IMPACT OF GLOBALISATION ON INDIAN ECONOMY- AN OUTLOOK

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ABSTRACT: *Strategic objective of Indian policy makers at the outset of independence was the creation of a self-reliant economy and the reduction of the high levels of poverty that existed, all within a democratic political framework. The argument was that capital being scarce in India, it was essential to regulate the flow of the available capital into socially desirable channels. This was achieved by an elaborate system of industrial licensing and state monopoly and control over key industries. Scarce foreign exchange had to be saved by curtailing imports, as it was thought that India was not capable of earning much foreign exchange through exports. Therefore the policy emphasized self sufficiency and neglected foreign trade as a means of economic growth. While growth did pick up in the latter half of the 1970s, the Indian economy was generally mired in a vicious circle of low productivity/ product obsolescence and slow growth.*

This paper examines the reform history in Indian economy starting from the pre-British era to present stage of Liberalization, Privatization and Globalization. Indian economy has a very diverse experience from prosperity to poverty. The reforms had gained momentum during 90's when a drastic change has taken place in Industrial policy, financial policy, Public sector, Capital Market, Trade policy. While there is an improvement in Indian Industry, particularly the manufacturing sectors, the adverse impact of fall in Kharif production due to rain deficiency will act as a drag on overall growth on Indian economy. A comparison has been done by comparing the reforms taken from British to Present State.

Key Words:

INTRODUCTION

The strategic objective of Indian policy makers at the outset of independence was the creation of a self-reliant economy and the reduction of the high levels of poverty that existed, all within a democratic political framework. The argument was that capital being scarce in India, it was essential to regulate the flow of the available capital into socially desirable channels. This was achieved by an elaborate system of industrial licensing and state monopoly and control over key industries. Scarce foreign exchange had to be saved by curtailing imports, as it was thought that India was not capable of earning much foreign exchange through exports. Therefore the policy emphasized self sufficiency and neglected foreign trade as a means of economic growth. While growth did pick up in the latter half of the 1970s, the Indian economy was generally mired in a vicious circle of low productivity/product obsolescence and slow growth. Jagdish Bhagwati (1992) rationalises India's development failure as follows: "I would divide them into three major groups: extensive bureaucratic controls over production, investment and trade; inward-looking trade and foreign investment policies; and conventional confines of public utilities and infrastructure. The former two adversely affected the private sector's efficiency. The last, with the inefficient functioning of public sector enterprises, impaired additionally the public sector enterprises' contribution to the economy. Together, the three sets of policy decisions broadly set strict limits to what India could get out of its investment (p.13)".

Although some tentative steps were taken in 1985 to liberalize and unshackle the economy by delicensing a few industries, these partial and rather ad hoc measures contributed to the creation of severe and unsustainable macroeconomic imbalances in the Indian economy, particularly with regard to escalating fiscal deficits (Joshi and Little, 1994). In addition to the conventional expenditure switching and reducing policies, as part of the IMF agreement, a range of far reaching economic policy reforms was launched in July 1991 in the external, industrial, financial and public sectors (Desai, 1999 and Srinivasan, 1996).As the initial reforms take root and second-generation reforms unfold, India is emerging as one of the favorable destinations for foreign investment and a land of immense opportunity for all. Table 1 shows the trends in National income from 1950-51 to 2001-02.

TABLE 1 TREND IN NATIONAL INCOME

Year	National Income (Rs Cr at 1980-81 price)	Per Capita Income (Rs at 1980-81 price)
1950-51	42,871	1127

1960-61	62,904	1350
1970-71	90,426	1520
1980-81	1,22,772	1630
1990-91	2,00,481	2222
2000-01	10,50,177*	10,306*

Source: Central Statistical organization, * at 1993-94 prices

EVALUATION OF ECONOMIC REFORMS IN INDIA

Economic reforms in India should be viewed in distinct eras. Under normal condition economic reforms in India describes post 1991 consequences of various economics practices.

THE PRE-BRITISH ERA

Assessment of India's pre-colonial economy is mostly qualitative, owing to the lack of quantitative information. The most significant event of this era is the fact that an appreciable amount of land arrears were brought under the control of a single entity like the Suris, the Lodhi's and the Mughals. India, by the time of the arrival of the British, was a largely traditional agrarian economy with a dominant subsistence sector dependent on primitive technology. The G. T Road (Grand Trunk Road) and the structures like Taj Mahal, Fatehpur sikri were built in this era. Urbanization started growing in this era.

THE BRITISH PERIOD

By all accounts from the 15th to the 18th century India was one of the most prosperous regions of the world with plentiful supply of highly advanced commercial and industrial techniques (Clydesdale, 2007). From 1700, however, Indian GDP per capita started to drop. For more than 400 years now India has had low incomes and low, even negative, rates of economic growth whereas its population has continued to expand. Table 2 compares real per capita GDP and GDP in 1990 international dollars and population between India and the United Kingdom over the period 1600 to 1947, when India attained independence from British rule. India's per capita GDP which in 1600 was 56.4 per cent of the UK's, remained stagnant and even fell for a while during the period until 1947 at which time UK's per capita GDP was 10.3 times that of India. The ratio of UK's per capita GDP to Indian GDP grew from 2.63 in 1757 (an approximate date for the beginning of British rule in India) to 5.22 in 1857 and 10.29 in 1947. Over the same period the ratio of India's population to British population fell from 14.03 in 1757 to 8.05 in 1857 and rose only marginally to 8.36 in 1947. The ratio of British GDP to Indian GDP was 0.187 in 1757, but rose to 0.648 in 1857 and 1.23 in 1847. Thus in 1947 British GDP surpassed India's.

TABLE 2 COMPARATIVE MACRO ECONOMIC PERFORMANCE OF INDIA AND BRITAIN (1600-1947)

Year	Population (000)		GDP Million (1990 International dollars)		Per capita GDP (1990 International dollars)	
	India	United kingdom	India	United kingdom	India	United kingdom
1600	135000	6170	74250	6007	550	974
1700	165000	8565	90750	10709	550	1250
1757	185000	13180	99900	18768	540	1424
1857	227000	28187	118040	76584	520	2717
1947	414000	49519	255852	314969	618	6361

Source: Maddison (2007)

INDEPENDENCE TO PRESENT ERA

The conventional narrative of India's post-World War II economic history begins with a disastrous wrong turn by India's first Prime Minister, Jawaharlal Nehru, toward Fabian socialism, central planning, and an unbelievable quantity of bureaucratic red tape. This "license Raj" strangled the private sector and led to rampant corruption and massive inefficiency. During the decade of 1980s India successfully completed the Sixth (1980-1985) and the Seventh (1985-1990) Five Year plans and moved on a higher growth path with an average growth rate of 5.7 per cent per annum compared with a trend rate averaging 3.5 per cent until the end of 1970s. However, sustainability of the growth process came under serious doubt due to large and persistent macro economic imbalances manifested in rising fiscal deficits, precarious balance of payments situation and high inflationary pressures. The Growth performance of the five year plan is shown in Table 3 which helps to know the target and the actual outcomes of the plans.

TABLE 3: THE GROWTH PERFORMANCE OF THE FIVE YEAR PLAN

Plan	Target*	Actual
First Plan(1951-56)	2.1	3.6
Second Plan(1951-56)	4.5	4.21
Third Plan(1951-56)	5.6	2.72
Fourth Plan(1951-56)	5.7	2.05
Fifth Plan(1951-56)	4.4	4.83
Sixth Plan(1951-56)	5.2	5.54
Seventh Plan(1951-56)	5.0	6.02
Eighth Plan(1951-56)	5.6	6.68
Ninth Plan(1951-56)	6.5	5.5

* The targets for the first three plans were set in relation to National Income. For the Fourth Plan, it was Net Domestic Product. For all subsequent Plans, it is a GDP at factor Cost. During 1980s the overall economic philosophy in India was to liberalize imports to some extent, promote export-oriented industries, reduce physical controls and regulations in industry, encourage capacity augmentation and technological up gradation and allow flexible exchange rate and attract foreign investment in selected sectors on the basis of case by case approvals. However, these liberalization measures were not carried to full extent and not supplemented by fiscal prudence, monetary discipline, private participation, reforms in taxation policies or in monopolistic trade and industrial licenses. India still adopted a very restrictive policy as regards foreign equity, capacity expansion for economies of scale and private participation in infrastructure and other strategic sectors. In the pre-reforms period, Indian economy in general was characterized by:

- ✓ Mixed economy, but too closed
- ✓ Far behind world wide globalization
- ✓ High level of control, licenses and regulation
- ✓ Monopolistic practices in public utilities
- ✓ Complex tax regime with high rates
- ✓ High tariff walls and Quantitative Restrictions (QRs) on imports
- ✓ Rigid factor markets for land, labour and capital
- ✓ High levels of fiscal deficits and public debt
- ✓ Precarious balance of payments situation

Over control, excessive regulation, high protection, licensing raj and high taxes and duties resulted in:

- ✓ Low efficiency and productivity
- ✓ High transactions cost
- ✓ High cost economy and rent seeking
- ✓ Non-optimal allocation of resources
- ✓ Sub-optimal choice of technology and location of industries
- ✓ Low quality but high prices of products and services
- ✓ Bureaucratic inefficiency and corruption

Due to these inefficiencies Indian economy entered the decade of the 1990s with large imbalances on internal and external account, which made the economy highly vulnerable to internal and external shocks. These problems were exacerbated by the Gulf crisis in 1990-1991 and consequent hardening of international prices of oil. There was precarious balance of payments situation and our foreign exchange reserves dwindled to US$1 billion, which was sufficient to finance only two weeks' level of imports as compared to prudent level of three months imports. India was on the verge of external default.

International credit rating organizations downgraded Indian scripts and put them in the no investment grade. Our non-resident Indians started withdrawing their deposits at a faster speed as they lost confidence in the Indian banking system. The window of commercial borrowing was closed to the Indian banks, financial institutions and the corporate bodies. Rate of inflation reached 16 per cent hurting everybody, particularly the weaker sections of the society whose incomes are not indexed to prices. There was also widespread unemployment.

The major elements of changes in policy over the last decade include:
(a) De-licensing and deregulation of investment and production in most industries, and the introduction of a general regulatory framework in the case of monopolies.

(b) Discontinuation of exclusive reservation of many key industries for the public sector and of budgetary subsidies to public sector enterprises, with some small steps towards privatization in more recent years;
(c) Gradual abolition of quantitative restrictions on imports (except for some consumer goods)
(d) Movement towards a market-determined exchange rate (within limits) and current account convertibility;
(e) Reduction of average levels of direct and indirect taxes and some streamlining and rationalization of the tax structure;
(f) Some reform in the financial sector like abolition of control of capital issues, more competition among banks and insurance companies, deregulation of some interest rates, insistence on capital adequacy norms, etc.

Paradigms of reforms since 1991 are summarized in Table-4. Basic objectives of these reforms were the following:

- To encourage private participation including foreign investment in the development process. Over the years, government had widened its scope and was participating in the activities where private initiatives might be more productive and useful.
- In many cases, twin objectives of the government (namely growth and equity) were intermixed and one objective was taken as an alibi for failure for another. In the process, both the prospects of higher growth and social justice were impaired.
- It was recognized that as there are imperfections in the markets, there are also imperfections in the government. It was, therefore, necessary to redefine the role and scope of the government and to open the economy to both internal and external market competitions.

TABLE-4 PARADIGMS OF ECONOMIC REFORMS IN INDIA SINCE 1991

Pre-reforms period	Post reforms period
1. Quantitative licensing on trade and industry 2. State regulated monopolies of utilities and trade 3. Government control on finance and capital markets 4. Restrictions on foreign investment and technology	1. Abolition of industrial and trade licensing 2. Removal of state monopolies, privatization & divestment 3. Liberalization of financial and capital markets 4. Liberal regime for FDI, portfolio investment, foreign technology
5. Import substitution and export of primary goods 6. High duties & taxes with multiple rates and large dispersion 7. Sector-specific monetary, fiscal and tariff policies 8. End-use and sector-specific multiple and controlled interest rates	5. Export promotion and export diversification, no import bias 6. Reduction and rationalization of taxes and duties 7. Sector-neutral monetary, fiscal and tariff policies 8. Flexible interest rates without any end-use or sector specifications
9. Foreign exchange control, no convertibility of rupee 10. Multiple and fixed exchange rates 11. Administered prices for minerals, utilities, essential goods 12. Tax concessions on exports and savings	9. Abolition of exchange control, full convertibility On current A/C 10. United and market determined exchange rates 11. Abolition of all administered prices except for few drugs 12. Rationalized and being phased out
13. Explicit subsidies on food, fertilizers, and some essential items 14. Hidden subsidies on power, urban transport, public goods, POL 15. General lack of consumers protection and other rights	13. No change, budget subsidies on LPG and kerosene introduced 14. No change, but user charges are being rationalized, and subsidies targeted 15. Acts governing consumer rights, IPR, independent regulatory authority
16. Central planning, discretionary process, high degree of bureaucracy 17. Outdated Companies Act 18. No exit policy for land and labour 19. Outdated legal system	16. Decentralization, sound institutional framework, reforming civil services 17. No change 18. No change in labor policy, slow progress of reforms in land markets 19. No change

India's Performance Post Liberalization

India's economic performance in the post-reforms period has many positive features. The average growth rate in the ten year period from 1992-93 to 2001-02 was around 6.0 percent, as shown in Table 5, which puts India among the fastest growing developing countries in the 1990s. This growth record is only slightly better than the annual average of 5.7 percent in the 1980s, but it can be argued that the 1980s growth was unsustainable, fuelled by a buildup of external debt which culminated in the crisis of 1991. In sharp contrast, growth in the 1990s was accompanied by remarkable external stability despite the East Asian crisis. Poverty also declined significantly in the post-reform period, and at a faster rate than in the 1980s.'

TABLE 5 AVERAGE ANNUAL GDP GROWTH RATE

Year	GDP Growth Rate Average Percent
1900-1950	1.0
1950-1980	3.5
1980-2002	6.0
2002-2006	8.0

Sources: 1900-1990: Angus Maddison (1995), Monitoring the World Economy, 1990- 2000: Census of India (2001), 2000-2005 Finance Ministries

However, the ten-year average growth performance hides the fact that while the economy grew at an impressive 6.7 percent in the first five years after the reforms, it slowed down to 5.4 percent in the next five years. India remained among the fastest growing developing countries in the second sub-period because other developing countries also slowed down after the East Asian crisis, but the annual growth of 5.4 percent was much below the target of 7.5 percent which the government had set for the period. Inevitably, this has led to some questioning about the effectiveness of the reforms. The cause of this deceleration is a widely debated topic among experts. World economic growth was slower in the second half of the 1990s and that would have had some dampening effect, but India's dependence on the world economy is not large enough for this to account for the slowdown. Critics of liberalization have blamed the slowdown on the effect of trade policy reforms on domestic industry. However, the opposite view is that the slowdown is due not to the effects of reforms, but rather to the failure to implement the reforms effectively. This in turn is often attributed to India's gradualist approach to reform, which has meant a frustratingly slow pace of implementation. However, even a gradualist pace should be able to achieve significant policy changes over ten years.

RECOMMENDATIONS FOR FUTURE REFORMS IN INDIA

- **FISCAL AND ADMISTRATIVE REFORMS**
  - ✓ Increase taxes on services
  - ✓ Modernize tax administration through better utilizing technology;
  - ✓ Use technology to better enforce property and agricultural income taxes;
  - ✓ Repeal the corporate tax.
  - ✓ Downsize overstaffed public institutions, particularly at state and local levels;
  - ✓ Reduce bureaucratic controls and set performance targets;
  - ✓ Institute mechanisms like greater public transparency to increase accountability
- **FINANCIAL SECTOR REFORMS**
- ✓ Design strategies to increase venture capital;
- ✓ Allow pension funds to invest in stocks;
- ✓ Improve and deepen debt markets for larger corporations;
- ✓ Increase competition from commercial and foreign banks in the financial sector.
- **INTERNATIONAL TRADE AND INVESTMENT REFORMS**
- ✓ Further reduce import duties and restrictions;
- ✓ Reduce costly procedures for exporting finished or intermediate goods;
- ✓ Reduce foreign investment barriers within the retail sector;
- ✓ Pursue free trade agreements in the spirit of creating a greater global balance and to allow India's economic interests.
- **AGRICULTURAL REFORM**
- ✓ Eliminate subsidies that have largely benefited interest groups rather than poor farmers

- ✓ Eliminate artificial price supports for food goods to reduce corruption and distortionary farming incentives.
- ✓ Reallocate these freed-up resources toward urgent public interventions, such as building roads, irrigation channels, and refrigeration facilities.

➢ **INFRASTRUCTURE REFORMS**

- ✓ Implement major public works projects, taking advantage of public-private partnerships where possible;
- ✓ Privatize the energy sector and base user-charges on economic cost (some states have already taken lead in this effort);
- ✓ Invest in a variety of renewable sources like ethanol and wind energy.

CONCLUSION

If India is in an economic race, it is gaining so much ground only because it spent fifty years running with both hands tied behind its back. Thanks partly to the crisis in 1991; the economy now has one hand free. However, India needs to launch a 'second generation' of economic reforms, with a more human face, if it is to reap their full potential. Politicians and administrators need to display greater pragmatism while designing and implementing future economic reforms. The reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years.

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