Economic Reforms

Synopsis: Economic reforms in Indian were initiated in 1991. These were essential for country's growth, openness and liberalization of Indian economy. These reforms have resulted in many socio-economic changes of great consequence. It is an ongoing process towards integration of Indian economy into world economy. As a result of these reforms, our growth rate has increase from 0.9 percent in 1991-92 to 6.6 percent in 1995-96. But there is still much left to be done. The road infrastructure facilities are not of world standard yet and need massive domestic and foreign direct investments. The slow inflow of capital into India is an area of concern. In order to have sufficient foreign investment the reforms need to be speed up. Genuine and timely reforms is another name of onward march and progress.

Economic reforms in India began in 1993 when the country faced many harsh realities like fiscal and balance of payment deficits, constantly rising inflation. The crisis was of such a magnitude that the country had to pledge gold worth US $400 million abroad and depreciate the rupee by 25 percent in two installments. The reforms were initiated in order to reduce inflation, fiscal deficit, poverty and to increase industrial growth, productivity, employment, increase exports and foreign exchange reserves. The chief measures taken under the reforms were allowing foreign direct investment (FDI) and foreign institutional investors (FII) in the corporate and stock market segments, reduction in customs and excise duties, reduction in tax rates, and permission to Indian companies to tap international markets for their capital needs. A policy of PSUs disinvestment and opening up of banking and mutual fund industry to the private section were other steps taken towards liberalization of the economy.

These reforms and liberalization have been there for nearly 6 years and consequently many socio-economic changes of far reaching effects have taken placed. The erstwhile licence-raj has been demolished, Indian rupee has been made convertible on the current account and in near future it may be made convertible on the capital account also. The Foreign Exchange Regulation Act (FERA) has been softened, import duty structure has been phenomenally reduced and office of the Controller of Capital issues has been axed. And all these have resulted in corporatization of the society to a large extent and the beginning of a process of integration of Indian economy into global economy. These reforms have thrown open many new avenues and challenges simultaneously. Things have become more competitive, bigger and complex and only the finest will survive. Markets and investors have become more discerning and investors want good returns and the consumers value for their money spent. Now, the investors have greater choice and gone are the days when a few business houses dominated the corporate world.

India has been able to achieve reasonably good results of these reforms. The growth rate has gradually increased from 0.9 percent in 1991-92 to 6.6 percent in 1995-96. The average industrial growth has been above 8 percent. The economic reform process has changed our economy into a developing one and today it is regarded as one the best economies in Asia. There have been better yields and profit margins in the corporate sector since then and the GDP growth has appreciably increased from 1.1 percent in 199-91 to 6-7 percent rate has come down to 6-7 percent from 17 percent. Reforms have also increased our foreign exchange reserves and market capitalization of the companies has increased considerably. The foreign investment in the country through FDIs, FIIs, GDRs, Euro Issues etc. has been quite encouraging. But there is still much room for improvement and there cannot be any complacency. The road to growth and prosperity is long and full of bumps, barriers and blocks. The main objective of improving the quality of life and living standards of the people of the country is not yet in sight. The entry of multinational companies (MNCs) into consumer products sector on a big scale is also a source of anxiety. Instead they should invest massively in infrastructure sector and those in which huge capital and latest technology are involved.

Reforms and globalization of Indian economy has certainly started yielding results in terms of poverty alleviation to some extent. They have lent a helping hand in reducing poverty. According to the World Bank's latest report (1997) the economic reforms and liberalization has done more to reduce poverty in India than government development programmes which have not benefited those they were meant for. According to the report entitled "India: Achievements and Challenges in Reducing Poverty" some of these government programmes have in fact largely missed their supported targets—the poor—and delivered the bulk of the benefits or subsidies to the politically or economically more advantaged. The economic growth in India has widened opportunities at the bottom as well as near the top of the society, says the report and this has increased the wages of landless rural workers since liberalization. These reforms hold the promise of consideration improvement in the living standards of the country's 300 million poor avers the report. Inward looking industrialization strategies of the past could not achieve the rate of poverty alleviation possible with alternative policies, says the Bank.

The Bank has praised the appreciable high growth rates in the past 5 years resulting from reforms, but the report cautions that there is much that remains to be done to sustain the growth. High fiscal deficits, tremendous infrastructure problems, inefficient financial systems and heavily subsidized segments are the problems facing the Indian Government, it says.

Reforms have opened new opportunities which should be exploited to the maximum. Reforms gradually reduce the role of the government. We need foreign investments on a large scale to improve our infrastructure facilities and accelerate growth but it is not flowing in the country to the extent and quantity we need. Perhaps it is because there are multiple authorities from whom sanctions are to be sought and, therefore, foreign investors shy away. During 1996 Indian could obtain only 2.8 percent of the total foreign investment. China tops the list $52 billion or 18 percent of the total investment followed by Mexico, Indonesia, Malaysia, Thailand and Argentina. The capital inflow to developing countries is in the form of foreign direct investment, bank loan and bonds are portfolio investment. This slow inflow of the capital into India is also because of India's competitive edge in the context of global economy has not shown any improvement this year compared to 1996 and yet India has emerged as the world's third most preferred destination for F.D.I. In order to attract foreign capital into the country in the required quantity it is imperative that reforms are speed up. Accordingly to the global competitiveness report of the World Economic Forum, India is still the least open economy behind only to Vietnam and Zimbabwe.

We have signed WTO accord but we need to open up and liberalise further to increase our share and gains in the world market. At present India's share is dismal 0.6 percent. We need a more open is high time that the maze of red tape and stifling regulations do not such policies and programmes that attract foreign and domestic investments and encourage re-investment of profits. Genuine and timely reforms is another name of onward march, progress and development but at the same time India has to watch its own interests and not to be swept away by the exhortations and preachings of the developed countries of the West. The euphoria of liberal economic reforms should not blind us to ground realities and national interests both in short and long terms. Global integration and globalization are necessary and also inevitable but these should not lead to what is called local disintegration and social imbalances and disparities.