ORIGINAL RESEARCH PAPER

Volume - 12 | Issue - 01 | January - 2023 | PRINT ISSN No. 2277 - 8179 | DOI : 10.36106/ijsr

INTERNATIONAL JOURNAL OF SCIENTIFIC RESEARCH

FEATURES AND ASSESSMENT OF INDIA'S ECONOMIC REFORMS PROGRAM

Economics

Dhuppalli Thirmal Yaadav* Department of economics, Osmania University, Hyderabad*Corresponding Author

Dr. Dubba Ranjith Department of economics, Osmania University, Hyderabad

ABSTRACT

The 1991 balance of payments crisis was caused by the breakdown of foreign trust in the Indian economy, which was further exacerbated by the Gulf War of 1990 and the political unrest at the start of the decade. Foreign currency reserves at one billion US dollars were at their lowest level ever, industrial production was falling, inflation was increasing, and there was a serious risk of a global default. Non-resident Indians withdrew their savings from Indian banks, while other foreign investors withdrew funds due to anticipation of the rupee's depreciation and a fall in trust. The amount of foreign currency reserves dropped to a point where they couldn't even cover two weeks' worth of imports

KEYWORDS

economic reforms, industrial production, foreign investors, global default

INTRODUCTION

The phrase "economic planning" refers to long-term government plans to coordinate and expand the economy while making effective use of resources. Following independence, economic planning was initiated in India since it was seen to be essential for the country's development and progress. First Prime Minister Jawaharlal Nehru, who was influenced by socialism, borrowed the concept of five-year planning from the former Soviet Union. The two phases of India's economic planning-driven process of growth and development are I the pre-reform period and (ii) the post-reform period. India had a severe fiscal crisis in the late 1980s as a result of the expansion of heavy industry through state support strategies coupled with the concept of inward orientation and import substitution. As a result, policymakers have to think different alternative to develop the country and remove existing crisis in the economy.

India didn't fully start its significant economic reform agenda till after 1991. Prior to economic reform, India's economy was mostly state-run, with public sector companies (PSEs) holding the apex positions. The intended objectives guided the controlled prices, currency rates, and investment. India's macroeconomic policies were seen as conservative and inward-looking up until the early 1980s. Due to loose fiscal practices in the early 1980s, current revenue surpluses transformed into deficits. Government spending exceeded its income, creating a mounting fiscal imbalance that had to be filled via domestic borrowing.

The 1991 balance of payments crisis was caused by the breakdown of foreign trust in the Indian economy, which was further exacerbated by the Gulf War of 1990 and the political unrest at the start of the decade. Foreign currency reserves at one billion US dollars were at their lowest level ever, industrial production was falling, inflation was increasing, and there was a serious risk of a global default. Non-resident Indians withdrew their savings from Indian banks, while other foreign investors withdrew funds due to anticipation of the rupee's depreciation and a fall in trust. The amount of foreign currency reserves dropped to a point where they couldn't even cover two weeks' worth of imports.

I Industrial Policy Reforms; Industrial policy reforms were primarily focused with promoting economic liberalisation, for which de-licensing and de-reservation of existing public-sector businesses was advocated. The number of designated industries for the public sector was reduced from 37 to 7. Industries with strategic and environmental concerns must rely on the public sector. Furthermore, the investment limitations established by the MRTP Act of 1969 were repealed. Imports of previously restricted technology were now permitted. A policy for the divestiture of loss-making public-sector firms was also advocated.

(ii) External Sector Reforms; External sector reforms aimed at connecting the Indian economy with the rest of the world in order to reap the benefits of export promotion and outward orientation.For this, existing structure on quantitative and qualitative trade barrier was refurbished. Both tariffs and non-tariff barriers were reduced substantially. Measures for export promotion were introduced.

(iii). Financial Sector Reforms; Financial industry reforms were implemented to make the financial sector more efficient by adopting the methods and standards of developed-country banks. The government's power over setting interest rates was removed, leaving free market processes to operate. Furthermore, the banking industry's duties in terms of priority sector lending, social banking, and lead banking have been significantly reduced. Banks were expected to adhere to capital adequacy and prudence standards in order to compete with banks in industrialized countries. The Narasimha committee suggested all of these measures between 1991 and 1998. Special arrangements were made to address the rise of non-performing assets (NPAs) in nationalized banks.

The Indian capital and money markets have also undergone reforms in terms of infrastructure development and governance. The Securities Exchange Board of India (SEBI) was founded in 1992 as a statutory authority for the regulation and supervision of the Indian capital market, and it has undertaken a number of changes in the main and secondary issue markets in India. Private sector enterprises been granted authorization to establish and develop their insurance businesses. Furthermore, Indian financial sectors have opened to private and international institutions.

(iv) Fiscal Sector Reforms; In the second wave of reforms, known as second generation changes, budgetary sector reforms were undertaken with the goal of assuring the nation's fiscal consolidation. In 2003, the Fiscal Responsibility and Budget Management Act was approved. Fiscal deficit of 3 per cent of GDP was recommended to achieve at centre and state government budgets. Moreover provision for reducing government expenditure and introduction of Value Added Tax (VAT) were also proposed.

(v). Social Sector Reforms ; Social sector also experienced some reforms like introduction of New Pension Scheme and establishment of National Labour Commission. Private and foreign investment was allowed in all spheres of education and health.

(vi). Reforms in Infrastructure; A major reform under this sector is development of infrastructure under Public Private Partnership (PPP) Model. Earlier private sector was not contributing in infrastructural development.

(vii). Foreign Investment Reforms; There is complete change in the policy of Indian government towards foreign investment in the economy. Under the reform process, government introduced measures to attract foreign investment. Earlier foreign investment was subject to Foreign Exchange Regulation Act (FERA) which was replaced by FEMA in 1998. Moreover, capping of Foreign Direct Investment (FDI) in several sectors has been increased even up to 100 per cent from 49 per cent during pre reforms period.

Features of the New Economic Policy

Economic reforms are introduced under New Economic Policy (NEP), 1991. Following are the main features of New Economic Policy:

(I). Liberalisation; The primary aspect of the new economic strategy is that it allows entrepreneurs to set up any industry/trade/business venture. The government has simplified the requirements for establishing new businesses, and more industries are now permitted to operate in the private sector. The system requiring a case-by-case evaluation of new business ideas has been scrapped. Aside from that, entrepreneurs no longer require licenses to start a firm. Capital markets have also been liberalized and made available to private firms.

(ii). Extension of Privatization; Another feature of the new economic policy is the extension in the scope of privatization. Now, the majority of economic activities will be conducted by the private sector. In the wave of privatization, out of 17 industries reserved for public sector, 11 industries have been given to the private sector. Moreover, Governemnt has also privatized the ownership of some public sector undertakings by the sale of capital of some selected enterprises to the private sector. It was mandated to make the remaining public sector as efficient as privates ones so that they can generate profits and lesser the burden of expending more through government budget.

(iv). Market Friendly State; The role of the state is limited to specific non-market sectors and is primarily concerned with ensuring the smooth operation of the market economy. In comparison to the past, some chosen firms' ownership has been shifted to the private sector. Its actions as a resource owner have been limited to two sorts of activity. One includes operations that are critical to the economy's operation, while the other is concerned with social services such as education, health, and so on. However, the state's primary responsibility is to safeguard the market's smooth operation. To do this, the government must deploy macroeconomic policies to maintain market stability. When the market fails, the government will step in.

(v). Modernization; New economic Policy accorded high priority to modern techniques. It aims at to augment the growth rate of sunrise industries. In order to import technical dynamics to Indian industry, the Government decided to clear all foreign collaborations. Private entrepreneurs will be free to settle the terms of such collaborations on their own behalf. Moreover, Government has also been trying to stimulate private entrepreneurs to establish their own research and development centers by offering them various tax concessions. Efforts are also being made to revive and modernize the sick industrial units both within the public and private sectors.

(vi). New Public Sector Policy; The Government has give priority to the public enterprises in the hope that it will help to accumulate capital, industrialization, economic growth and removal of poverty. Thus, new economic reforms are trying to shift the emphasis from public to the private sector.

Conclution;

The severe macroeconomic crisis of the late 1980s prepares the Indian economy for a new development plan. A new economic policy was implemented at the request of the IMF as part of a structural adjustment program to alleviate the economy's difficulties. Globalisation, privatisation, and liberalisation are central to New Economic Policy. Under the new economic policy, a series of economic reforms in the external sector, industrial sector, fiscal sector, financial sector, and so on have been implemented. Reforms have affected the economy in a variety of ways and at varying levels. Economic changes have had a favorable influence on the economy's savings and investment rates. The external sector of the economy has improved significantly, with a positive balance of payment account. However, the government is unable to eliminate the trade balance since imports outnumber imports. In terms of human development, the country made little progress, resulting in a drop in its standing relative to other countries. Despite the fact that the Indian economy has experienced a decline in poverty during the reform period, studies show an increase in income inequality, i.e. increasing relative poverty in the country.

REFERENCES

1. Puri, V.K and Misra, S.K. Indian Economy, Himalaya Publishing House, New Delhi.
2. Datt, Ruder and Sundharam, K.P.M, Indian Economy, S. Chand Higher Academic, New Delhi.
3. Dhar, P.K. Indian Economy: Its Growing Dimensions. Kalyani Publishers, New Delhi.
4. Economic Survey, Ministery of Finance, Government of India. Retrieved from: http://indiabudget.nic.in/survey.asp. Accessed on 11/10/2016 at 7:10 PM.
5. Asian Development Bank, Key Indicators (Various Issues). Retrieved from: https://sdbs.adb.org/sdbs/. Accessed on 11/10/2016 at 6:55 PM.