UNIT 17 ECONOMIC REFORMS

Structure

17.0 OBJECTIVES

After studying this unit, you should be able to :

- explain the need for new economic policies;
- outline the concept of liberalisation, privatisation and globalisation and the measures adopted therefor;
- describe the trade policy reforms;
- enumerate financial sector reforms; and
- evaluate the impact of economic reforms on various aspects of economy.

17.1 INTRODUCTION

You know that when India became independent, the government took a conscious decision to adopt the system of mixed economy assigning major role to public sector and exercise strict control over the development of industries. With passage of time, however, it was realised that excessive control had decelerated the pace of economic development as it inhibited the investment by private sector and flow of foreign capital. As a result, the government envisaged a bigger role for the private sector and initiated some economic reforms in 1985 by deregulating the industry. But, this did not lead to desired results and the country faced a major economic crisis in 1991 which compelled the government to go in for drastic change in economic policies. In this unit you will learn about the factors that led to these reforms, the nature of reforms, and their impact on various aspects of Indian economy such as GDP growth, employment growth, reduction of poverty, industrial growth, agriculture, foreign trade and investment, reduction of regional disparities, etc. during the last 14 years.

17.2 NEED FOR NEW ECONOMIC POLICIES

During the four decades of development planning, the Indian economy used the public sector as the engine of growth. As a result, areas of operation of the public and private sector were demarcated in the Industrial Policy of 1956, and accordingly the industries were classified into those in which the public sector alone could undertake investment and those in which private sector was allowed. At the initial stage of Indian development, such a classification was very useful and the public sector undertook investment in capital goods sector and infrastructure industries. At that time, the private sector neither possessed adequate resources to undertake such investment nor did it have technical and managerial competence to invest in these areas. But, over the years, the private sector had accumulated huge funds for which it was not able to find adequate avenues of investment. It was, therefore, suggested that there is absolutely no logic in restricting investment by the private sector in capital goods sector and infrastructure. This required dereservation of the areas hitherto reserved for the public sector. Thus, it required the enunciation of new policies for the purpose. These policies are referred to as liberalization, i.e., removal of restrictions on the private sector.

Secondly, under the Monopolies and Restrictive Trade Practices (MRTP) Act the Government had prohibited big business to undertake lumpy investment. A business house with assets worth Rs. 100 crore had to seek clearance from the MRTP Commission to start a new undertaking or to make substantial expansion of an existing undertaking. It was felt that MRTP restriction was unjustified because it prevented big business houses to enter into areas requiring heavy investment. The restriction of Rs. 100 crore was considered irrational by international standards. The government was frequently urged to remove this restriction. This is also a part of the process of liberalisation.

Thirdly, it was argued that while the government prevented private sector monopoly, it permitted public sector monopoly in a number of important areas. Such a situation required a fundamental change in policy because monopoly, whether in the public sector or in the private sector, was bad. Business and industrial lobbies were, therefore, arguing in favour of breaking public sector monopoly and usher in an era of competition between the two sectors.

Fourthly, Indian industries had failed to imbibe modern technology and thus could not make rapid progress. The introduction of electronics and computers had ushered in a second industrial revolution in the world. It was, therefore, thought desirable that modernization be undertaken on a big scale with a hi-tech bias so that Indian industries could withstand the world competition.

Fifthly, the world was undergoing a process of integration, popularly referred to as globalisation. Since new technology can be acquired only with the help of multinational corporations (MNCs), it was argued that restrictions on MNCs in terms of 40% limit in equity participation be relaxed. Moreover, discriminatory treatment between MNCs and Indian firms be removed in terms of taxation, fiscal incentives, etc. Besides this, custom duties on exports and imports should be brought within the limits set by WTO, quantitative restrictions in the form of quotas be withdrawn and all subsidies on exports should be removed. In this way, India could usher an era of free trade in the world economy and face international competition.

Lastly, with the disintegration of the Soviet Union and East-European economies, the ideas of socialism had lost their appeal. Despite over 70 years of the socialist experiment, it failed to establish its supremacy. It also failed to raise the living standards of its people to the levels attained in capitalist economies. The adoption of market socialism in China and the merger of East Germany with West Germany further led to erosion of faith in the socialist system. Consequently, private sector had to be given a big role in the process of development as the profit motive could be the driving force for promoting investment, reducing cost of production and encouraging better technology. The key to economic efficiency was found in the private sector, which resulted in undermining the role of the public sector.

All these factors necessitated a drastic change in the economic policies and accelerate the process of economic reforms.

17.3 LIBERALISATION, PRIVATISATION AND GLOBALISATION

As stated earlier, the first phase of economic reforms in India were started by Rajiv Gandhi in 1985 soon after he took over as Prime Minister. The recipe suggested by him was : improvement in productivity, absorption of modern technology and full utilisation of capacities. The basic thrust was on a greater role for the private sector. However, measures introduced during his regime did not yield the desired results. In fact, the balance of trade deficit considerably increased and the country was faced wide a serious balance of payment crisis. As a result, when P. V. Narasimha Rao took over as the Prime Minister, the Government adopted a policy of macro economic stabilisation and introduced a number of structural reforms. This led to a change in various economic policies with a thrust on liberalisation, privatisation and globalisation of the economy. Let us now understand the details of these strategies and their implications for the Indian business.

17.3.1 Liberalisation

The term 'liberalisation' refers to measures adopted for removing the excessive regulatory framework of controls and licences which acted as shackles on free enterprise. In India, we developed a system of "Licence-permit Raj' over the years which applied unnecessary restrictions on investments that can be made by the private sector in different areas. It also caused excessive delays in undertaking investments because an investor was required to obtain clearance from a number of authorities. The aim of liberalization has been to save the prospective investors from unnecessary harassment by the bureaucrats so as to accelerate and facilitate the process of investment. To promote this objective, the Industrial Policy, 1991 announced a number of measures. Of these, the major ones are :

1 Abolition of industrial licensing for all projects except for a small list of 18 industries. Later, on April 14, 1993, the Government decided to remove three more items from the list of reserved items for compulsory licensing.

2 The Government decided to abolish the ceiling on investment prescribed for big business houses so that they could undertake investment in big projects in the core sectors of the economy,i.e., heavy industry, infrastructure, petrochemicals,

electronics, etc. The Government was of the view that in the context of liberlisation, the MRTP limit had become irrelevant and needed to be abolished forthwith.

17.3.2 Privatisation

Privatisation is the process of transferring ownership and operation of the state-owned or public sector undertakings to the private sector. It can take three forms: (1) ownership measures; (2) organisational measures; and (3) operational measures.

1 ***Ownership measures***: Ownership of a public enterprise may be transferred to an individual, co-operative or corporate sector. It may take four forms:

(a) *Total denationalisation It* implies 100 per cent transfer of ownership of a public enterprise to the private sector.

(b) *Joint venture: It* implies partial transfer of ownership of a public enterprise to private sector. It can take several forms. For instance, in 2002, the Government decided to transfer 25% shares of the Videsh Sanchar Nigam Ltd. (VSNL) to Tatas for a sum of Rs. 1,439 crore. Although Tatas became strategic partners, the Government still held the majority of shares and the control of VSNL. If the transfer of ownership is 51 per cent or more, then it shifts the balance in favour of the private sector, though the public sector still has a substantial stake. However, when the transfer of ownership is 74% or more, it gives a dominant position to the private sector which can to mould the character of the enterprise to its liking.

(c) *Liquidation: It* implies the sale of assets of a public enterprise to an individual or a corporation who may use them for any purpose it deems fit. The government may decide to liquidate some loss-making units.

(d) *Workers' co-operative: It* is a special form of organization in which the ownership of a public enterprise may be transferred to the workers who form a co-operative to run an enterprise. To enable the workers to buy the shares of the enterprise, the government makes an appropriate provision for a bank-loan. In such an enterprise, the workers became entitled two kinds of payments—(a) ownership dividend, and (b) wages for the services rendered. It is commonly believed that such ownership links the self-interest of the workers with the interests of the co-operative, and thus promotes efficiency and hard work among the workers so that the enterprise is able to realize more profits.

2 **Organisational measures:** *These* include several measures to limit the state control over the public enterprises. These are :

(a) *Holding Company : This* structure provides a large degree of autonomy in decision-making for the day-to-day operations of a company, and the government limits its control to certain top level decision. A big company like Steel Authority of India (SAIL) or Indian Oil Corporation (IOC) may acquire a holding company status and, in the process, transfer a number of functions to its subsidiary units. This implies decentralised management.

(b) *Leasing*: In this arrangement, the government may permit the use of assets of a public enterprise by a private bidder for a specified period, say 5 years. The bidder enters into agreement with the government to pay a portion of the profits or a lump sum payment to the state. This is a kind of tenure ownership. The government remains the ultimate owner. It may renew the lease or pass it on to some other bidder depending upon the nature of the case.

3 ***Operational Measures***: The efficiency of a public enterprise can be improved by a number of operational measures which include:

(a) grant of autonomy in decision-making;

(b) provision of incentives for workers and executives based on increase in productivity and profitability;

(c) freedom to acquire inputs from the market to reduce costs; and

(d) permission to a public enterprise to raise resources from the market to execute plans for modernization, diversification and expansion.

The baisc purpose of operational measures is to infuse the spirit of private enterprise in public enterprises so that government control is effectively reduced and personal initiative is promoted.

The process of privatization can also be looked at from the point of view of the economy. The government has permitted the entry of the private sector into areas hitherto reserved for the public sector. But, effectively, since the announcement of Industrial Policy of 1991, the expansion of the public sector has literally come to a halt, while the expansion of the private sector has been gathering momentum. As a result of these changing trends in investment, over a period of time, the share of the private sector in the economy is bound to increase. This phenomenon is referred to as privatisation of the economy.

17.3.3 Globalisation

The basic purpose of globalisation is to integrate the Indian economy with the world economy. Globalisation primarily refers to the four basic components as follows :

1 Free flow of trade of goods and services across national boundaries;

2 Free flow of capital across national boundaries;

3 Free flow of technology among nations states; and

4 Free flow of labour among various countries of the world.

The advocates of globalization, more especially belonging to the developed countries, limit globalization to three components, viz., unrestricted trade flows, capital flows and technology flows. They do not include free flow of labour as part of the process of globalization. However, the economists belonging to the developing world do insist on the inclusion of free flow of labour. To achieve, the objectives of globalization, the following measures have been adopted

(i) *Reduction of custom duties* : During the post-reform period, import duties have been reduced from 150% in 1991-92 to 30% in 2002-03. Custom duties on the import of capital goods have been reduced to 25%.

(ii) *Removal of quantitative restrictions* : The Government, in conformity with WTO directives and commitment, has been removing quantitative restrictions (QRs) or quotas on exports. EXIM Policy, 2001-02 decided to abolish quantitative restrictions of all items at one stroke.

(iii) *Adjustment of exchange rate* : The Government has undertaken adjustment of exchange rate so that the rupee is not over-valued. It was argued that this policy would help in stepping up of exports.

(iv) *Facilitating foreign investment* : Year after year, the Government has been undertaking various measures to facilitate foreign investment inflows. In case of high priority industries, the Industrial Policy of 1991 permitted direct foreign investment upto 51 per cent of equity. In case of joint ventures, the Government has permitted 74 per cent of foreign equity. Among the industries included in this category are: mining services such as oil and gas fields, basic metals and alloy industries and a number of manufacturing industries, ports, harbours, runways, electric generation and transmission and other infrastructure. The purpose of all these measures is to facilitate inflows of foreign investment.

(v) *Encouragement of foreign technology*: The Industrial Policy of 1991 made it abundantly clear that (i) in high priority industries, automatic permission will be given for foreign technology agreements; (ii) in other industries, automatic permission will be given if no free foreign exchange is required for any payments; and (iii) no permission will be required for hiring of foreign technologies or foreign testing of indigenously developed technologies.

Check Your Progress A

1 List four major arguments in favour of libralisation measures.

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2 What were the main measures adopted for liberalisation.

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3 What do you mean by privatisation ?

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17.4 TRADE POLICY REFORMS

Within the economic reforms package initiated by Government in 1991-92, trade reforms constituted an important part because it was the critical balance of payment problem in 1991 that triggered economic reforms. Liberalisation of import trade and opening up the economy for integration with global markets became the main objectives of the trade policy. The changes consisted of the following measures :

1 **Devaluation and convertibility of the Rupee :** Early in July 1991, the Indian rupee, which was pegged to a bracket of currencies (US Dollar, Pound Sterling, Deutsche Mark, French Franc, and Yen) since 1973, was devalued at two stages by about 18%. Later on, under the liberalised exchange rate mechanism, a dual exchange rate system was introduced which involved 40% of foreign exchange earnings to be surrendered at the official rate of exchange, and the balance 60% made partially convertible. Moreover, essential items like POL, fertilizers, life-saving drugs were allowed to be imported out of the foreign exchange surrendered

at the official rate. All other imports could be financed out of the foreign exchange converted at the market rate. Over successive years, the Reserve Bank of India announced several relaxations in payment restrictions for several invisible items and also in restrictions which included monetary ceilings on remittance purposes. However, in the Central Budget for 1993-94, the dual exchange rate system was abolished, and the rupee was made fully convertible on trade account along with some relaxation of exchange control.

2 **Liberalisation of imports :** As a policy measure, the list of items under Open General License (OGL) was enhanced by announcing a negative list of a few items. The number of freely importable items was correspondingly increased. Only a few items remained in the category of canalized items.

3 **Rationalisation of tariff structure :** With a view to bringing about parity in prices of goods produced at home and abroad, the Chelliah Committee recommended in January 1993 that the prevailing rates of import duties be rationalised and lowered. This was done in the successive budgets for the next 5-6 years so that the maximum rate on all imported goods was reduced from 110% to 40%. This was intended to correct the real exchange rate depreciation by reducing the high level of protection enjoyed by Indian industry.

4 **Import by export houses and trading houses :** Since 1991, the Government followed the policy of allowing a wide range of items to be imported by export houses and trading houses, which were provided the benefit of self-certification under the advance licensing system permitting duty free imports for exports. Trading houses were permitted to be set up with 51% foreign equity to promote exports. Later on, a new category of Super Star Trading Houses was introduced. This category of trading houses was accorded the privileges of representation on trade delegations, special permission for overseas trading and special import licenses at enhanced rate.

5 **Simplification of Export Promotion Capital Goods (EPCG) Scheme:** The EPCG Scheme was simplified in 1994-95. and third party exports were permitted for purposes of fulfilling export obligations. Simplification of the scheme proved to be highly beneficial to companies in the service sector. Later on , a new scheme was introduced whereby those rendering professional services were allowed to import capital equipments at a concessional rate of duty with the obligation of earning foreign exchange through services rendered in India or abroad.

6 **EOUs, EPZs and SEZs :** 100% Export Oriented Units (EOUs) recognised for export promotion as industrial units which offer for export their entire production. Export Processing Zones (EPZs) are industrial estates which form enclaves and are usually situated near sea-ports or airports. The entire production of such a zone is normally intended for exports except for units in agriculture and allied sectors which can sell 50% of production in Domestic Tariff Area (DTA) if there is positive net foreign exchange earning. Electronic Hardware Technology Parks (EHTPs) and Electronic Software Technology Parks (ESTPs) are also enclaves like EPZs. A Special Economic Zone (SEZ) is one which is free from all procedural constraints in the way of production, and the industrial units located there are exempt from all rules and regulations governing exports and imports. These units are allowed duty free imports of heavy machinery and raw materials, and operate in DTA without payment of terminal excise duty with the only condition that they would have to be net foreign exchange earners.

17.5 FINANCIAL SECTOR REFORMS

A vibrant, efficient and competitive financial system is necessary to support the structural reforms in an economy. With the economy becoming increasingly market driven and engulfed by a competitive environment, there is need for a matching and dynamic response from the financial sector. This is possible only if the productivity and the efficiency of financial system improves. Since late 80's, the Reserve Bank of India and the Central Government have introduced several reformist measures to strengthen the Indian money market.

In April 1988, the Discount and Finance House of India (DFHI) was set up with the major function of bringing into the fold of the Indian money market the entire financial system comprising of the scheduled commercial banks, foreign banks, cooperative banks and all-India financial institutions in the public and private sectors. This was to ensure that the short-term surpluses and deficits of all the constituents were equilibrated at market-related rates/prices through inter-bank transactions and money market instruments.

Another important step taken was deregulation of the interest rates and lending transparency to the transactions in the money market. In 1989 and 1990, the Reserve Bank introduced two money market instruments, viz., Certificate of Deposit (CD) and Commercial Paper (CP). The objective was to widen the range of money market instruments and providing investors grater flexibility in the development of short-term surplus funds. The scheduled commercial banks could issue CDs in multiples of Rs. 25 lakh subject to the minimum size of an issue being Rs. 1 crore. Commercial paper could be issued by any listed company subject to the minimum size of an issue being Rs. 1 crore with maturity ranging from 3 to 6 months. Both CDs and CPs were freely transferrable by endorsement and delivery. The Government also introduced 182 day treasury bills, and later 364 day treasury bills, which were promoted by the DEHI to be sold by auction for financing the fiscal deficit of the Government of India. The treasury bills could also be held by commercial banks to comply with SLR (Statutory Liquidity Ratio).

The recommendations made by Narasimham Committee on Financial system in 1992 had become a basis for introducing various reforms in the banking sector, The Reserve Bank issued guidelines in April 1992 for income recognition, asset classification and provisioning. At the same time, capital adequacy standards were laid down in terms of capital to risk weighted asset ratio (CRAR) norms. Meanwhile the Government provided budgetary support for recapitalisation of public sector banks and granted capital restructuring loan in view of some banks being heavily burdened with non performing assets. The high rates of SLR and CRR were reduced since the existing ratios led to the pre-emption of bank resources and were responsible for eroding the profitability of banks. Measures were adopted for deregulating the lending rates and allowing greater flexibility in deposit rates so that interest rates performed the main function of allocating scarce loanable funds among alternative uses. Improvement in the efficiency of financial intermediaries including banks also formed part of the reform process. Hence, the Reserve Bank permitted the entry of new private banks and more liberal entry of foreign banks. As at the end of March 2002, these were,8 new private sector banks and 40 foreign banks.

The main objectives of reforms in the case of Development Finance Institutions (DFIs) have been to impart market orientation to their operations and strengthen their position by applying prudential norms. Accordingly, market borrowing allocations of government guaranteed bonds were gradually phased out for DFIs. Their access to low-cost funds of the Reserve Bank was also discontinued. Prudential norms relating to capital adequacy, income recognition, asset classification and provisioning were prescribed in 1994 and progressively made stiffer.

For a long time, Non-Banking Finance Companies (NBFCs) of different types have been operating in India. Of the various activities financed by NBFCs, hire-purchase finance has been the largest followed by loans and inter-corporate deposits, equipment leasing and investment. The focus of regulation of NBFCs by the Reserve Bank earlier was mainly on the liability side. As a result, funds mobilised by many such companies were deployed in unsustainable uses. Prudential regulations as prescribed for commercial banks were also applied to NBFCs in 1994. However, in view of certain systemic issues, the Reserve Bank was conferred extensive powers for regulation and supervision of NBFCs under the Reserve Bank (Amendment) Act of 1997. Norms have since been strengthened by the Reserve Bank particularly for public deposit taken by NBFCs. The CRAR norms now range between 12-15 percent depending on the principal line of business activity of the NBFCs.

In 1998, a few more measures to strengthen the banking system had been announced. The important measures are : raising the CRAR to 9 per cent, strengthening prudential accounting norms, laying asset liability management and risk management guidelines and directing the banks to provide additional information in the `notes to accounts' in the balance sheets to increase transparency. In 2002, Securitisation, Reconstruction of Financial Assets and Enforcement of Security Act was passed in order to provide a satisfactory legal framework for the recovery of bank loans

Check Your Progress B

1 What do you mean by dual exchange rate system ?

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2 Distinguish between a trading house and a super trading house

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3 State the steps taken by the government for regulation of NBFCs.

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17.6 ASSESSMENT AND IMPACT OF ECONOMIC REFORMS

The reforms process initiated in 1991 has completed almost fourteen years and firm data is available for evaluating its impact. It would, therefore, be proper to undertake an appraisal of the achievements and shortcomings of economic reforms to understand as to whether the country is moving in the right direction or, alternatively, there is a need to reform the reforms process undertaken during the nineties.

Before undertaking an appraisal of the economic reforms, it would be desirable to look at the goals of economic development which the reforms process was expected to achieve. These are :

1 a higher rate of growth;
2 an enlargement of employment potential leading to full employment;
3 reduction of population living below the poverty line;
4 promotion of equity leading to a better deal for the poor and less well-off sections of our society; and
5 reduction of regional disparities between the rich and the poor states of India.

It would be of interest to evaluate the economic reforms in terms of the goals listed above.

17.6.1 GDP Growth

There is no doubt that economic reforms have been able to promote a relatively higher growth. After the teething troubles of the first two years, viz., 1991-92 and 1992-93, the growth rate during 1993-94 to 1997-98 has averaged to more than 7 per cent per annum. (See Table 17.1). However, thereafter, GDP growth rate showed signs of deceleration. Compared with the annual average growth rate during the pre-reform decade (1980-81 to 1990-91) which was of the order of 5.6 per cent, the post-reform decade (1990-91 to 2000-01) also shows the same average annual growth rate of 5.6 per cent of real GDP. Obviously, the reform process has not been able to establish its distinct superiority over the pre-reform period in this regard.

Table 17.1 : GDP Growth at Factor Cost

(at 1993-94 prices)

Year	GDP (Rs. crores)	GDP Growth Rate
1980-81	401,128	
1990-91	692,871	
1991-92	701,863	1.3
1992-93	737,792	5.1
1993-94	781,345	5.9
1994-95	838,031	7.3
1995-96	899,563	7.3
1996-97	970,083	7.8
1997-98	1016,399	4.8
1998-99	1082,472	6.5
1999-00	1148,500	6.1
2000-01	1198,922	4.4
2001-02	12,67,945	5.8
2002-03	13,18,362	4.0
Annual Average Growth Rate		
1980-81 to 1990-91		5.6
1990-91 to 2001-02		5.6

Source: Compiled and computed from CSO, *National Accounts Statistics* (2004) and earlier issues.

17.6.2 Reduction of Poverty

At the 41st Annual Conference of the Indian Society of Labour Economics, Dr. S. P. Gupta, member, Planning Commission delivering V B Singh Memorial Lecture on November 18, 1999 captioned '*Trickledown Theory Revisited: The Role of Employment and Poverty*' surveyed the progress that has taken place in the era of economic reforms after 1991 and the period preceding the reforms. Dr. Gupta brought out the disquieting fact that, "In India, the poverty reduction (reduction of the percentage of people below the poverty line) over 1983 to 1990-91 was around 3.1 per cent per annum, but it reversed to 1 per cent in the 1990s, i.e., between 1990-91 and 1997. In fact, the poverty percentage (people below poverty line) increased from 35.7 to 37.23 per cent in the aggregate between 1993 to 1997.

Dr. Gaurav Datt of the World Bank in his article "Has Poverty Declined Since Economic Reforms?" has compared the decline in head-count index, poverty gap index and squared poverty gap index for rural and urban India in the pre-reform and the post-reform period. His study, thus, not only compares the poverty percentage but also studies the depth of poverty. The main conclusions of the study are :

1 Mid-1980s seems to be a significant watershed in the evolution of living standards in India. While there was a marked decline in both rural and urban poverty rates between 1973-74 and 1986-87, there is no sign of anything comparable now.

2 For the rural sector, the results indicate that while there was a significant declining trend in all the three poverty measures up to mid-1991 (at an annual rate of 2.7 per cent for the headcount index, 4.5 per cent for the poverty gap and 5.9 per cent for the squared poverty gap index), the rate of decline since then is not significantly different from zero.

3 For the urban sector, the results indicate a declining trend in all the three poverty measures upto mid- 1991 (at an annual rate of 2.2 per cent for headcount index, 2.8 per cent for poverty gap and 3.1 per cent for squared poverty gap), the same trend is continued even in the post-reform period (1990-91 to 1996-97).

4 While the urban sector appears to have continued its trajectory of growth and poverty reduction through the 1990s, rural poverty reduction was choked off by lack of rural growth.

According to the study, rural growth has been the principal cause for slowdown in the reduction of poverty. This certainly puts a question mark on the direction of reform process in emphasising only the corporate sector as the engine of growth. The relatively lower importance given to agriculture and agro-based Industries located in rural areas provides an explanation for the lack-lustre performance in poverty reduction in the post-reform period.

17.6.3 Employment Growth

The question arises as to why, despite the fact that the GDP growth rates have been high during the recent years (especially after 1993-94), they have not been accompanied by corresponding reduction in poverty. If poverty implies either unemployment or under-employment or absence of good quality employment, then it would be of interest to study the change in employment scenario before and after the economic reforms. Data provided in Table 17.2 reveals that total employment increased from 3,028 lakh in 1983 to about 3,745 lakh in 1993-94 and improved to about 3,900 lakh in 1999-2000. The rate of growth of employment was of the order of 2.04 per cent per annum during 1983 and 1993-94, which was just equal to the rate of growth of labour force during this period. However, it was hoped that if this rate of growth of employment was sustained in the next decade, the country would be able to reduce the backlog of unemployment significantly. But, unfortunately, the period of reforms (1993-94 to 1999-00) reveals that the overall growth rate of employment was only of the order of 0.98 per cent per annum. It may also be noted that since the reform process is limited to the organised sector, more so to the large corporate sector, the growth rate of employment even in the organised sector decelerated to 0.53 per cent during 1993-94 to 1999-00 as against 1.20 per cent per annum witnessed in pre-reform period of 1983 to 1993-94. This was less than half of the growth rate of the employment witnessed earlier. There was also a substantial slowdown in the employment growth rate of the unorganised sector to merely 1.0 per cent during 1994 to 1999-00 as against employment growth rate of 2.08 per cent witnessed during the 11 year pre-reform period (1983 to 1994). This leads one to the natural conclusion that the trickle down effects of the growth process did not benefit the poor. Dr. S. P. Gupta, therefore, states: "All these trends make one rethink the utility of an exclusive policy on GDP growth in resolving poverty or employment. In contrast, it has been observed that high growth in employment in India has almost always been associated with some reduction in poverty. For example, the period of high growth of employment in the 1980s with a comparatively lower GDP growth has witnessed a significant reduction in poverty, while in the 1990s a low growth of employment is seen to be associated with an increase in poverty."

Table 17.2 : Movement of Employment 1983-1999

In Lakhs

	Total	Organised Sector	Unorganised Sector
1983	3,027.5	240.1	2787.4
1994	3,744.5	273.7	3470.8
1990-00	3,970.0	281.1	3688.9
Growth Rate of Employment Annual Average (%)			
1983 to 1994	2.04	1.20	2.05
1994 to 1999-00	0.98	0.53	1.00

Source: Computed from data provided by Planning Commission (2001), *Report of the Task Force on Employment Opportunities*.

The grim scenario that has emerged during the 1990s regarding employment growth and employment elasticity to GDP growth makes one rethink whether the reform process will be able to meet the challenge of poverty and unemployment during the next decade. Joseph Stiglitz, Senior vice-President of the World Bank criticising the approach of the World Bank mentions: "A comparative approach to development putting social justice, equality and the fight against poverty should be at the heart of the Bank's agenda, rather than following the so-called Washington consensus."

17.6.4 Neglect of Agriculture

A major criticism of the process of economic reforms is the neglect of agriculture. It is observed that foodgrains production increased from 129.6 million tonne in 1980-81 to 176.4 million tonne in 1990-91 resulting in annual compound rate of 3.1 per cent. But during the 13 year period of economic reforms, it increased from 176.4 million tonnes in 1990-91 to 212.0 million tonne only in 2003-04, indicating an annual average growth rate of 1.4 per cent, which was lower than the growth rate of population. Complacency on the foodgrains front can certainly cost the nation very dearly in the coming decade.

Various reasons have been assigned for this situation. Firstly, the reform process has emphasised on the growth of manufacturing and service sectors and neglected agriculture. Secondly, as per the data provided in the Econmic Survey (2004-05), the public sector investment in agriculture (at 1993-94 prices) declined from Rs. 4,967 crore in 1994-95 to Rs. 4,359 crore in 2002-03, a fall of 12.3 per cent. This drop in public sector investment in agriculture, including rural development and irrigation, adversely affected foodgrains production. Thirdly, NABARD had accumulated Rs. 13,500 crore under its Rural Infrastructure and Development Fund, but was able to utilise it only to the extent of 30 per cent – a very dismal performance. All this happened with the hope that the private sector investment would expand irrigation, which did not materialise. This was specially the case in backward states like Bihar, Madhya Pradesh and Orissa which indicate very poor growth rates in foodgrains production – even lower than the national average. Lastly, whereas the green revolution states like Punjab, Haryana, Uttar Pradesh have reached a plateau, the country could not trigger higher yields in backward states.

Although the reform process has neglected agriculture and, as a result, the growth rate of agricultural production came down from 3.8 per cent during the eighties to 1.73 per cent during the nineties, the population dependent on agriculture has not indicated any decline. The upshot of the entire analysis is that the major sin of economic reforms is gross neglect of agriculture – the mainstay of livelihood of over two-third of the population. Although the Ninth Plan fixed a target of 4.5 per cent for annual growth in agriculture, it actually achieved a growth rate of only 2.1 per cent. This is very distressing, more so in view of the fact that though India had seven good monsoon years in succession. This casts a shadow on sustainability of agricultural growth, unless there is a reorientation of priorities with much greater emphasis on agriculture and rural industrialisation. The government, therefore, instead of withdrawing from investment in agriculture, irrigation and rural infrastructure, has to strengthen public sector investment in these areas. In case this is not done, bulk of the population dependent on agriculture will suffer and the country may endanger long-term prospects of food security.

17.6.5 Industrial Growth

Economic reforms were mainly intended to remove the bottlenecks in industrial production. To pursue this goal, industrial licensing was abolished in all but 18 industries. Later, the government delicensed several others. During 1998-99, three industries, (i) coal and lignite, (ii) petroleum (other than crude and its distillation products), and (iii) sugar were also delicensed. Accordingly, there are only six industries now under compulsory licensing.

Despite all this, as provided in Table 17.3, whereas in the eighties (1981-82 to 1990-91), the general index of industrial production recorded an annual average growth rate of 7.8 per cent, it slowed down to 5.8 per cent during the nineties (1993-94 to 2002-03). In manufacturing, it declined from 7.6 per cent in the eighties to 6.9 per cent in nineties, in electricity it declined from 9 per cent to 5.7 per cent and in mining & quarrying it slumped from 8.3 per cent to 3.8 per cent. Thus, the expectations that growth of industrial production would be stimulated did not materialise.

Table 17.3 : Annual Average Growth Rate of Industrial Production

(per cent)

Sector	1981-82 to 1990-91	1993-94 to 2000-01
General Index	**7.8**	**5.8**
Manufacturing	7.6	6.9
Electricity	9.0	5.7
Mining & Quarrying	8.3	3.8

Source: RBI, *Handbook of Statistics on Indian Economy* (2003-04)

Table 17.4 provides growth rates of industrial production on the basis of use-based classification. The data reveals that but for intermediate goods, which recorded a slightly higher growth rate of 7.6 per cent in the nineties as compared to 5.9 per cent in the eighties, in all the other sectors growth rates recorded in the eighties were higher than those in the nineties. In the capital goods sector, growth rate dipped to a low level of 6.1 per cent in the nineties as against a robust growth rate of 11.5 per cent in the eighties. Even in consumer durables, a decline in annual average growth rate was observed in the nineties (10.1 per cent) as against a much higher growth rate of about 13.9 per cent in the eighties.

Table 17.4: Annual Average Growth Rate of Industrial Production – Use Based Classification

(Per cent)

Sector	1981-82 to 1990-91	1993-94 to 2002-03
(a) Basic Goods	7.0	5.4
(b) Capital goods	11.5	6.6
(c) Intermediate Goods	5.9	7.2
(d) Consumer Goods	6.7	7.2
(i) Durables	13.9	10.1
(ii) Non-durables	5.5	6.5
General Index	**7.8**	**5.8**

Source : RBI, *Handbook of Statistics on Indian Economy (2001)*

From the index of growth rates of industrial production, it becomes evident that the performance of the industrial production during 1993-94 to 2002-03, which is generally identified as a period of wide-ranging reforms in the industrial sector, was not upto the mark. It failed even to equal the performance observed in the eighties, not to speak of improving the performance as a consequence of the reform process in the nineties. The failure of the basic goods and capital goods sector really put a question mark on the advisability of the reform process.

17.6.6 Inflation

Rise in prices affects the labour classes adversely as against the capitalist classes who gain disproportionately with a rise of prices. The movement of Wholesale Price Index (WPI) reveals that in the pre-reform period (1981-82 to 1991-92) the annual average rise of WPI was of the order of 6.9 per cent, and in the post-reform period (1993-94 to 2003-04) it was of the order of 7.9 per cent. In case we take food articles as a group, which affects the poor much more, its WPI rose at the rate of 8.3 per cent in the post-reform period as against 7.2 per cent in the pre-reform period. On both counts, the performance on the price front in the post-reform was relatively adverse as against the pre-reform period.

A better index of measuring welfare would be to study the movement of Consumer Price Index (CPI). The data reveals that during 1990-91 to 2000-01, WPI indicated annual average rise by 7.9 per cent but the CPI for Industrial Workers (CPI-IW) showed a rise of 8.3 per cent and the CPI for Agricultural Labourers (CPI-AL) indicated a still higher rise by 10.4 per cent. Since CPI-AL is a more comprehensive index covering a very large section of poor agricultural workers, its rise by annual average of 10.4 per cent only indicates the deteriorating plight of the weakest section of our society, which has poor bargaining power. Obviously, their real wages would show a decline with such a sharp increase in CPI-AL.

The upshot of the above analysis is that in the post-reform period, particularly after 1995-96, retail inflation has been higher than wholesale inflation and the reform process failed to curb this trend.

17.6.7 Growth in Infrastructure

Table 17.5 provides information about the trend in the Index of Infrastructure Industries for the period 1980-81 to 2002-03. The analysis reveals that in case of saleable steel, cement and petroleum refinery products, the growth rates were higher in the post-reform period than in the pre-reform period. In case of steel, the index of production increased to by 9.5 per cent during 1993-94 to 2002-03 as against only 4.9 per cent in the pre-reform period (1980-81 to 1990-91). Similarly, the growth of cement production also indicated sharp increase by 8.2 per cent during 1993-94 to 2002-03 as compared to only.4 per cent in the pre-reform period. However, it should be pointed out that the momentum gained in the post-reform period for acceleration in the production of cement was the consequence of introduction of dual pricing for cement introduced in 1982 with progressive reduction in the percentage of controlled cement to eventually freeing cement prices from state control. This led to massive increase in the cement capacity and output. Similarly, gradual easing of steel price control was accepted by the government in 1983. But all these measures were taken in the pre-reform period, which helped to provide an environment to these industries to raise their capacity and output without any bottlenecks.

Other infrastructure Industries, viz., electricity, coal, and petroleum and petroleum refinery products did not fare well in the post-reform period. In the case of electricity, in the eighties the growth rate of generation was of the order of 9.1 per cent and it was just of the same order in the nineties. Likewise, coal production declined from 6.4 per cent in the eighties to just 3.6 per cent during 1993-94 to 2002-03. In case of petroleum, growth rate dipped from 12.2 per cent in the nineties to just 2.2 per cent during 1993-94 to 2002-03. While the state withdrew from these sectors and did not undertake any further investment, the private sector – Indian as well as foreign – failed to fill the vacuum. Obviously, excessive dependence on private sector in the post-reform period did not yield the much-trumpeted and desired results.

Table 17.5 : Trends in Index of Six Infrastructure Industries (1980-81=100)

(Average Growth Rate)

	1980-81	1990-91	1993-94	2002-03	1980-81 to 1990-91	1990-91 to 1993-94	1993-94 to 2002-03*
Electricity	100.0	238.9	292.3	164.3	9.1	6.9	5.6
Coal	100.0	185.7	215.8	137.1	6.4	5.1	3.6
Saleable Steel	100.0	147.6	190.5	227.2	4.9	8.9	9.5
Cement	100.0	260.4	309.1	203.0	4.0	6.0	8.2
Petroleum	100.0	317.9	254.7	122.3	12.2	-7.2	2.2
Petroleum Refinery Products	100.0	186.8	196.1	210.9	6.5	1.6	8.6
Composite Index	**100.0**	**215.0**	**249.9**	**172.9**	**8.0**	**5.1**	**6.3**

* with 1993-94 as base=100

Source: Compiled and computed from RBI (2001), *Handbook of Statistics on Indian Economy*

17.6.8 India's Foreign Trade and Balance of Payments

Although policies of liberalisation in foreign trade were initiated in 1985-86, their impact upto 1990-91 had been limited. Hence, in 1991, the new economic reforms went in for a more rapid globalisation of the Indian economy by reducing and/or abolishing quantative restrictions and also reducing tariff barriers. The main implications of reform measures were intended to boost exports as well as facilitate developmental imports or the imports considered vital for increasing industrial production. It would, therefore, be appropriate to compare the trends of foreign trade in the pre-reform period 1980-81 to 1990-91 and the post reform of period 1991-92 to 2002-03.

Table 17.6 provides the data on India's foreign trade during 1980-81 to 2001-02. If we group the period 1980-81 to 1986-87 as a period stagnation in our foreign trade, and the period 1987-88 to 1990-91 as a period in which the foreign trade picked up substantially, it is revealed that during the 4-year period (1987-88 to 1990-91) our exports grew at an annual average rate of 16.7 per cent and imports at the rate of 11.2 per cent. This period compares well with the post-liberalisation period of 1991-92 to 1995-96, in which exports grew at the rate of 17.5 per cent and imports at the rate of 15.7 per cent per annum. However, during 1992-93 and 2001-02, the average annual growth of both imports and exports was nearly equal at 10.1 per cent. But, with higher base level of imports, the export import ratio was 84.8 per cent which can be considered comfortable. However, the average balance of trade gap for the period 1996-97 to 2001-02 was of the order of US$ 7.95 billion which has been a cause for concern.

Table 17.6 : Major Indicators of India's Foreign Trade

(in US $ million)

Period	Export	Import	Balance of Trade	Growth Rate Import	Growth Rate Export	Export Import Ratio (%)
1980-81	8485	15867	-7382	7.0	40.5	53.5
1981-82	8704	15173	-6469	2.6	-4.4	57.4
1982-83	9108	14787	-5679	4.6	-2.5	61.6
1983-84	9449	15311	-5862	3.8	3.5	61.7
1984-85	9878	14412	-4534	4.5	-5.9	68.5
1985-86	8905	16067	-7162	-9.9	11.5	55.4
1986-87	9745	15727	-5982	9.4	-2.1	62.0
A.G.R. for 1980-81 to 1986-87				**2.4**	**-0.2**	**59.9**
1987-88	12,089	17,156	-5067	24.1	9.1	70.5
1988-89	13,970	19,497	-5527	15.6	13.6	71.7
1989-90	16,613	21,219	-4607	18.9	8.8	78.3
1990-91	18,145	24,073	-5927	9.2	13.4	75.4
A.G.R. for 1981-82 to 1990-91				**8.2**	**7.8**	**65.1**
1991-92	17865	19411	-1545	-1.5	-19.4	92.0
1992-93	18537	21882	-3444	3.8	12.7	84.7
1993-94	22238	23306	-1068	20.0	6.5	95.4
1994-95	26331	28654	-2324	18.4	22.9	91.9
1995-96	31795	36675	-4880	20.8	28.0	86.7
A.G.R for 1991-92 to 1995-96				**15.7**	**17.5**	**89.7**
1996-97	33470	39132	-5663	5.3	6.7	85.5
1997-98	35006	41484	-6478	4.6	6.0	84.4
1998-99	33219	42389	9170	78.4	2.2	78.4
1999-00	36822	49671	-12849	10.8	17.2	74.1
2000-01	44560	50536	-5976	12.0	1.7	88.2
2001-02	43827	51413	-7586	-1.7	1.7	85.2
AGR for 1991-92 to 2001-02				**10.1**	**10.0**	**84.8**

AGR – Average Annual Growth Rate

Source: Compiled and computed from RBI, *Report on Currency and Finance* (1998-99), and *RBI Bulletin*, December 2002.

It may also be noted that the reform process cannot continue to take credit for boosting import growth, because the objective of the reform process should be to ultimately boost export growth faster than import growth so that the trade-balance gap is reduced. However, this does not seem to be happening and the trade balance deficit increased form US $ 5.66 billion in 1996-97 to US $ 9.2 billion in 1998-99. Even during 1999-2000 the trade deficit had reached a level of US $ 12.85 billion – a still higher deficit than that of 1998-99. The Indian economy as a consequence of globalisation has developed a dependency syndrome. However, some benefits of globalisation have been : (1) India's share in world exports which was 0.5 per cent in 1985 improved to 0.63 per cent in 1997, and (2) exports as a ratio of imports improved from 65.1 per cent during the period 1980-81 to 1990-91 to 84.8 per cent during 1991-92 to 2000-02.

17.6.9 Foreign Investment

A major objective of the reform process is to promote free flow of foreign investment. There is no denying the fact that the approvals for foreign direct investment have been mounting up with the passage of time. As against investment approvals of the order of US $ 1,781 million in 1992, approvals increased to $ 11,245 million in 1995 and then rose further to $ 15,752 million in 1997. But the actual flows have been rather small ranging from 13 per cent in 1992 to 32 per cent in 1998. During 1997, even the approvals slowed down to $ 6,975 million – less than half the level of 1997.

As for the actual investment flows in India during the last 10 years (1990-91 to 2000-01) the data given in Table 17.7 shows that a total of US $ 45.1 billion was invested in India in the form of foreign investment, out of which $ 21.82 billion (48.4 per cent of total) was in the form of direct investment and $ 23.28 billion (51.6 per cent) was in the form of portfolio investment. Segregated data reveal that direct investment inflows remained subdued during 1990-91 to 1994-95 and in this period portfolio investment accounted for a larger share, but in the later period from 1995-96 to 1998-99, direct investment inflows picked up and accounted for quite a significant share which became dominant by 2001-02. It may also be noted that portfolio investment is of a very undependable and volatile nature. This is witnessed by the fact that portfolio investment slumped to a level of US $ 1.83 billion in 1997-98 as against 3.31 billion in 1996-97 and became negative in 1998-99. However, during 1999-00 to 2001-02, the share of portfolio investment in total inflows increased again to $7.8 billion which accounted for 48.2% of the total of $16.2 billion.

Table 17.7 : Foreign Investment inflow in India

(US $ million)

Year	Direct Investment	Portfolio Investment	Total
1990-91	97	6	103
1991-92	129	4	133
1992-93	315	244	559
1993-94	586	3,567	4,153
1994-95	1,314	3,824	5,138
1995-96*	2,144	2,748	4,892
1996-97*	2,821	3,312	6,133
1997-98*	3,557	1,828	5,385
1998-99*	2,462	-61	2,401
1999-00	2,155	3,026	5,181
2000-01	2,339	2,760	5,099
2001-02	3,904	2,021	5,925
Total (1990-91 to 2001-02)	**21,823 (48.4)**	**23,279 (51.6)**	**45,102 (100.0)**

Note: * Includes acquisition of shares by Indian companies by non-residents under section 29 of FERA.

Source: Compiled and Computed from RBI, *Handbook of Statistics on Indian Economy* (1999) and *RBI Bulletin*, December 2002.

It would be of interest to compare FDI flows in India with other developing countries. It is observed that FDI flows in India were just 1.8 per cent of the total inflow to all developing countries in 1997 and this share declined to 1.2 per cent in 1998. As against an FDI inflow of US $ 2.26 billion in 1998 to India, China got a massive inflow of $ 45.46 billion and Brazil $ 28,72 billion in 1998. Thus, India has failed to attract enough foreign investment to give a boost to its economy. However, of late, India has brought about a paradigm shift in its FDI policy by removing some of the restrictions on FDI inflow. The Government has opened up more areas under automatic approval route by placing more emphasis on infrastructure sectors. Under the new FDI policy, all NRI and foreign investors are allowed to bring in 100 per cent investment subject to a small negative list, which has been kept out of the automatic route. The areas which have been denied automatic FDI approvals are: (a) industries which require an industrial license under the Industries Development and Regulation Act; (b) units manufacturing items reserved for small scale sector; and (c) local bodies notified by the Government under Industrial Policy 1991. The Government, however, has exempted electronics, computer software and printing from such locational restrictions. Other areas kept out of automatic route are the proposals in which the foreign collaborator has already a venture in India and all proposals by non-resident Indians and OCB investors relating to acquisition of shares in an existing Indian company.

17.6.10 Reduction of Regional Disparities

One of the major objectives of development is to reduce regional disparities. With this end in view, the state policies have been patterned to help the backward regions and higher allocations were made for the backward states so that regional disparities could be narrowed down. But, the reform process initiated in 1991 has been emphasising the use of the market forces which naturally attract investment to regions more developed in infrastructure, both economic and financial. It did not pay any attention to the question of regional imbalance. Let us look at the data given in Table 17.8 related to the 15 major states of India which accounted for nearly 96 per cent of the total population in 1991.

An analysis of the growth of Net State Domestic Product (NSDP) at 1993-94 prices for the post-reform period reveals that nine forward states indicated an annual average growth rate of 6.0 per cent during 1990-91 to 2000-01, but as against this, the six backward states indicated a growth rate of mere 1.4 per cent. This only underlines the stark reality that the reform process helped the forward states much more than the backward states which further widened the regional disparities. It may also be noted that as compared to an average All-India growth rate of 5.5 per cent in the post-reform period, two major states of India, viz., Uttar Pradesh and Bihar showed an average growth rate of 2.4 per cent and 3.1 per cent respectively. In fact, none of the six states included in the backward group showed a growth rate higher than the national average. These two states which account for nearly 27 per cent of the India's population pulled down the average all India growth of per capita NSDP as well. Not only that, it is observed that the ratio of the maximum and the minimum per capita income which was 2.7 in 1990-91 increased to 4.6 in 2000-01. This further supports the fact that the reform process widened income disparities among the states.

Table 17.8 : State wise Net State Domestic Product (1990-91 to 2000-03)

(at 1993-94 Prices)

	1990-91 Rs. Crs.	2000-01 Rs. Crs.	Average growth Rate (1990-91 to 2000-01)
Forward States			**6.0**
1 Punjab	23,693	37,413	4.7
2 Haryana	18,215	28,655	4.6
3 Maharashtra	79,869	145,734	6.2
4 Gujarat	36,207	63,161	5.7
5 Tamil Nadu	43,937	79,121	6.0
6 Andhra Pradesh	45,131	75,868	5.3
7 Kerala	19,774	34,451	5.7
8 Karnataka	29,845	62,477	7.6
9 West Bengal	40,633	78,108	6.7
Backward States			**1.4**
10 Rajasthan	29,713	44,335	4.1
11 Mdhya Pradesh	41,833	41,530	-1.0
12 Assam	12,299	15,470	2.3
13 Uttar Pradesh	74,791	94,612	2.4
14 Bihar	37,607	27,383	-3.1
15 Orissa	13,450	18,690	3.3
All India	**6,23,407**	**10,62,616**	**5.5**

Notes : Sates have been arranged in the descending order on the basis of per capita NSDP for 1990-91.

Source : Compiled and computed from Ministry of Finance (2003), Indian Public Finance Statistics (2002-03) and CSO, National Accounts Statistics (2003).

Dr. M. J. Kurian of the Planning Commission has made an extensive study of the 'Widening Regional Disparities in India'. He has indicated that more than two-thirds of investment proposals (69.2 %) in the post-reform period were concentrated in the forward states and a similar situation prevailed in terms of financial assistance distributed by All-India financial institutions as well as state financial corporations. The All-India financial institutions, viz., IDBI, IFCI, ICICI, UTI, LIC, GIC, IRBI and SIDBI disbursed 67.3 per cent of total financial assistance to forward states upto 31st March 1997. Even among the 9 forward states, the four states, viz., Maharashtra, Gujarat, Tamil Nadu and Andhra Pradesh were able to appropriate about 51 per cent of the total assistance. In case of state financial corporations, 70 per cent of total assistance was received by the forward states. This analysis underlines the fact that the reform process has favoured the forward states in terms of approval of investment proposals as well as the financial assistance. Consequently, the already better-off states could accelerate the growth process while the backward states being unfavourably treated faced a retardation in growth. This explains the growing disparities in terms of growth of NSDP – both total and per capita.

It has to be acknowledged that the reform process will not be able to achieve its socio-economic objectives because the private sector is merely concerned with profit motive. The liberalisation process which has reduced the role of the public sector investment, has failed to fill the vacuum created by the withdrawal of public sector investment in infrastructure more especially in the backward states. Obviously, this calls for a reform of the reform process. President W. J. Clinton, while speaking in Hyderabad on March 24, 2000 on the need to harness new technologies like info-tech for eradicating poverty emphasised, "Millions of Indians are connected to the internet, but million more are not yet connected to fresh water. India accounts for 30 per cent of the world's software engineers but also 25 per cent of the world's malnourished. So our challenge is to turn the newest discoveries into best weapons humanity has ever had to fight poverty." Mr. Clinton underlined the fact that while it was good that a lot of 25-year old multi-millionaires were being created and the latest Indian start-ups were shooting up the Nasdaq, "this whole enterprise cannot just be about higher profits, there must also be a higher purpose."

Check Your Progress C

1 List the goals which the reform process is normally expected to achieve.

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2 List the two sectors in which the growth rate of industrial production was higher in the post reform period and two sectors in which it has been the other way round.

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3 Identify two infrastructure industries which fared better during the post reform period and two that fared badly.

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....

4 State whether the following statements are True or False.

(a) The benefits of exports growth have been more than neutralised due to rapid rise in imports.

(b) The annual GDP growth rate has averaged more than 7% during 1990-91 to 2000-01.

(c) A major sin of economic reform is gross neglect of agriculture.

(d) During the post reform period, wholesale inflation has been higher than the retail inflation.

(e) None of the backward states showed a growth rate higher than the national average during the post reform period.

(f) The units located in Special Economic Zone are allowed duty free import of heavy machinery and raw materials.

17.7 LET US SUM UP

After independence, during the three decades of development planning, the Indian economy used public sector as an engine of growth and exercised strict control over industrial development in the country. But, with failure of socialist experiment in Soviet Union and East European countries and in view of the need to introduce modern technology requiring heavy investment, it was realised that there was no logic in restricting investment by private sector and contributing with MRTP restriction on big business houses. Hence, in 1985, Rajiv Gandhi soon after he took over as Prime Minister, outlined the new trends in economic policy with a focus on dismantling the edifice of controls and a greater role for the private sector. Somehow, the desired result could not be achieved and in early 1991 when a major crisis in the form of huge fiscal imbalance and an adverse balance of payment took place, comprehensive liberalisation measures of industrial deregulation, trade and capital flow reforms, disinvestment and public sector reforms and financial sector reforms were undertaken.

The reforms process has completed fourteen years. The analysis of the impact of reforms reveals that whereas after 1992-93, the growth rate of GDP picked up and was around 6 per cent of GDP on an average, the growth process did not result in reduction in percentage of population below the poverty line. The growth rate of employment in the organised sector decelerated to 0.53 per cent during 1994 to 1999-00 as against 1.20 per cent witnessed during 1983 to 1994. Similarly, the growth rate of employment in the post-reform-period in the unorganised sector also declined to 1.0 per cent as against the average growth rate of 2.08 per cent during the pre-reform period (1983-1994).

A basic sin of the reform process has been the neglect of agriculture. This is evidenced by a decline in public investment in irrigation, and the failure of the private sector to fill the gap. Consequently, the country has witnessed a very slow growth of agriculture, more especially foodgrains which can have serious implication for food security in the long run. As for the Industrial production, the annual average growth rate of IIP which was 7.8 per cent in the pre-reform decade (1981-82 to 1990-91) slowed down to 7.2 per cent in the post-reform period (1993-94 to 2002-03). Thus, the expectation that the growth of IIP would be stimulated did not actually materialise.

The average rise of WPI in the pre-reform period was of the order of 6.9 per cent, but during the post-reform period it increased to 7.9 per cent. In case of food articles, it rose by 8.3 per cent in the post-reform period as against of 7.2 percent in the pre-reform period. The CPI for industrial workers showed a rise of 8.3 per cent while the CPI for agricultural labour indicated an annual average growth of 10.4 per cent in the post-reform period. Obviously, real wages would show a decline with such a sharp increase in CPI(AL). This obviously impacts the welfare of the poor workers adversely.

Infrastructure Industries such as electricity, coal, and petroleum refinery did not fare well during the post-reform period. However, in the case of saleable steel and cement, the growth rates were higher in the post-reform period. In case of cement, the acceleration of production was the consequence of dual pricing introduced in 1982 with progressive reduction in the percentage of controlled cement to eventually freeing cement prices form state control. One of the important implications of rapid globalisation was to boost exports. As a result, India's share of world exports which was 0.5 per cent in 1985 improved to 0.63 per cent in 1997and exports as ratio of imports improved from 74.1 per cent during the period 1987-88 to 1990-91 to 84.8 per cent during 1992-93 to 2001-02. But, trade deficit increased from US $5.66 billion in 1996-97 to $ 7.59 billion in 2001-02. The average annual trade deficit during 1995-96 to 2001-02 was of the order of $14.26 billion. Thus, Indian economy as a consequence of globalisation has developed a dependency syndrome.

There is bound to be a gap between approvals and actual flows of foreign investment. However, it has been rather too high. The data for the entire 8-year period (1991-92 to 1998-99) reveals that as against the total approvals of $ 55.11 billion, actual flows were of the order of $ 11.96 billion – 21.7 per cent of approvals, and 51.6 per of this was in the form of portfolio investment which is of a very volatile nature. Not only that, the FDI in flows in India accounted for only 1.2 per cent of total flows to all developing countries in 1998. As against an FDI inflow of US $ 2.26 billion in India in 1998, China got a massive inflow of $ 45.46 billion (23.2 per cent) and Brazil $ 28.72 billion (9.8 per cent). Obviously, India has failed to attract enough FDI to give a boost to its economy.

Regarding regional disparities, the data reveals that in 1990-91, ratio between maximum per capita income (Punjab) and the minimum per capita income (Bihar) was 2.74. This ratio increased to 4.6 in 2000-01 which implies that the reform process has aggravated regional disparities. Similarly, the NSDP (at 1980-81 prices) in forward states indicated an annual average growth rate of 5.2 per cent during 1980-81 and 1990-91, and these states showed a higher annual growth rate of 6.3 per cent during 1990-91 and 1996-97. As against this, the backward states indicated a growth rate of 4.9 per cent during the pre-reform period and only 3.0 per cent in the corresponding post-reform period. Further, 69.2 per cent of the investment proposals in the post-reform period were concentrated in the forward states. Thus, with growth process among the forward states at a higher rate than that in the backward states, the reform process has aggravated disparities.

It has been acknowledged that the reform process may not be able to achieve the objectives of development because the private sector has failed to fill the vacuum created by the withdrawal of the public sector. President W. J. Clinton is very right when he asserts: Private enterprise cannot just be about higher profits, there must also be a higher purpose.

17.8 KEY WORDS

Disinvestment : Selling off the shares of an existing undertaking by the government or the management itself to reduce its stake in the company.

Foreign Direct Investment (FDI) : Investment by foreign entities directly in the production of goods and services.

Globalisation : The process of integration of national economy to the world economy by free flow of trade of goods and services, capital labour across national boundaries.

Liberalisation : It refers to measures to remove excessive regulatory framework of controls and licences which act as shackles on free enterprise.

Net State Domestic Product : Net domestic output of all goods and services in state expressed in value.

Portfolio Investment: Investment in shares and debentures of a company through primary or secondary capital market.

Privatisation : The process of transferring ownership and operation of state owned or public sector undertakings to the private sector.

17.9 ANSWERS TO CHECK YOUR PROGRESS

C 4 (a) True (b) False (c) True (d) False (e) True (f) True

17.10 TERMINAL QUESTIONS

1 What do you mean by liberalization ? State the various factors that necessitated liberalisation of the economy in India.

2 Discuss the various forms that privatisation of public enterprises can take. Which one you consider as most effective ?

3 What are the various steps taken by Government of India for globalisation of the Indian economy ? Do you have any suggestions to make in this direction.

4 State the major achievements of Indian economy as a result of the new economic policy of 1991. What lessons can be drawn from the experience of last ten years.

5 Make a critical assessment of the New Economic Policy keeping in view the long term objectives of economic development.

6 Discuss the impact of reform process on reducing poverty and growth of employment.

7 What are the major achievement of the reform process in foreign trade and foreign investment during 1990-91 to 2000-01 ?

8 (a) Enumerate the trade reforms by Government in 1991-92.

(b) What are the reformist measures introduced by RBI and the Central government to strengthen the Indian Money market

Note : These questions will help you to understand the unit better. Try to write answers for them, but do not submit your answers to the university for assessment. These are for your practice only.

SOME USEFUL BOOKS

Chellaih Raja, J. Towards Sustainable Growth - Essays' on Fiscal and Financial Sector Reforms in India, Oxford University Press, New Delhi.

Francis Cherunilam, Business Environment, Himalaya Publishing House, Mumbai

Ghose, P. K. and Kapoor, G. K., Business Policy and Environment, Sultan Chand & Sons, New Delhi

Misra, S. K. and Puri, V. K., Indian Economy, Himalaya Publishing House, Mumbai

Ruddar Datt and Sundharam, KPM, Indian Economy, S. Chand & Company, New Delhi

Government of India, Economic Survey.

Vepa, Ram K., Modern Small Industry in India : Problems and Prospects, Sage Publication, New Delhi.

Notes