Impact of Economic Reforms on Indian Economy

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

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 attempt was reversed in 1967. Thereafter a stronger version of socialism was adopted. The second major attempt was in 1985 by Prime Minister Rajiv Gandhi. The process came to a halt in 1987, through 1996 style reversal did not take place. In 1991 after India faced a balance of payments crisis, it had to pledge 20 tonnes of gold to Union Bank of Switzerland and 47 tonnes of Bank of England as part of aboulait 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. 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, growing merely 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 in the nation’s economic activities by shifting the divide between public sector and private sector in favour of letter has made considerable progress since the introduction of the new economic policy in 1991. The first dimension of Privatization is the fiscal dimension stems from the government’s need to reduce the fiscal deficit. Privatization for efficiency is the second dimension. In a sense the efficiency dimension forms the crux of privatization policy. The third dimension of our impact analysis 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 decade, and more reforms speed up the pace. There has been significant debate, however, around liberalization as an inclusive economic growth strategy. Since 1992 income inequality has dependend in India with consumption among the poorest staying stable while the wealthiest generate consumption growth. The economic reforms ushered in a new era if liberalization as industrial licensing was abolished, role of public sector diluted, doors to foreign investment considerably opened, and numerous incentives and initiatives granted to the private sector to expand its business activities.

REVIEW OF LITERATURE
Eckhard Siggel 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 of 1991 on Indian manufacturers, there is hardly any previous study that has taken up the task of actually asking the manufacturing firms as to what the true impact of economic reforms has been on them. In this paper, we report the findings of a small sample survey of manufacturing enterprises in the Delhi region regarding perceptions of the impact of economic reforms of 1990s. Most firms felt that the reforms were helpful by increasing access to foreign technology and making imports of capital and intermediates goods cheaper. Montek S Ahluwalia (2009) India’s Economic Reform, The recently developed literature on the sequencing of reform in developing countries provides some guidance in making these difficult choices thought it is far from being conclusive. This paper presents an overview of what has been achieved in India’s current reforms. It indicates some of the compulsions affecting the sequencing and pace of reforms and attempts to evaluate the internal consistency of the resulting package. The paper also presents a tentative assessment of the results achieved at...
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, PrathvadiBhayankaramAnand (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 the progress of these reforms. 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.

OBJECTIVES 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 the dominant 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 total companies. Thus as many as 86.3 percent of the total companies were in the private sector, but in terms of fixed capital, gross output and value added, private sector’s share was much lower. Its share in fixed capital was only 25.5 percent in 2006-07. Its value added was only 32.2 percent and 30.8 percent 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 private corporate sector via. Consolidation, mergers and acquisition as many business houses are concentrating on their core competencies and existing from unrelated and diversified fields. The average rate of growth of sales was 14.0 percent per annum during 1990’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 average rate of 12.5 percent per annum during 1990’s and 20.04 percent per annum during 2000-01 to 2006-07. The performance of the corporate sector in 2007-08 showed some deterioration vis-à-vis 2006-07. For instance growth rate in sales and net profits during this year decelerated 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 22.8 percent in 2007-08.

DATA INTERPRETATION
The private sector growing rapidly after economic reforms in 1991. India used the strategy of mixed economy and private sector giving good contribution in India’s development. The private entrepreneur is guided by the profit motive. He is responsible for the introduction of new commoditites, new technique of production, assembling the necessary plant and equipment labour force and management and organizing them into a going concern. In the new economic reforms that has emerged after the announcement of the new industrial policy in 1991, private sector has been assigned 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, growing importance 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 by providing 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 to enter foreign collaborations. When Indian economy was in deep crisis in 1991, Foreign currency reserves had plummeted to almost 1 billion, inflation had roared to an annual rate of 17 percent, fiscal deficit was very high, foreign investors and NRI’s had lost confidence in Indian economy. The globalization strategy applied and included the following.

Devaluation
The first step towards globalization was taken with the announcement of the devaluation of Indian currency by 18-19 percent against major currencies in the international foreign exchange market.

Disinvestment
In order to make the process of globalization smooth, privatization and liberalization policies are 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 permitted for imports. 20 items were removed from this list in 1997. Similarly 42 items were removed from the restricted list in 1996-97.

Reduction in Tariff
The tariff rates were slashed from 255 percent to 150 percent ad volorem on 35 import items. After sometime a few
exceptions were reduced form 110 percent to 85 percent ad volume. India has made commitment to the WTO to ceiling limit of tariff rates to 40 percent in use of finished goods and 25 percent in case of intermediate goods, machinery and equipment. The union budget 2002-03 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 of foreign capital in the economy. The government specified a list of high priority industries in which equity participation of foreign investors even to the percent of 51 percent could be permitted without prior 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 making its currency fully convertible. The government of India made a two-step downward adjustment of 18-19 percent in the exchange rate of the rupee on July 1991. The 1992-93 budget introduced a dual 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 had advocated redesigning of the import policy, lowering of import tariff on all goods and free entry to capital 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 government announced a specified list of high technology priority industries wherein automatic permissions was granted for direct foreign investment up to 51 percent foreign equity. The limit was raised from 51 percent to 74 percent and subsequently to 100 percent for many of these industries. NRIs and Overseas Corporate Bodies (OCBs) predominantly owned by them have been allowed to invest up to 100 percent equity in high priority industries with repatriability of capital and income; NRI investment up to 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 of 13.3 percent per annum (from $ 30.63 billion to $ 120.25 billion). India’s share in world merchandise exports improved only marginally from 0.59 percent in 1995 to 0.99 percent in 2006. India’s performance in service sector exports was relatively much better service exports increased from $ 10.0 billion in 1995 to $ 63.0 billion in 2006, indicating an annual average growth rate of 18.2 percent during the period. If we pool together merchandise and service sector exports, it becomes evident that India’s exports of goods and services from $ 40.9 billion in 2008, indicating an annual average growth rate of 16.0 percent. As a consequence, India’s share in world exports of goods and services improved from 0.63 percent in 1995 to 1.41 percent in 2008. So there is no doubt that India has gained as a consequence of globalization in improving its share of world exports of goods and services.

EMPLOYMENT SITUATION
The employment situation in India has worsened in the era of globalization. The rate of growth 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 negative growth rate of employment in agriculture which absorbed about 65 percent of total employed workers as also a sharp decline in community, social and personal services to 0.55 percent during 1994-2000 as against 2.90 percent during 1983-84.

CONCLUSIONS
It has to be acknowledged the reforms process will not be able to achieve its socio-economic objective, because the private sector is merely concerned with profit motive. Whereas the liberalization process has reduced the role of public sector investment, it has failed to fill the vacuum created by the withdrawal of public sector investment, more especially in the backward states. Obviously this calls of a reform of the reform process. W.J. Clinton while speaking in Hyderabad on March 24, 2000 on the need to harness new technologies like info-tech for eradicating poverty emphasized: “Millions of Indians are connected to the internet, but millions more are not yet connected to fresh water. India accounts for 30 percent of the world’s software engineers but also 25 percent of the world’s malnourished. So our challenge is to turn the newest discoveries into best weapons of humanity has ever had to fight poverty.” Acc. Mr. Manmohan Singh, “The challenge before us is to combine the Economics of growth with the Economics of equity and social justice we have no option but to walk on two legs.”

REFERENCES