productivity in all sectors of economy and this in turn, is a function of the level of technology. For obtaining a higher level of technology, the economy is required to forge the physical apparatus in the form of machines, equipments, tools and instruments of production on the one hand and on the other, to train the labour force of the country to make use of the physical apparatus thus created. In a nut shell economic development is a process of stepping up the rate of capital formation, But it must be emphasized that capital, though necessary, is not a sufficient condition of economic development which depends on such non-economic factors as social attitudes, political conditions and human endowments. Economic development thus depends upon two sets of factors - economic and non-economic.

In the process of development of Indian Economy that first four decades after independence were devoted to develop Indian Economy with the ultimate aim of establishing socialist society. It was planned to achieve this aim by curtailing the role and initiative of private sector and assigning the role of "pace–setter" and "trend- setter" to public sector enterprises. This approach, no doubt, contributed to Indian Economy by way of development of backward areas and establishment of a number of basic key industries. Green revolution also ushered a new era in agriculture and nationalization of Banks succeeded in widening the scope of Banking facilities. However, all those efforts were not made yielding desirable results in the form of rate of growth which was oscillating between 3.5 to 4 per cent. These factors compelled the Government to take necessary initiatives to provide new boosts and to give new look to Indian Economy through various measures of Economic reforms and structural adjustments. Thus a series of reforms measures, unprecedented in the scope and magnitude, have been introduced in various segment of Indian Economy which included liberalization of Industrial licensing, minimization of Economic controls, assignments of 'desirable' in place of 'dominant' role to public enterprises, liberalized policies for foreign investments along with a number of reforms in agriculture, foreign trade, Banking, Government finances, etc. Moreover, India has also accepted the world – wide phenomenan of 'liberalization', 'Globalization', and 'privatization' as a new 'mantra' for accelerating the rate of economic growth which strengthening various segments of Indian Economy.

The present paper compromises two section dealing practically with all important economic reforms implemented by the Government for the development of Indian Economy. Section 1 is devoted to make general study of reforms, which covers objectives, basic and main elements of the strategy of new policy measures. Section II is devoted to Effects of Economic reforms, in other words Indian Economy in present days.

SECTION–I

Though there have been a number of limitations in designing and implementing the reforms measures, there is no dispute in admitting the fact that Indian economy is heading towards new dimensions especially in the wake of denationalization, disinvestment and enticement to Multi National Corporation, NRI's including EDI for investment as measures adjoined with the economic milieu of the country.

OBJECTIVES OF ECONOMIC REFORMS

The main objectives of new economic reforms can be outlined as under:

(i) ***Increase in the rate of Economic Growth:*** Despite huge investment during first fifty years of planning growth rate of domestic product oscillated around 3.6 per cent and of per capita income around 1.4 per cent per annum. In comparison to the growth rate of many Asian countries like Malaysia, South Korea, Taiwan, Singapore, Hong Kong. India's performance had been rather dismal. Growth rate of per capita income is lower as compared to the most developing nations of the world. The objective of new economic reforms is to take such drastic measures as a result of which growth of per capita income could be increased as reached by other developing countries.

(ii) ***Increase of competitiveness of Industrial sectors:*** Economic reforms attempt to increase competitiveness of Indian Industries. Despite a fair degree of diversification, Indian Industry stands almost no where, in the international market. Because of protection and wide extent of uncompetitive home market, Indian Industries remained technically far behind than most of other nations. New economic reforms aim to stimulate the industrial activity in a manner that it becomes competitive and profitable.

(iii) ***Reduction in poverty and inequality:*** Plans in India thus far had not been successful in reducing poverty or inequality in the distribution

of income and wealth to the desired extent. New economic reforms aim at developing human resources. As a result of policy of liberalization, people are to get more opportunities of self- employment which would help in reducing poverty and inequality of income.

(iv) ***Increase in efficiency of public sectors:*** Plans in India had so far accorded special status to the public sectors, but the public sector in India tended to breed inefficiencies resulting in low level of productivity. New Economic reforms aim to improve efficiency of public sector in many ways, viz closure of inefficient units, scientific management, freedom from controls, etc.

(v) ***Control over Fiscal Deficit:*** On account of several factors, fiscal deficit and budgetary deficit of government had been rising consistently and in 1990-91 it reached to 8.3 per cent of GDP. The government in order to cover up these deficit, was raising various loans both from within and outside the nations. These loans involve heavy burden of interest as well as of repayment and the bulk of government revenue is spent by way of interest payment. All this compels the Government to resort to deficit financing, thus adding to inflationary pressures in the economy. New economic reforms hopes to prevent such tendencies.

(vi) ***Promoting foreign direct investment:*** The economic reforms in India have made provisions for increased inflow of foreign direct investment which would help the country to modernize its and to develop global competiveness in respect of various exportable products.

(vii) ***Decline in deficit on balance of payments:*** Deficit on the balance of payments on current accounts had almost touched unmanageable limits. New measures claim to boost exports and discourage imports. These measures will also raise global confidence in the Indian Economic System and lead to increase in foreign exchange reserves.

In India, the strategy of Economic reforms introduced in 1991-92 was based on structural adjustment programme. The structural Adjustment programme or SAP includes features presented in the following chart.

Structural Adjustment Programme (SAP)

Stabilization measures	*Structural measures*
(a) Monetary policies	(a) Promotion of private sector
(b) Realignment of exchange rate To near market determined rate.	(b) Public sector reforms
	(c) Financial sector reforms
(c) Reduction in budgetary deficits	(d) Liberalization of trade
(d) Deregulation of administered prices regime.	
(e) Real wage restraint	(e) Price Flexibility
	(f) Tax reforms
	(g) Administrative reforms

The congress government which assumed office at the end of June 1991 responded quickly to growing economic crisis. Beside, committing itself to a comprehensive structural reform=, it accorded an overriding priority to stabilization of the economy. The main elements of the strategy of new economic reforms adopted in 1991 are summarized below:

(i) ***Integration of National Economy with world economy:*** This aspect may be referred to as globalization of economy. By the term globalization, we mean opening up of the economy for world market by attaining international competitiveness. Thus the globalization of the economy simply indicates interaction of the country relating to production, trading and financial transactions with the developed industrialized countries of the world. According to eminent Deepak Nayyer. "Globalization may be defined as a process associated with increasing openness, growing economic interdependence and deepening economic integration in the word economy".

Globalization of the economy offers both challenges and opportunities to the developing countries, while facing the trend of globalization, the developing countries can prepare themselves to face the challenges of international competitiveness. With the introduction of new economic reforms, Indian economy has accepted the challenges of integrating national economy with world economy or globalization of the economy. The process of globalization in the Indian Economy can be studies in three parts;

(a) Globalization of trade

(b) Globalization of investment

(c) Globalization of finance

Globalization of trade means reduction of government controls over international trade and adoption of liberal policy in respect of imports and exports. Since, 1991. Government of India has been pursuing the policy of liberalization to achieve the objection of globalization of trade under new economic policy. Globalization of investment means removal of restrictions on foreign investment and offering concessions to attract the same. In new economic policy, 1991, government has liberalized foreign investment policy. As a result of economic policy 1991, liberal policy has been adopted in respect of international finance also. International finance refers to finances from foreign governments international institutions, commercial borrowing, grants and investment. It also includes foreign financial institutions and foreign banks. It is the policy of the government to minimize restriction on foreign, capital flow and to provide diverse facilities for the setting up of foreign banks and other financial institutions.

(ii) Control on the role of Government in the Economy: Soon after independence, there was a wide spread belief that without increasing the role of the state, it was not possible either to accelerate the process of growth or to create an industrial base for sustained economic development of the country. Prior to 1991, government had imposed several types of control on Indian Economy e.g. industrial licensing system, price control or financial control on goods, import licence foreign exchange control, restriction on investment by big business houses, etc. However, it was realized by the government that several short coming had crept into economy on account of these controls. These had dampened the enthusiasm or the entrepreneurs to establish new industries and has given rise to corruption, redtapism, undue delays and inefficiency. Economic reforms, therefore, made a bid to reduce restrictions imposed on the economy. New economic reforms took certain bold steps to reduce the role of government, by policy decisions under economic reforms. Ex- (a) Number of industries reserved for the public sector has been reduced from July 17 to 3 only, and the remaining industries have been opened for private sector. (b) Public enterprises that were chronically sick and unlikely to be turned around would be prefer to the Board for Industrial and Financial Reconstructions for rehabilitation or restructuring (c) Government equity in selected public enterprise is being disinvested through mutual funds, financial institutions, public and workers etc. (d) The existing system of monitoring public enterprise through Memorandum of understanding has been strengthened with primary emphasis on profitability and rate of return (e) Consequent, upon the policy of less Government control, the office of controller of capital issue was abolished in 1992 and the capital market was put under the control of securities and exchange Board of India.

(iii) Dominant Role of Market Forces in, Economy: Economic reforms are based on the assumption that the market forces can guide the economy in more effective manner than government control. Following measures taken under economic reforms in this regard are noteworthy.

(a) Under new economic reforms private sector has been freed, to a large extent, from the yoke of licenses and other restrictions, According to 1991, Industrial policy, exception of 6 industries, industrial licensing has been abolished for all other industries. Industries for which licenses are still necessary are:

(i) Liquor

(ii) Cigarettes

(iii) Defence Equipment

(iv) Industrial Explosives

(v) Dangerous chemicals

(vi) Drugs

(b) The Government has accepted the policy of liberalization in all economic activities and accordingly it is relaxing controls on prices and distribution of goods.

(iv) Relaxation to large India and foreign Business houses: In new economic reforms the government is guided by policy of facilitating investment by big business houses rather than imposing a ceiling on their assets. Accordingly, the provision of monopolies and Restrictive Trades Practices Act (MRTP Act) whereby, all those companies having assets are more than 100 crore were declared MRTP firms and were subjected to several restrictions has been done away with. These firms are now no longer required to obtain prior approval of the Government, at the time of taking investment decisions. They are free to expand themselves, Large concession have been granted to companies falling under MRTP Act. Capital investment limit fixed earlier has been removed. As a result, there would be no restriction on dominant companies and industrial houses for setting up new industries or expansion of industries, including by taking over and amalgamation process. However, under this policy more emphasis will be laid on checking unfair trade practices to safeguard the interests of the consumers. The newly empowered Monopoly Board is authorized to investigate any matter 'Suo motu' or on complaints received from individual consumers.

(v) Fiscal and financial reforms: Fiscal and financial reforms occupy prominent place in new economic reforms the theme of new fiscal reforms summarized by Shankar Acliarya is as follows:

(a) A systematic effort to simplify both the tax structure and the tax laws.

(b) A deliberate shift to a regime of reasonable direct tax rates, combined with better administration and enforcement to improve compliance and raise revenues.

(c) The fostering of a stable and predictable tax policy environment.

(d) Greater recognition and weight given to the resource allocation and equity consequences of taxation.

(e) More reliance on non-discretionary fiscal and financial instruments in managing the economy, as compared to adhoc, discretionary fiscal controls.

(f) Concerted efforts to improve tax administration and reduce the scope for arbitrary harassment.

(g) Growing appreciation of the links between fiscal and monetary policy.

(h) Fresh initiative to strengthen methods of expenditure control.

SECTION–II

Economic reforms introduced in India since 1991 has already created a mixed reactions at different levels. Although it is too early to make a complete appraisal of these economic reforms in India, but it is nothing wrong to consider both the positive and negative aspects of economic reforms in order to have a wise and successful implementation of these policy reforms.

Nobody can deny that the nature of institutions and markets, industrial organizations and structures and social relations to production at the global level have already gone for a dramatic transformation and the sea change. The role of Indian economy towards this new world order will be definitely decided by its response towards such changes particularly the context of increasing globalization of economic process.

The most common measure of globalization is openness to trade and a country's participation in trade. By this measure the extent of India's globalization is insignificant, it is one of the lowest in the world. India's share in world trade is a meager 0.7 per cent or so. A second commonly used measure of globalization is a country's participation in international capital flows, particularly Foreign Direct Investment.

FDI is a very small foreign investment around 2-3 per cent of our capital formation. In facts we are one of the least globalized among the major countries.

But the issue of globalization in the India context is largely confined to the technological changes and associated policy changes that have brought the world economies closer and made them more integrated with each other. Today, in terms of potential benefits of globalization, India is in very different position than would have been the case 50 or even 20 years ago.

This is because the sources of what economist call "Comparative advantage" have changed dramatically in India's favour in the 1990s because of the technological revolution.

In the present days, The Indian economy is undergoing a metamorphic change in its complexion with the Industrial and services sectors witnessing hectic activity since 2003-04. While the software industry has been making a commendable contribution to exports and increasing invisible receipts, a major industries have been growing in stature and raising their output, turn over and profits in recent years.

It could not have been expected in the closing years of the last century that Indian industries would be competing actively in world markets with multinationals from developed countries and elsewhere. Modernization, expansion and new-schemes of numerous enterprises have improved productivity and profitability while adding to capacity with relatively low outlays.

The stage has been reached now when the Textile, Pharmaceutical, Cement, Chemical and even petrochemical and oil refinery industries have to plan and implement ambitious projects and create fresh capacity to be in a position to meet the surging demand in the domestic and overseas market.

Strengthening of industrial base has been facilitated by the boom in the automobile, telecommunication and consumer electronics industries thanks to me massive inflow of foreign Direct investment in the automobile and consumer electronic segments, foreign owned companies have a dominant presence, In the telecommunication sector, of course, the Tatas, Reliance and the public sector enterprises have been increasing then investments in many directions. With other medium enterprises too arriving on the scene, there has been an explosion in landline and mobile telephony. In other industries, existing and new Indian entrepreneurs have been steadily enlarging capacity. There may not be any problem in finding the requisite resources for continuing additions to capacity by existing efficient enterprise. There should be a focus on the four major business components- strategy, process, technology and people Mr. Russi Moody has rightly explained the skills of managing the change and safely navigate turbulent water in his concept if LEED – where 'L' stands for leadership 'E' for efficiency, the other 'E' for education and 'D' for sustaining development. Today we are to complete the first decades of 21st century, which appears to my mind as the best decade so far in the Post–Independence era of our nation. The growth potential of the economy can be judged to some extent, by the performance of the economy in the past, and specially the performance in recent years. Table 1 presents growth rate achieved in each plan period since the First Five Year Plan.

Table 1
Growth Performance in the Five Years Plan

Sl. No.	*Plan period*	*Target*	*Realization*	*Sl. No.*	*Plan period*	*Target*	*Realization*
1.	First plan (1951-55)	2.1	3.5	8.	Sixth plan (1980-84)	5.2	5.5
2.	Second plan (1956-60)	4.5	4.2	9.	Seventh plan (1985-89)	5.0	5.6
3.	Third plan (1960-65)	5.6	2.8	10.	Annual plan (1990-91)	-	3.4
4.	Annual plan (1966-68)	-	3.9	11.	Eight plan(1992-96)	5.6	6.5
5.	Fourth plan(1969-73)	5.7	3.2	12.	Ninth plan (1997-2001)	6.5	5.5
6.	Fifth plan(1974-78)	4.4	4.7	13.	Tenth plan	7.9	7.7
7.	Annual plan (1979-80)	-	-5.2				

Note: The growth target for the first three plans were set with respect to National income. In the fourth plan it was net domestic product. The actual growth rates are in terms of GDP at factor cost. Average growth rates over a short period can be misleading because of fluctuations in agricultural output due to variable monsoon.

Source: Government of India Planning Commission – Eleventh five year plan (2007-12), Vol. I, p. 25

It shows that the economy grew at 6.5 0/0 per year in the Eighth plan period (1992-1996) and then decelerated to 5.5 0/0 in the ninth plan period (1997-2001), but recovered sharply to achieve a growth rate of 7.7 0/0 during the Tenth Plan. The last four years of the tenth plan recorded an average of about 8.7% and this momentum has continued in to (2007-2008) which is the first year of the Eleventh Plan, with a record growth of around 8.5%. In this background the 9% growth target for the eleventh plan period (2007-2012) approved by the NDC, which involves accelerating gradually from around 8.5% in the first year of the plan to 10% by the end of the plan period, appears entirely feasible provided supportive policies are put in the place. China has achieved growth rates exceeding 9% for two to three decades and while circumstances in India are not identical the Indian economy has many strengths and now looks well positioned to achieve this goal. The economy has been accelerating gradually for the past fifteen years fifteen and the further acceleration needed to achieve the eleventh plan target is only modest. If the target is achieved, it would mean that per capita GDP would grow at around 7.6% per annum during the eleventh plan period. Per capital consumption growing by about 7% a year would double per capital consumption in about 10 years. Further, if growth is sufficiently inclusive, it will certainly provide an environment conductive to bringing about a broad- based improvement in living standards. Accelerating growth will also boost tax collections in both the Centre and the States, allowing the Public sector to finance the special programmes needed to insure inclusiveness.

The major macroeconomic parameters associative with achieving the average GDP growth of 9% during the Eleventh Plan are given in with a comparative picture of the same parameters for the Tenth plan. It may be noted that the higher growth target in the Eleventh Plan is premised upon a significant increase in the investment rate from an average of 32% of GDP in the tenth plan to an average of 36.7% of GDP in the Eleventh Plan. The Incremental Capital Output Ratio (ICOR) is expected to improve marginally. With the competition simulated by the openness and expected improvement in infrastructure, ICOR can be expected to come down. Considering the acceleration in saving and investment rates in recent years the projected growth may seem conservative. However, since private investment may fluctuate over a business cycle or deliberately conservative target is set.

Earlier, planning models placed heavy emphasis on estimating the sectoral composition of growth based on input output balances, established on the basis of detailed multi sector models. Such detailed Sectoral targets have little relevance in an open economy where necessary balances for all the tradable goods can be achieved through exports and imports. The only sectors where it is necessary to plan for a balance between domestic production and likely demands are the non- tradable sectors which are mainly infrastructure, e.g. electric power, road transport, ports airport, telecommunication etc. The capacity requirements for these sectors have been worked out in detail and the policy implication and investment implications are discussed in Chapter 12 and also in the relevant chapters on individual sectors in over Eleventh plan document vol. 1.

Although detailed sectoral targets are no longer relevant, it is possible to present a broad picture of sectoral growth prospects consistent with the target of 9% growth of the economy as a whole. Table 3 presents the sectoral composition of growth in the past three plans together with indicative projection for the Eleventh Plan.

Table 2
Macroeconomic Parameters

	Tenth plan	*Eleventh plan*
Investment rate (% of GD PMP)	32.4	36.7
Domestic saving rate (% of GD Pmp)	30.9	34.8
Current Account deficit (% of GD PMP)	1.5	1.9
ICOR	4.9	4.1
GDP Growth rate (% per annum)	7.5	9.0

Note: GD Pmp = Gross Domestic product at market prices.
Source: India's Eleventh Five year plan (2007-12) Vol. I, p. 26.

Table 3
Sectoral Growth in Recent Plans

	Sector	*Eight plan (1992-96)*	*Ninth plan (1997-2001)*	*Tenth plan (2002-06)*	*Eleventh plan (2007-11)*
1.	Agriculture	4.72	2.44	2.30	4.0
2.	Industry	7.29	4.29	9.17	10-11
3.	Services	7.28	7.87	9.30	9-11
	Total	6.54	5.52	7.74	9.0

Sauce: I bid.

It may be seen that both agriculture and industry shows a marked declaration in the ninth plan compared to the Eight plan. The declaration in Industry was reversed in the Tenth Plan but the growth in agriculture continued to be shown. The service sector accelerated sharply in the tenth plan.

The declaration in agriculture, which began in the ninth plan period and continued in the Tenth plan period, has been a major area of concern from the point of view of inclusiveness. With half of our population deriving a greater part of their income from agriculture, faster growth in agriculture is necessary to provide a boost to their incomes. Rising incomes in agriculture will also boost non agricultural income in rural areas, thus helping redress the rural–urban imbalance. The eleventh plan has therefore, set a sectoral target doubling agricultural growth to 4% per year. In this context, it may be noted that agricultural growth increased from less than 1% in the first three years of the tenth plan to average more than 4% in the last two years and, from early indications, this will be maintained in the first three years of the Tenth plan to average more than 4% in the last two years and, from early indications, this will be maintained in the first year of the eleventh plan also. Although no firm judgment is yet possible this growth uptern in agriculture is a promising development and suggest that the target of 4% growth in agriculture for the eleventh plan is eminently achievable.

Industrial performance in the tenth plan period improved The revival of Industrial growth is a major achievement of the policy in recent years. However, industrial performance needs to be improved further if, high quality employment in the non- agricultural sector is to be generated within industry, the manufacturing sector, accounting for 77% of industrial output has shown significant growth acceleration in the last two years. The revival of dynamism in industry has to be sustained to reverse the unacceptable decline in the share of manufacturing in GDP that has happened since 1991. This will also help generate more employment opportunities for the bargaining workforce. The eleventh plan aims at double digit growth both in manufacturing and in industry. At the same, time, it will be critical to improve the performance of the core sector (steel, coal, cement, oil, fertilizers and refined petroleum) to ensure that their supply response is adequate to sustain double digit manufacturing and industrial growth. Accelerated growth in industry will help to provide faster growth in organized sector employment, which is typically of a higher quality.

The services sector has grown impressively in successive plans with a sharp acceleration in the Tenth plan period, reflecting the rapid growth in high –end services spurred by the IT revolution. This has opened up new and attractive employment opportunities for our educated youth. We can expect further improvement in performance in this sector with an acceleration of services growth to 10% in the Eleventh Plan. Rapid growth in IT related services and in tourism will contribute to this outcome as will the excepted expansion in health and education which should provide additional jobs, for teachers, doctors and medical attendants

CONCLUDING OBSERVATIONS

After 1980, an era of economic liberalization started in India, through the communist China was much ahead us. The Indian trend was to dilute te strict licensing system and accord more freedom. The steps and initiatives taken and the measures introduced include the following, notably:

(1) Re-endorsement of licenses, 1984.

(2) Automatic re-endorsement of licensed capacities, 1988

(3) Broad banding and selective relicensing (1985-86) extended to twenty five industries;

(4) Exemption from licensing for all new units and those having an investment of Rs. 2.5 crore in fixed assets.

(5) Investment of foreign equity upto 40 per cent freely, and

(6) Removal of Locational restrictions and investment ceiling for small industries, May 1990.

The study reveals the impact and the responses which are necessary to improve the competitiveness of Indian Industry and economic activities, and opening the major sectors of the economy to private sector. The post–reform growth of the economy has been positively better than the average growth rate achieved during the pre-reform period the Indian Economy has definitely moved from the path of as per estimates by Dr. K. N. Raj) to the Goal of 'Faster and more inclusive growth' (Eleventh Five Year Plan, 2007-2012). Our economy has a better and a bright future prospects, aspiring and aiming at achieving a much higher goals of Gross Domestic Products. (GDP) Growth target i.e. 9% per annum in year to come.

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