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Indian Economy in 21st Century: Impact of Economic Reform

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Abstract

The new economic reform aimed at making the Indian economy as fastest growing economy and globally competitive. The economic boom that is being experienced in India till 2008 is largely attributed to the globalization and liberalization of the Indian economy. Major economic factors like Industrial Growth, Balance-of-Payments, Merchandise Exports, Invisible Accounts and Foreign-Exchange-Reserves witnessed positive growth and effected tremendous growth of Indian Economy.

But the economy is slowing now, infrastructure remains terrible, poverty is ever-present, and corruption seems an intractable problem. The main objective of this paper is to highlight both sides of the coin of economic reform in Indian economy. Despite of huge Industrial Growth - for the first time has exceeded 10% in 2006, India has to fight hunger, poverty and unemployment and cater to such needs of the people as education, health, potable drinking water, housing and rural electrification. India will have to meet the challenges of liberating and empowering women, as the country has to release the backward and the exploited from the age-old bonds of caste and conflicts. The public sector units need to be run professionally and made accountable to the people. But, the way-out is not to weaken and close down important units.

Key words: *Indian economy, Economic reform, Liberalization, Dark Side*

Introduction

The economic boom that is being experienced in India till 2008 is largely attributed to the globalization and liberalization of the Indian economy. The economic policy drafted in early 1990s by the government of India facilitated huge inflow of Foreign Direct Investment (FDI) and Foreign Institutional Investors (FII) in to the much insulated Indian markets. Prime economic factors like Industrial Growth, Balance-of-Payments, Merchandise Exports, Invisible Accounts and Foreign-Exchange-Reserves witnessed positive growth and effected tremendous growth of Indian Economy.

The new economic reform, popularly known as, **Liberalization, Privatization and Globalization** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy.

However, everything is not hunky dory with the Indian economy at present, despite its successes in many areas. Many Indians are entering in mid 2014 with a sense of unease. The economy is slowing, infrastructure remains terrible, poverty is ever-present, and corruption seems an intractable problem. This era of reforms has also ushered in a remarkable change in the Indian mindset, as it deviates from the traditional values held since Independence in 1947, such as self reliance and socialistic policies of economic development, which mainly due to the inward looking restrictive form of governance, resulted in the isolation, overall backwardness and inefficiency of the economy, amongst a host of other problems. So, when we ask if this will be a good century for India, we are really asking what India is doing to convert its size into increased wealth and power. The answer is: so far, not much. So the main objective of this paper is to highlight both sides of the coin of economic reform in Indian economy.

This article comprises five sections. The first section presents introduction. second section has a brief scenario of Indian economy while third and fourth section describe bright and dark side of the

Indian economy in the 21st century as an impact of economic reform in 90s. Fifth section comprises concluding remarks.

Major economic trends before reforms

The rate of growth from 1980 to 1989 was 5.5 percent on a per capita basis. Industry grew at an annual rate of 6.6 percent and agriculture at a rate of 3.6 percent. Investment went from about 19 percent of GDP in the early 1970s to nearly 25 percent in the early 1980s. India, however, required a higher rate of investment to attain comparable economic growth than did most other low-income developing countries, indicating a lower rate of return on investments. Private savings financed most of India's investment, but by the mid-1980s further growth in private savings was difficult because they were already at quite a high level. As a result, during the late 1980s India relied increasingly on borrowing from foreign sources. This trend led to a balance of payments crisis in 1990; in order to receive new loans, the government had no choice but to agree to further measures of economic liberalization(Panagariya,2004;Sen,and Vaidya,1997),

India's primary sector, including agriculture, forestry, fishing, mining, and quarrying, accounted for 32.8 percent of GDP in 1991. The size of the agricultural sector and its vulnerability to the vagaries of the monsoon cause relatively large fluctuations in the sector's contribution to GDP from one year to another.

I).Economy of India (Some Basic Statistics)

Table:1 General Profile of Indian Economy

Trade and commerce capital of India	Mumbai, Maharashtra
Currency	Indian rupee (INR) (₹) = 100 Paise
Fiscal year	1 April – 31 March
Trade oganizations	WTO, SAFTA, BRIC, G-20 and others
GDP	$1.87 trillion (nominal: 10th; 2013) $5.07 trillion
GDP growth	4.7% (2013)
GDP by sector	Agriculture: 16.9%, industry: 17%, services: 66.1% (2013)
Inflation (CPI	CPI: 8.79%, WPI: 5.05% (January 2014)
Population below poverty line	21.9% (2011-12, 32.7% (2010) 29.9%(2008-09) 37.2%(2004-05)
Labour force	487.3 million (2013)
Labour force by occupation	agriculture: 49%, industry: 20%, services: 31% (2012
Unemployment	3% Urban, 2% Rural (2013
Average gross salary	$1,530 yearly (2014)
Main industries	textiles, chemicals, food processing, steel, transportation equipmen cement, mining, petroleum, machinery, software, pharmaceuticals
External Relation	
Exports	$313.2 billion (2013
Export goods	software, petrochemicals, pharmaceuticals, precious stones, textiles, machinery, iron ore, chemicals, automobiles
Main export partners	United Arab Emirates 12.3%, United States 12.2%, China 5.0%, Singapore 4.9%, Hong Kong 4.1% (2012)
Imports	$467.5 billion (2013 est.)
Import goods	crude oil, raw precious stones, machinery, fertilizer, coal, steel, che
Main import partners	China 10.7%, United Arab Emirates 7.8%, Saudi Arabia6.8%, Switzerland 6.2%, United States 5.1% (2012)
FDI stock	$47 billion (2011–12)
Gross external debt	$412.2 billion (31 December 2013)
Public finances	
Public debt	67.59% of GDP (2012 est.)
Budget deficit	5.2% of GDP (2011–12)

Revenues	$181.3 billion billion (2013 est.)
Expenses	$281.6 billion billion (2013 est.)
Economic aid	$2.107 billion (2008)
Foreign reserves	$312.382 billion

Source: Economic surveys , various issues

II).The Bright Side of Indian Economy

(i) Industry

Industry accounts for 26% of GDP and employs 22% of the total workforce. India is 11th in the world in terms of nominal factory output. The Indian industrial sector underwent significant changes as a result of the economic liberalisation in India economic reforms of 1991, which removed import restrictions, brought in foreign competition, led to the privatisation of certain public sector industries, liberalised the FDI regime, improved infrastructure and led to an expansion in the production of fast moving consumer goods.

(ii) Services

India's services sector is the 12th largest in the world by nominal GDP, and fourth largest when purchasing power is taken into account. The services sector provides employment to 27% of the work force and is growing quickly. It has the largest share in the GDP, accounting for 57% in 2012. Information technology and business process outsourcing are among the fastest growing sectors, having a cumulative growth rate of revenue 33.6% between 1997 and 1998 and 2002–03 and contributing to 25% of the country's total exports in 2007–08. The share of the Indian IT industry in the country's GDP increased from 4.8% in 2005–06 to 7% in 2008. In 2009, seven Indian firms were listed among the top 15 technology outsourcing companies in the world.

(iii) Retail

Retail industry is one of the pillars of Indian economy and accounts for 14–15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

(iv) Tourism

Tourism in India is relatively undeveloped, but a high growth sector. It contributes 6.23% to the national GDP and 8.78% of the total employment. The majority of foreign tourists come from USA and UK. It presents heritage and cultural tourism along with medical, business and sports tourism. India has one of the largest and fastest growing medical tourism sectors.

(v) Agriculture

India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 17% of the GDP in 2012, employed 51% of the total workforce, and despite a steady decline of its share in the GDP, is still the largest economic sector and a significant piece of the overall socio-economic development of India. India is the largest producer in the world of milk, jute and pulses, and also has the world's second largest cattle population with 175 million animals in 2008. It is the second largest producer of rice, wheat, sugarcane, cotton and groundnuts, as well as the second largest fruit and vegetable producer, accounting for 10.9% and 8.6% of the world fruit and vegetable production respectively.

(vi) Banking and finance

Since liberalisation, the government has approved significant banking reforms. While some of these relate to nationalised banks, like encouraging mergers, reducing government interference and increasing profitability and competitiveness, other reforms have opened up the banking and insurance sectors to private and foreign players.

(vii) Energy and power

As of 2009, India is the fourth largest producer of electricity and oil products and the fourth largest importer of coal and crude-oil in the world. Coal and oil together account for 66% of the energy consumption of India.

(viii) Infrastructure

India has the world's third largest road network, covering more than 4.3 million kilometers and carrying 60% of freight and 87% of passenger traffic. Indian Railways is the fourth largest rail network in the world, with a track length of 114,500 kilometers. India has 13 major ports, handling a cargo volume of 850 million tones in 2010.

(ix) External trade and investment

Since liberalization, the value of India's international trade has increased sharply, with the contribution of total trade in goods and services to the GDP rising from 16% in 1990–91 to 47% in 2008–10. India accounts for 1.44% of exports and 2.12% of imports for merchandise trade and 3.34% of exports and 3.31% of imports for commercial services trade worldwide

(x) Balance of payments

Since economic liberalisation in the 1990s, precipitated by a balance of payment crisis, India's exports rose consistently, covering 80.3% of its imports in 2002–03. India's growing oil import bill is seen as the main driver behind the large current account deficit, which rose to $118.7 billion, or 11.11% of GDP, in 2008–09. Between January and October 2010, India imported $82.1 billion worth of crude oil.India's reliance on external assistance and concessional debt has decreased since liberalisation of the economy, and the debt service ratio decreased from 35.3% in 1990–91 to 4.4% in 2008–09.

(xi) Foreign direct investment

As the third-largest economy in the world in PPP terms, India is a preferred destination for FDI; During the year 2011, FDI inflow into India stood at $36.5 billion, 51.1% higher than 2010 figure of $24.15 billion. India has strengths in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewellery. During 2000–10, the country attracted $178 billion as FDI. India's recently liberalised FDI policy (2005) allows up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and foreign direct investment FDI (Dev, 2000).

(xii) GNI per capita

India's gross national income per capita had experienced high growth rates since 2002. India's Per Capita Income has tripled from Rs. 19,040 in 2002–03 to Rs. 53,331 in 2010–11, averaging 13.7% growth over these eight years peaking 15.6% in 2010–11.

III). The Dark Side of Indian Economy

(i) Poverty

India's poverty dropped from 42% of its total population in 2005 to about 33% in 2010. In rural India, about 34 percent of the population lives on less than $1.25 a day, down from 44 percent in 2005; while in urban India, 29 percent of the population lived below that absolute poverty line in 2010, down from 36 percent in 2005.

(ii) Employment

Agricultural and allied sectors accounted for about 52.1% of the total workforce in 2009–10. While agriculture has faced stagnation in growth, services have seen a steady growth. Of the total workforce, 7% is in the organised sector, two-thirds of which are in the public sector. The NSSO survey estimated that in 2004–05, 8.3% of the population was unemployed, an increase of 2.2% over 1993 levels, with unemployment uniformly higher in urban areas and among women (Agarwal,1995).

(iii) Child labour

Child labour in India is a complex problem that is basically rooted in poverty, coupled with a failure of governmental policy, which has focused on subsidising higher rather than elementary education, as a result benefiting the privileged rather than the poorer sections of society. Public campaigns, provision of meals in school and other incentives have proven successful in increasing attendance rates in schools in some states.

(iv) Low productivity in Agriculture

Agriculture has many shortcomings owing to wrong priorities in the planning process. Agricultural output of India lags far behind its potential. The low productivity in India is a result of several factors. India's large agricultural subsidies are hampering productivity-enhancing investment. While overregulation of agriculture has increased costs, price risks and uncertainty, governmental intervention in labour, land, and credit markets are hurting the market

(v) Inadequate Infrastructure

Infrastructure such as rural roads, electricity, ports, food storage, retail markets and services are inadequate. The irrigation infrastructure is deteriorating. Irrigation facilities are inadequate, as revealed by the fact that only 39% of the total cultivable land was irrigated as of 2010, resulting in farmers still being dependent on rainfall, specifically the monsoon season, which is often inconsistent and unevenly distributed across the country.

(vi) Corruption

Corruption has been one of the pervasive problems affecting India. A 2005 study by Transparency International (TI) found that more than half of those surveyed had firsthand experience of paying bribe or peddling influence to get a job done in a public office in the previous year. A follow-on 2008 TI study found this rate to be 40 percent.[218] In 2011, Transparency International ranked India at 95th place amongst 183 countries in perceived levels of public sector corruption. The current government has concluded that most spending fails to reach its intended recipients. A large, cumbersome and tumor-like bureaucracy sponges up or siphons off spending budgets.

(vii) Education

India has made huge progress in terms of increasing primary education attendance rate and expanding literacy to approximately three-fourths of the population. However, the literacy rate of 74% is still lower than the worldwide average and the country suffers from a high dropout rate. Further, there exists a severe disparity in literacy rates and educational opportunities between males and females, urban and rural areas, and among different social groups.

(viii) Economic disparities

A critical problem facing India's economy is the sharp and growing regional variations among India's different states and territories in terms of poverty, availability of infrastructure and socio-economic development. Six low-income states – Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Odisha and Uttar Pradesh – are home to more than one-third of India's population. Severe disparities exist among states in terms of income, literacy rates, life expectancy and living conditions. The growth process currently underway in India is inherently biased against the poor, the marginalized and underprivileged. Post-liberalisation, the Indian private sector was faced with increasing domestic as well as foreign competition, including the threat of cheaper Chinese imports.

(ix) Trade balance is highly unfavorable

Indian export is only about 80% of its imports, a deficit of about $ 120 bn (2011). This deficit is largely balanced by remittances (which stood at $69 bn in 2012).

IV) Rays of Hope for Future

- India's corporate sector is far stronger than other developing countries
- India has the most talented base of technology workers in the world. Currently they are under-utilised in the outsourcing sector
- Indian firms that move from back office to front will capture far more of the global value chain in technology than they do currently.
- In 2011 Engineering Jobs in India have been showing signs of steady growth.
- Administrative decentralization has facilitated the emergence of a new generation of leadership.
- India is the Fastest Growing Free market Democracy. An ancient civilisation but a young nation, India with a median age of 24 yrs is poised to provide an additional young work force of 135 million by 2020.

V) Conclusion

As the world awaits the dawn of the next millennium, India is poised for her next historic tryst with destiny. The 21st century means new hopes and fresh aspirations amongst people everywhere. For India, the 20th century was of momentous significance. We took giant strides that released the people and the country from the shackles of colonialism, which had not only squeezed the wealth of India but also fettered our freedom.

To identify the challenges of the 21st century, India will have to clear the huge backlog of unredeemed promises. She has to fight hunger, poverty and unemployment and cater to such needs of the people as education, health, potable drinking water, housing and rural electrification. The farmer has to be able to use his land and labour to not merely sustain himself and his family, but to earn the wealth that lies in his land. India will have to meet the challenges of liberating and empowering women, as the country has to release the backward and the exploited from the age-old bonds of caste and conflicts.

In order to build a strong centre, the country needs strong states. There is an urgent necessity for transferring far more powers from the centre to the states and only fundamental realignment can form the basis of a strong nation. Creation of casteist and religious vote-banks, use of money, corruption in high places, muscle-power and the criminal-political nexus are only some of our socio-political ills.

Technological upgradation, modernization and other rehabilitation measures have to be applied to bring them back to health. The public sector units need to be run professionally and made accountable to the people. But, the way-out is not to weaken and close down important units. This disastrous course of action has to be reversed. The private sector, too, should shed its negative features and act with greater social commitment.

The failure to provide a safety net to take care of the poor and the vulnerable, including industrial labour, has since extracted a price from the people of India. The country's financial sector reforms which were meant to take advantage of the economic reform agenda have not worked. The financial markets are witnessing a downturn that has been compounded by the problems of the global economy.

With a stable political system and a vibrant, ambitious and entrepreneurial economic leadership, India looks forward to the 21st century with hope, confidence and optimism.

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