Economic Reforms and Development of India: A Study

Smt. K. S. Hiranmayi¹, Dr. Peteti Premanandam²

¹Research Scholar, Dept. of Political Science & Public Administration, Andhra University
²Professor, Dept. of Political Science & Public Administration, Andhra University

ABSTRACT
Since, the economic reforms have been implemented in India in the year 1991 by the then Prime Minister Sri P.V. Narasimha Rao, three major development trends are visible. First, the vast majority of successes have been private-sector successes, whereas the vast majority of failures have been government failures, mainly in service delivery. Second, wherever markets have become competitive and globalized, the outcomes have been excellent. But many areas remain unreformed, a few areas have been marked by backsliding, and those along with new forms of regulation are combining to create what can be called neo-illiberalism. Third, the weak quality of Indian institutions is increasingly a problem, and without better institutions, India will be unable to sustain high growth. Consider each of those three trends in further detail. The private sector has performed outstandingly in the past 30 years, taking advantage of new opportunities created by liberalization and globalization. Indian companies more than held their own against foreign newcomers, and the vast majority of big Indian companies have become multinationals, making acquisitions globally.

Keywords: Economic Reforms, development, Indian economy.

Introduction
Global economic environment is changing rapidly in the last 30 years after the economic reforms. In 1991, a crisis in the balance of payments led to the introduction of economic reforms in the country by the then Prime Minister of India, Sri P.V. Narasimha Rao (Mohan Rakesh, 2018)¹. This unit is an appraisal of the reform process and its implications for India. After forty years of planned development, India has been able to achieve a strong industrial base and became self-sufficient in the production of food grains (Kapila, 2020)². Nevertheless, a major segment of the population continues to depend on agriculture for its livelihood (Sing and Pal, 2010)³. This change is reflected in widening and intensifying international linkages in trade and finance. It is being driven by a near-universal push toward trade and capital market liberalisation.

India began to undertake bold economic reforms in June 1991, prompted mainly by the balance of payments crisis and partly by the necessity to use domestic resources more efficiently. In that year the Indian government introduced a number of liberalising measures, including significant tariff reduction, abolition of all quantitative restrictions on nonconsumer goods, unification of the exchange rates, and adoption of a liberal set of rules for FDI, and introduction of current account convertibility (Ahluwalia and Little, 1998)\(^4\). While the industrial reforms seek to bring about a greater competitive domestic environment, the trade reforms seek to improve international competitiveness. The private sector is allowed in many industries that were earlier exclusively reserved for the public sector. In these areas, the public sector will have to compete with the private sector, even though the public sector may continue to play a dominant role (Murali and Mallikarjun, 1998)\(^5\). Nagaraj (2003)\(^6\) and Chaudhuri (2002)\(^7\) also found that the growth rate in the manufacturing sector is lower in the post-reform period than in the prereform years. Ahluwalia (2006)\(^8\) also observed a deceleration in the growth of value added in the manufacturing industry at the aggregate level.

**Economic reforms in 1990**

As soon as P.V. Narasimha Rao became the Prime Minister of India he implemented significant economic reforms and helped shape India's global standing. His contributions to economic liberalization, foreign policy, and welfare programs have had a lasting impact on the country's development (Prashant Tewari, 2023)\(^9\). The economic reforms aimed to dismantle the license raj system, promote private sector participation, encourage foreign investment, and liberalize trade and industry. At that time, India’s foreign exchange reserves were barely enough to last for 3 weeks of essential imports and the nation was only weeks away from defaulting on its external payment obligations (Rediff Business Desk, November 3, 2009)\(^10\). The duo had ushered in new wave of reforms famously called Liberalisation, Privatisation and Globalisation. These economic policies saved the country from slipping into international debt and subsequently helped India to gradually transform into a global economic superpower. The New Economic Policy of 1991 encouraged Foreign Direct Investments, deregulated local businesses, reformed capital markets and transformed the then existing trade regime of the country. Apart from the privatization efforts of the public sector, the aim was also to bring down the fiscal deficit of the country. The economic reforms generated rapid growth and transformed the economic way India engaged with the world. These helped India position as an

---


emerging global player and laid the foundation for its subsequent economic growth and integration into global value chains (Harsh, 2021)11.

The 1991 Economic Reforms and Development of India

India began to undertake bold economic reforms in June 1991, prompted mainly by the balance of payments crisis and partly by the necessity to use domestic resources more efficiently. The balance of payments crisis was aggravated by an unmanageable fiscal imbalance. The response to the crisis was to put in place a set of policies aimed at stabilisation and structural reforms. The government not only needs to resume and accelerate the pace of economic reform but also to widen its scope to achieve sustained higher economic growth. Hence, the development of India in post economic reforms are briefly discussed below:

Until 1991 many superpower countries like United States equated India with Pakistan in foreign affairs, even though Pakistan had barely one-eighth of India's population. India's slow-growing, inward-looking socialism made it unimportant in global terms, save as an aid recipient. The United States sees India as potentially the only country in Asia that can check a rising Chinese juggernaut in the 21st century (Fareed Zakaria, 2006)12.

Before 1991 India was derisively called a bottomless pit for foreign aid. But today, aid has not vanished but has become irrelevant to the balance of payments or investment plans. An unexpected new development has been the rise of India's own aid to developing countries. India's poverty ratio did not improve at all between independence in 1947 and 1983, but the big decline came after economic liberalization. In the seven years between 2004-5 and 2011-12, no fewer than 138 million Indians rose above the poverty line. After economic reforms in the year 1991 India's poverty decline was 0.7 percentage points per year between 1993-94 (Mahendra Dev, 2016)13.

In 1991 India's main exports were textiles and cut-and-polished gems. Today, its main exports are computer software, other business services, pharmaceuticals, automobiles, and auto components (Agarwal, et al., 2004)14. Most developing countries grew fast by harnessing cheap labor. India never did so, because its rigid labor laws inhibited labor flexibility, and they still do so today. The range of business services has expanded from call centers and clerical work to high-end financial, medical, and legal work. Credit ratings agencies like Moody’s and Standard and Poor's, which once gave India very poor ratings, now do a significant amount of their work out of India (Swaminathan and Anklesaria Aiyar, 2016)15.

In 1991 Indian companies used obsolete technologies based on ancient licensing agreements and did very little research and development. Today, India has emerged as a global research and development (R&D) hub. General Electric has located one of its five global R&D centers in Bengaluru. Suzuki and Hyundai have made India a hub for small-car research and production. Microsoft and IBM are among the global companies using India as an R&D base (Shyam and Manoj, 2017).

In 1991 India produced fewer than 50,000 engineers per year, mostly from government colleges. India's economic success after 1991 has spurred the creation of thousands of private engineering colleges, with estimated admissions of 1.5 million students per year (Ambika Choudhary, 2014). Therefore, many Indian engineers and scientists who used to work for multinationals abroad have returned to work in the companies' Indian subsidiaries and branches (Swaminathan and Aiyar, 2009). In 1991 Indian politicians and industrialists feared that economic liberalization would mean the collapse of Indian industry or its conversion into subsidiaries of multinational companies. Twenty-five years later, Indian companies not only have held their own but also have become multinationals in their own right. Dozens of Indian pharmaceutical companies — such as Sun Pharma, Cipla, Lupin, and Dr. Reddy's Labs — are now multinationals with higher sales abroad than in India (James Wilson, 2016). India is about to reap a demographic dividend that will give it a big edge over rivals. The number of working-age people between 15 and 60 is expected to rise by 280 million between 2013 and 2050, even as China's workforce dwindles from 72 percent to 61 percent of a soon-to-be declining population (Eggleston, 2013).

Conclusion

However, we have sum up 30 years of economic reform in India, three major development trends are visible. First, the vast majority of successes have been private-sector successes, whereas the vast majority of failures have been government failures, mainly in service delivery. Second, wherever markets have become competitive and globalized, the outcomes have been excellent. But many areas remain unreformed, a few areas have been marked by backsliding, and those along with new forms of regulation are combining to create what can be called neo-illiberalism. Third, the weak quality of Indian institutions is increasingly a problem, and without better institutions, India will be unable to sustain high growth. Consider each of those three trends in further detail. The private sector has performed outstandingly in the past 30 years, taking advantage of new opportunities created by liberalization and globalization. Indian companies more than held their own against foreign newcomers, and the vast majority of big Indian companies have become multinationals, making acquisitions globally.

References


