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Impact of Economic Reforms on Indian Economy

KEYWORDS: Liberalization, Privatization, Globalization, Economic Reforms, Indian economy

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ABSTRACT *Economic reforms have an important impact on Indian economy. There is many changes in Indian economy, after adopted the policy of LPG. Developed nations show their interest in Indian market and try to invest in Indian economy to achieve profit and for extend their market. Therefore Indian economy comes on track which loose in decade of 1980's. Liberalization, Privatization and Globalization came in behaviour after the economic reforms. Foreign investors started the investment in many sectors. Many of the Public enterprise's power transfer to private sector. Indian economy opened for all foreign investors and MNC's. This paper discuss the impact of economy reforms on India.*

INTRODUCTION

After independence in 1947, Indian adhered to socialist policies. Attempts were made to liberties the economy in 1966 and 1985. Economic reforms in India started on 24 July 1991. The first attemptwas reversed in 1967. Thereafter a stronger version of socialism was adopted. The second majorattempt was in 1985 by Prime Minister Rajiv Gandhi. The process came to a halt in 1987, through1966 style reversal did not take place. In 1991 after India faced a balance of payments crisis, it had topledge 20 tonnes of gold to Union Bank of Switzerland and 47 tonnes to Bank of England as part of abailout deal with the International monetary fund. In addition the IMF required India to undertake aseries of structural economic reforms. As a result of this requirement the government of P.V.Narasimha Rao and his finance minister Dr. Manmohan Singh started back through reforms, althoughthey did not implement many of the reforms the IMF wanted.T The fruits of liberalization reached their peak in 2007, when Indiarecorded its highest GDP growth rate of 9%, with this India became the second fastest growing majoreconomy in the world, next only to China.The growth rate has slowed significantly in the first half of 2012. As India's GDP growth rate became lowest in 2012-13 over a decade, growingmerely at 5% more criticism of India's economic reforms surfaced, as it apparently failed to addressemployment growth, nutritional solutes in terms of food intake in calories and also export growth andthere by leading to worsening level of current account deficit compared to the prior to the reformperiod. Privatization as a process that aims at reducing involvement of the state or the public sector inthe nation's economic activities by shifting the divide between public sector and private sector infavour of letter has made considerable progress since the introduction of the new economic policy in1991.The first dimension of Privatization namely, the fiscal dimension stems from the government'sneed to reduce the fiscal deficit. Privatization for efficiency is the second dimension. In a sense theefficiency dimension forms the cruse of privatization policy. The third dimension of our impactanalysis is on intersecting oral linkages which have to be addressed by a policy on privatization.OECD report states that the average growth rate 7.5% will double the average income in adecade, and more reforms speed up the pace. There has been significant debate, however, aroundliberalization as an inclusive economic growth strategy. Since 1992 income inequality has dependedin India with consumption among the poorest staying stable while the wealthiest generateconsumption growth. Theeconomic reforms ushered in a new era if liberalization as industrial licensing was abolished, role ofpublic sector diluted, doors to foreign investment considerably opened, and numerous incentives andinitiatives granted to the private sector to expand its business activities.

REVIEW OF LITRATURE

EckhardSiggel and Pradeep Agrawal (2009)The Impact Of Economic Reforms On Indian Manufacturers:Evidence From A Small Sample Survey, Although there has been much theorising on the impact of India's economic reforms of1991 on Indian manufacturers, there is hardly any previous study that has taken up thetask of actually asking the manufacturing firms as to what the true impact of economicreforms has been on them. In this paper, we report the findings of a small sample surveyof manufacturing enterprises in the Delhi region regarding perceptions of the impact ofeconomic reforms of 1990s. Most firms felt that the reforms were helpful by increasingaccess to foreign technology and making imports of capital and intermediate goodscheaper. **Montek S Ahluwalia (2009) India's Economic Reform,**The recently developed literature on the sequencing of reform in developingcountries provides some guidance in making these difficult choices though it is far from being conclusive. This paper presents an overview of what has been achieved in India's current reforms. Itindicates some of the compulsions affecting the sequencing and pace of reforms andattempts to evaluate the internal consistency of the resulting package. The paper also presents a tentative assessment of the results achieved at

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the end of the third year.**Jos Mooji(2005) The Politics Of Economic Reforms In India: A Review Of The Literature,** In April and May 2004, India went to the polls. Against all expectations, the ruling National Democratic Alliance did not win the election, but was replaced by a Congress party-led coalition, the United Progressive Alliance (UPA). The defeat was quite dramatic. Of the 543 seats in the Indian Lok Sabha, the NDA succeeded in capturing only 185 seats (from its previous 274), while the UPA (excluding the Left parties who support the government from outside) won 217 seats (from its previous meager 151).As soon as the verdict was announced, it was interpreted as a vote against the NDA's policies: its divisive communal policies pursued particularly in Gujarat but also elsewhere; its education policy of rewriting textbooks on India's history; its economic reform policies. This last interpretation was quite prominent. The Politics of Economic Reforms in India.**PrathivadiBhayankaramAnand (1999)"India's Economic Policy Reforms: A Review",** India embarked on economic reforms in July 1991, in the wake of a balance of payments crisis. In this article, an attempt is made to review two books and a set of World Bank reports concerning theprogress of thesereforms. Issues concerning economic policy, impact of the reforms on poverty, sectoral issues relating to agriculture, industry and infrastructure are briefly discussed. As reforms enter a more difficult phase, several challenges remain. Some of these fall under the "economic agenda" of measures needed to maintain economic growth; others can be termed the "development agenda" – of improving human development. Progress with regard to the former is not sufficient to produce results concerning the latter. **NirupamBajpai (2002) A Decade of Economic Reforms in India: the Unfinished Agenda,**This paper aims to assess the economic reforms in India undertaken during the 1990s. India has gone through the first decade of her reform process. Hence, an assessment of what has been achieved so far and what remains on the reform agenda is in order. Reforms in the industrial, trade, and financial sectors, among others, have been wide and deep. As a consequence, they have contributed more meaningfully in attaining higher rates of growth.

OBECTIVES OF RESEARCH

- To know the impact of economic reforms on India.
- To know current reforms in India.

ROLE OF THE DOMINANT SECTOR

Despite the rapid progress of the public sector in the period of planning, private sector is thedominant sector in the Indian economy as would be clear the trace.The number of private sector companies in 2006-07 was 1,24,941 out of 1,44,709 totalcompanies. Thus as many as 86.3 percent of the total companies were in the private sector, but interms of fixed capital, gross output and value added, private sector's share was much lower. Its sharein fixed capital was only 25.5 percent in 2006-07. Its value added was only 32.2 percent and 30.8perceknt respectively in that year. In terms of employment, private sector's share was greater in 2006-07. It employment 60 percent of workers as against 34.1 percent employment by the public sector.

PERFORMANCE OF THE CORPORATE SECTOR AFTER 1991

Opening up the economy to foreign competition has also faced considerable restricting of the privatecorporate sector via. Consolidation, mergers and acquisition as many business houses areconcentrating on their core competencies and existing from unrelated and diversified fields. The average rate of growth of sales was 14.0 percent per annum during1990's (1990-91 to 1999 -2000) and 14.2 percent per annum during the period 2000-01 to 2006-07. Gross profits increased at an overage rate of 12.5 percent per annum during 1990's and 20.04 percentper annum during 2000-01 to 2006-07. The performance of the corporate sector in 2007-08 showedsome deterioration vis-à-vis 2006-07. For instance growth rate in sales and net profits during this yeardecelerated to 18.3 percent and 26.2 from 26.2 percent and 45.2 percent respectively in 2006-07.Growth in gross profit of the corporate sector also decelerated from 41.9 percent in 2006-07 to 22.8percent in 2007-08.

DATA INTERPRETATION

The private sector growing rapidly after economic reforms in 1991. India used the strategy ofmixed economy and private sector giving good contribution in India's development. The privateentrepreneur is guided by the profit motive. He is responsible for the introduction of newcommodities, new technique of production, assembling the necessary plant and equipment labourforce and management and organizing them into a going concern. In the new economic reforms thathas emerged after the announcement of the new industrial policy in 1991, private sector has beenassigned the dominant role in industrial development.

GLOBALIZATION

Globalization has many meaning depending on the context and on the person who is talking about.Brainbant says that the process of globalization not only includes opening up of world trade,development of advanced means of communication internationalization of financial markets, growingimportance of MNC's population migration and more generally increased mobility of persons, goods,capital, data and ideas but also infections, diseases and population.In context to India, this implies opening up the economy to foreign direct investment byproviding facility to foreign companies to invest different fields of economic activities in India,removing constraints and obstacles to the entry of MNC's in India, allowing Indian companies toenter into foreign collaborations. When Indian economy way in deep crisis in 1991, Foreign currencyreserves had plummeted to almost 1 billion, inflation had roared to an annual rate of 17 percent, fiscaldeficit was very high, foreign investors and NRI's had lost confidence in Indian economy thenglobalization strategy applied and included the followings.

Devaluation

The first step towards globalization way taken with the announcement of the devaluation ofIndian currency by 18-19 percent against major currencies in the international foreign exchangemarket.

Disinvestment

In under to make the process of globalization smooth, privatization and liberalization policiesare moving along as well. Most of the public sector undertakings have been sold to private sector.

Liberalization of Imports

A number of items of imports were removed from the restricted list and have been permittedfree for imports. 20 items were removed from this list in 1997. Similarly 42 items were removed formthe restricted list in 1996-97.

Reduction in Tariff

The tariff rates were slashed from 255 percent to 150 percent ad volurem on 35 import items.After sometime a few

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exceptions were reduced form 110 percent to 85 percent ad volurem.India has made commitment to the WTO to ceiling limit of tariff rates to 40 percent in use of finishedgoods and 25 percent in case ofintermediate goods, machinery and equipment. The union budget2002-03 announced a reduction in customs duty form 35 percent to 30 percent.

Foreign Capital
A very essential element of globalization in India has been to facilitate an easy inflow offoreign capital in the economy. The government specified a list of high priority industries in whichequity participation of foreign investors even to the percent of 51 percent could be permitted withoutprior approval of the government.

STEPS TOWARDS GLOBALIZATION
Here we discussed the steps towards globalization initiated by the government of India in 1991.

A) Exchange Rate Adjustment and rupee convertibility
The most important measure for integrating the economy of a country with the global economy is tomake it currency fully convertible. The government of India made a two-step downward adjustmentof 18-19 percent in the exchange rate of the rupee on July 1991. The 1992-93 budget introduced adual exchange rate system implying partial convertibility of rupee.

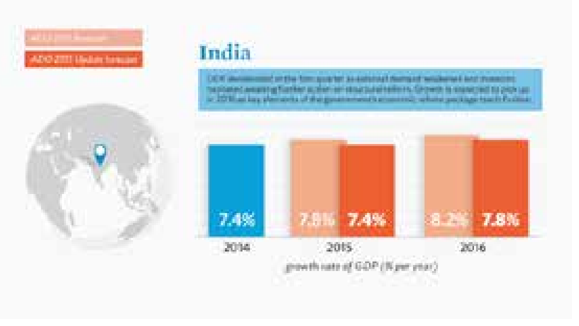
B) Import Liberalization
In its report ' India : strategy for trade reforms' released in 1990, the world bank hadadvocated redesigning of the import policy, lowering of import tariff on all goods and free entry tocapital goods, intermediate goods, raw materials and consumers goods into the Indian economy.

C) Opening up to Foreign Capital
In a bid to attract foreign capital and integrate the Indian economy with the global economy,the government of India has thrown open the doors to foreign investors. In 1991 the governmentannounced a specified list of high technology priority industries wherein automatic permissions wasgranted for direct foreign investment up to 51 percent foreign equity. The limit was raised from 51percent to 74 percent and subsequently to 100 percent for many of these industries. NRIs and overseascorporate bodies (OCBs) predominantly owned bythem have been allowed to invest up to 100percent equity in high priority industries with repatriability of capital and income ; NRI investment upto 100 percent of equity has been allowed in export houses, trading houses, hospitals, sick industries,hotels etc.

GLOBALIZATION'S IMPACT ON INDIA
During the 11-year period 1995-2006 India's merchandise exports increased at the rate of13.3 percent per annum (from $ 30.63 billion to $ 120. 25 billion). India's share in world merchandiseexports improved only marginally from 0.59 percent in 1195 to 0.99 percent in 2006.India's performance in service sector exports was relatively much better service exportsincreased from $ 10.0 billion in 1995 to $ 63.0 billion in 2006, indicating on annual average growthrate of 18.2 percent during the period. If we pool together merchandise and service sector exports, itbecomes evident that India's exports of goods and service from $40.9 billion in 2008, indicating anannual average growth rate of 16.0 percent. As a consequence, India's share in world exports of goodsand services improved from 0.63 percent in 1995 to 1.41 percent in 2008. So there is no doubt thatIndia has gained as a consequence of globalization in improving its share of world exports of goodsand services.

EMPLOYMENT SITUATION
The employment situation in India has worsened in the era of globalization. The rate ofgrowth of employment which was of the order of 2.04 percent per year in 1983-84 declined to a low level of 0.98 percent during the period 1994-2000. This was largely a consequence of a negativegrowth rate of employment in agriculture which absorbed about 65 percent of total employed workersas also a sharp decline in community, social and personal services to 0.55 percent during 1994-2000as against 2.90 percent during 1983-84.

CONCLUSIONS
It has to be acknowledged the reforms process will not be able to achieve its socio-economicobjective, because the private sector is merely concerned with profit motive. Whereas theliberalization process has reduced the role of public sector investment, it has failed to fill the vacuumcreated by the withdrawal of public sector investment infrastructure, more especially in the backwardstates. Obviously this calls of a reform of the reform process.W.J. Clinton while speaking inHyderabad on March 24, 2000 on the need to harness new technologies like info-tech for eradicatingpoverty emphasized: "Million of Indians are connected to the internet, but millions more are not yetconnected to fresh water. India accounts for 30 percent of the world's software engineers but also 25percent of the world's malnourished. So our challenge is to turn the newest discoveries into bestweapons humanity has ever had to fight poverty." Acc. Mr Manmohan Singh, "Thechallenge before us is to combine the Economics of growth with the Economics of equity and socialjustice we have no option but to walk on two legs."



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