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Economic Growth in the Post Liberalisation Era

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ABSTRACT

The History of Indian Economic Growth can be broadly classified in three major phases, namely :-
(a) Pre-colonial period (upto 1757)
(b) Colonial period (1757-1947)
(c) Pre-liberalisation period (1947-1991) (d) Post-Liberalisation Period (1991 onwards)

In the Pre-colonial period (upto 1757), the trade between India and rest of the world were mostly spices and food grains. Barter System prevailed in the country and agriculture were the predominant activity. The Colonial Period of 1757-1947 saw Indian under complete control of Britishers. The Britishers plundered the wealth of the country and laid stress on agricultural and food grains productivity in the country. Industrial Development was very very low and overall economic development of the country was extremely weak. The economic growth of the country started after independence from 1947 onwards. India adopted mixed economy model, where industrial development was mainly in the hands of the Public Sector. Boost to agriculture was given through a Green Food revolution. Banks were nationalised and social sectors were given top priority. However, till 1991, Indian Economy was a pretty closed economy and this brought country to the brink of disaster in 1991. From 1991 till yet, the Indian Economy undertook the task of economic liberalisation, which paved way for rapid economic growth of the country. Licence raj were abolished, quota system were dismantled, Most of the sectors were made open for Foreign Direct Investment and Private Sector was given a major role to play in the economy. This brought economy to a great momentum. The path is still being pursued. However, there are larger issues of poverty, unemployment, corruption, high current account deficit and infrastructure developments which still needs a lot of attention to enable Indian to become superpower in the 20th Century.

The history of Indian Economic Growth can be broadly classified in two major era namely, Pre-Liberalisation Era, i.e., before 1991 and Post Liberalisation era, i.e., after 1991.

1. Economic Growth : Pre-Liberalsiation Era(before 1991)

It can be broadly divided into three main categories namely:
(a) Pre-colonial period (upto 1757)
(b) Colonial period (1757-1947)
(c) Pre-liberalisation period (1947-1991)

In the Pre-colonial period (upto 1757), The spice trade between India and Europe was one of the main drivers of the world economy . Saurashtra and Bengal coasts played an important role in maritime trade, and the Gangetic plains and the Indus valley housed several centres of river-borne commerce. Most overland trade was carried out via the Khyber Pass connecting the Punjab region with Afghanistan and onward to the Middle East and Central Asia. Although many kingdoms and rulers issued coins, barter was prevalent. Villages paid a portion of their agricultural produce as revenue to the rulers, while its craftsmen received a part of the crops at harvest time for their services. Silver punch mark coin of the Maurya empire, with symbols of wheel and elephant. From 1757-1947,Indian was subjected to a colonial British Rule. The british rule over two centuries player havoc with the coun try's economic growth. Particularly at the beginning of the 20th Century, India being "the brightest jewel in the British Crown" was the poorest country in the world in terms of per capita income. British Company rule in India brought a major change in the taxation and agricultural policies, which tended to promote commercialisation of agriculture with a focus on trade, resulting in decreased production of food crops, mass impoverishment and destitution of farmers, and in the short term, led to numerous famines. The economic policies of the British Raj caused a severe decline in the handicrafts and handloom sectors, due to reduced demand and dipping employment.

There was a significant transfer of capital from India to England, which, due to the colonial policies of the British, led to a massive drain of revenue instead of any systematic effort at modernisation of the domestic economy. Subsequently, the policy of discriminating protection, coupled with the second world war, saw the development and dispersal of industries, encouraging rural-urban migration, and in particular the large port cities of Bombay, Calcutta and Madras grew rapidly.

After independence in 1947, Domestic policy tended towards protectionism, with a strong emphasis on import substitution, industrialization, state intervention, a large public sector, business regulation, and central planning, while trade and foreign investment policies were relatively liberal. Five-Year Plans of India resembled central planning in the Soviet Union. Steel, mining, machine tools, water, telecommunications, insurance, and electrical plants, among other industries, were effectively nationalised in the mid-1950s.Jawaharlal Nehru, the first prime minister of India, along with the statistician Prasanta Chandra Mahalanobis, formulated and oversaw economic policy during the initial years of the country's existence. They expected favorable outcomes from their strategy, involving the rapid development of heavy industry by both public and private sectors, and based on direct and indirect state intervention, rather than the more extreme Soviet-style central command system. The policy of concentrating simultaneously on capital- and technology-intensive heavy industry and subsidizing manual, low-skill cottage industries was advocated . The rate of growth of the Indian economy in the first three decades after independence was derisively referred to as the Hindu rate of growth, because of the unfavourable comparison with growth rates in other Asian countries, especially the East Asian Tigers. Since 1965, the use of high-yielding varieties of seeds, increased fertilizers and improved irrigation facilities collectively contributed to the Green Revolution in India, which improved the condition of agriculture in India by increasing productivity of food as well as commercial crops, improving crop patterns and strengthening forward and backward linkages between agriculture and industry.

In the late 70s, the government led by Morarji Desai eased restrictions on capacity expansion for incumbents, removed price controls and reduced corporate taxes and small scale industries are created in large numbers. However the subsequent government policy of fabian socialism hampered the benefits of the economy leading to high fiscal deficits and a worsening current account. The collapse of the Soviet Union, which was India's major trading partner, and the first Gulf War, which caused a spike in oil prices, caused a major balance-of-payments crisis for

India, which found itself facing the prospect of defaulting on its loans. India asked for a $1.8 billion bailout loan from IMF, which in return demanded reforms.

2. Economic Growth : Post -LiberaliSation Era(after 1991)

Prime Minister Narasimha Rao along with his finance minister Dr. Manmohan Singh initiated the economic liberalization of 1991. The reforms did away with the Licence Raj (investment, industrial and import licensing) and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. Since then, the overall direction of liberalisation has remained the same, irrespective of the ruling party, although no party has tried to take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labour laws and reducing agricultural subsidies. By the turn of the century, India had progressed towards a free-market economy, with a substantial reduction in state control of the economy and increased financial liberalisation. This has been accompanied by increases in life expectancy, literacy rates and food security.While the credit rating of India was hit by its nuclear tests in 1998, it has been raised to investment level in 2007 by S&P and Moody's. In 2003, Goldman Sachs predicted that India's GDP in current prices will overtake France and Italy by 2020, Germany, UK and Russia by 2025 and Japan by 2035. By 2035, it was projected to be the third largest economy of the world, behind US and China. India is often seen by most economists as a rising economic superpower and is believed to play a major role in the global economy in the 21st century. Indian tops in the Service Sector, particularly in Information technology , Business process outsourcing and Retailing Sectors. India has one of the world's fastest growing automobile industries

Economic reforms brought foreign competition, led to privatisation of certain public sector industries, opened up sectors hitherto reserved for the public sector and led to an expansion in the production of fast-moving consumer goods. Post-liberalisation, the Indian private sector was faced with increasing domestic as well as foreign competition, including the threat of cheaper Chinese imports. It has since handled the change by squeezing costs, revamping management, and relying on cheap labour and new technology. However, this has also reduced employment generation even by smaller manufacturers who earlier relied on relatively labour-intensive processes. Textile manufacturing is the second largest source for employment after agriculture and accounts for 26% of manufacturing output. India is fifteenth in services output. It provides employment to 23% of work force, and it is growing fast, growth rate 7.5% in 1991-2000 up from 4.5% in 1951-80. It has the largest share in the GDP, accounting for 55% in 2007 up from 15% in 1950.Business services (information technology, information technology enabled services, business process outsourcing) are among the fastest growing sectors contributing to one third of the total output of services . The growth in the IT sector is attributed to increased specialization, and an availability of a large pool of low cost, but highly skilled, educated and fluent English-speaking workers, on the supply side, matched on the demand side by an increased demand from foreign consumers interested in India's service exports, or those looking to outsource their operations. The share of India's IT industry to 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. In March 2009, annual revenues from outsourcing operations in India amounted to US$60 billion and this is expected to increase to US$225 billion by 2020. Organised retail such supermarkets accounts for 24% of the market as of 2008. Tourism in India is relatively undeveloped, but growing at double digits. Mining forms an important segment of the Indian economy, with the country producing 79 different minerals (excluding fuel and atomic resources) in 2009-10, including

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iron ore, manganese, mica, bauxite, chromite, limestone, asbestos, fluorite, gypsum, ochre, phosphorite and silica sand. India ranks second worldwide in farm output. Agriculture and allied sectors like forestry, logging and fishing accounted for 15.7% of the GDP in 2009-10, employed 52.1% of the total workforce, and despite a steady decline of its share in the GDP, is still the largest economic sector and plays a significant role in the overall socio-economic development of India. Yields per unit area of all crops have grown since 1950, due to the special emphasis placed on agriculture in the five-year plans and steady improvements in irrigation, technology, application of modern agricultural practices and provision of agricultural credit and subsidies since the Green Revolution in India.

India's inland water resources comprising rivers, canals, ponds and lakes and marine resources comprising the east and west coasts of the Indian ocean and other gulfs and bays provide employment to nearly 6 million people in the fisheries sector. In 2008, India had the world's third largest fishing industry. India is the largest producer in the world of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper. It also has the world's second largest cattle population with 175 million heads 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. India is also the second largest producer and the largest consumer of silk in the world, producing 77,000 million tons in 2005. The Indian money market is classified into the organised sector (comprising private, public and foreign owned commercial banks and cooperative banks, together known as scheduled banks); and the unorganised sector (comprising individual or family owned indigenous bankers or money lenders and non-banking financial companies (NBFCs)). The unorganised sector and microcredit are still preferred over traditional banks in rural and sub-urban areas, especially for non-productive purposes, like ceremonies and short duration loans. Mumbai is the financial and commercial capital of India. Prime Minister Indira Gandhi nationalised 14 banks in 1969, followed by six others in 1980, and made it mandatory for banks to provide 40% of their net credit to priority sectors like agriculture, small-scale industry, retail trade, small businesses, etc. to ensure that the banks fulfill their social and developmental goals. Since then, the number of bank branches has increased from 8,260 in 1969 to 72,170 in 2007 and the population covered by a branch decreased from 63,800 to 15,000 during the same period. The total deposits increased from 5,910 crore (US$ 1.31 billion) in 1970-71 to 3,830,922 crore (US$ 846.63 billion) in 2008-09. Despite an increase of rural branches, from 1,860 or 22% of the total number of branches in 1969 to 30,590 or 42% in 2007, only 32,270 out of 500,000 villages are covered by a scheduled bank. The public sector banks hold over 75% of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively. 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.More than half of personal savings are invested in physical assets such as land, houses, cattle, and gold. India's gross domestic saving in 2006-07 as a percentage of GDP stood at a high 32.7.India is the world's fifth largest consumer of oil.India's oil reserves meet 25% of the country's domestic oil demand. As of 2009, India's total proven oil reserves stood at 775 million metric tonnes while gas reserves stood at 1074 billion cubic metres. Oil and natural gas fields are located offshore at Mumbai High, Krishna Godavari Basin and the Cauvery Delta, and onshore mainly in the states of Assam, Gujarat and Rajasthan. In 2009, India imported 2,560,000 barrels (407,000 m3) of oil per day, making it one of largest buyers of crude oil in the world. The petroleum industry in India mostly consists of public sector companies such as Oil and Natural Gas Corporation (ONGC), Hindustan Petroleum Corporation Limited (HPCL) and Indian Oil Corporation Limited (IOCL). There are some major private Indian companies in oil sector such as Reliance Industries Limited (RIL) which operates the world's largest oil refining complex.India has the world's fifth largest wind power industry, with an installed wind power capacity of 9,587 MW. As of 2010, India had an installed power generation capacity of 164,835 megawatts (MW), of which thermal power contributed 64.6%, hydroelectricity 24.7%, other sources of renewable energy 7.7%, and nuclear power 2.9%. India meets most of its domestic energy demand through its 106 billion tonnes of coal reserves. India is also believed to be rich in certain renewable sources of energy with significant future potential such as solar, wind and biofuels (jatropha, sugarcane). India's huge thorium reserves — about 25% of world's reserves — is expected to fuel the country's ambitious nuclear energy program in the long-run. India's dwindling uranium reserves stagnated the growth of nuclear energy in the country for many years. However, the Indo-US nuclear deal has paved the way for India to import uranium from other countries In March 2008, India's annual imports and exports stood at US$236 and US$155.5 billion respectively. Until the liberalization of 1991, India was largely and intentionally isolated from the world markets, to protect its economy and to achieve self-reliance. Foreign trade was subject to import tariffs, export taxes and quantitative restrictions, while foreign direct investment (FDI) was restricted by upper-limit equity participation, restrictions on technology transfer, export obligations and government approvals; these approvals were needed for nearly 60% of new FDI in the industrial sector. The restrictions ensured that FDI averaged only around US$200 million annually between 1985 and 1991; a large percentage of the capital flows consisted of foreign aid, commercial borrowing and deposits of non-resident Indians. India's exports were stagnant for the first 15 years after independence, due to the predominance of tea, jute and cotton manufactures, demand for which was generally inelastic. Imports in the same period consisted predominantly of machinery, equipment and raw materials, due to nascent industrialization. Since liberalization, the value of India's international trade has increased sharply. India's major trading partners are the European Union, China, the United States and the United Arab Emirates. The exports during April 2007 were $12.31 billion up by 16% and import were $17.68 billion with an increase of 18.06% over the previous year. In 2006-07, major export commodities included engineering goods, petroleum products, chemicals and pharmaceuticals, gems and jewellery, textiles and garments, agricultural products, iron ore and other minerals. Major import commodities included crude oil and related products, machinery, electronic goods, gold and silver.

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, up from 66.2% in 1990-91. However, the global economic slump followed by a general deceleration in world trade saw the exports as a percentage of imports drop to 61.4% in 2008-09. 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 9.7% of GDP, in 2008-09. In 2007-08, India imported 120.1 million tonnes of crude oil, more than 3/4th of the domestic demand, at a cost of $61.72 billion. Due to the global late-2000s recession, both Indian exports and imports declined by 29.2% and 39.2% respectively in June 2009. The steep decline was because countries hit hardest by the global recession, such as United States and members of the European Union, account for more than 60% of Indian exports. However, since the decline in imports was much sharper compared to the decline in exports, India's trade deficit reduced to 25,250 crore (US$ 5.58 billion),India's reliance on external assistance and commercial borrowings has

decreased since 1991-92, and since 2002-03, it has gradually been repaying these debts. Declining interest rates and reduced borrowings decreased India's debt service ratio to 4.5% in 2007. In India, External Commercial Borrowings (ECBs) are being permitted by the Government for providing an additional source of funds to Indian corporates.
As the fourth-largest economy in the world in PPP terms, India is a preferred destination for foreign direct investments (FDI). India has strengths in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewellery. Despite a surge in foreign investments, rigid FDI policies resulted in a significant hindrance. However, due to some positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned itself as one of the front-runners of the rapidly growing econo9my in the Asia Pacific Region. India has a large pool of skilled managerial and technical expertise. The size of the middle-class population stands at 300 million and represents a growing consumer market. During 2000-10, the country attracted $178 billion as FDI. The inordinately high investment from Mauritius is due to routing of international funds through the country given significant tax advantages; double taxation is avoided due to a tax treaty between India and Mauritius, and Mauritius is a capital gains tax haven, effectively creating a zero-taxation FDI channel. 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. The upward moving growth curve of the real-estate sector owes some credit to a booming economy and liberalised FDI regime. In March 2005, the government amended the rules to allow 100 per cent FDI in the construction sector, including built-up infrastructure and construction development projects comprising housing, commercial premises, hospitals, educational institutions, recreational facilities, and city- and regional-level infrastructure.

Fields which require relaxation in FDI restrictions include civil aviation, construction development, industrial parks, petroleum and natural gas, commodity exchanges, credit-information services and mining. But this still leaves an unfinished agenda of permitting greater foreign investment in politically sensitive areas such as insurance and retailing. The total FDI equity inflow into India in 2008-09 stood at 122,919 crore (US$ 27.17 billion), a growth of 25% in rupee terms over the previous period. Percentage of population living under the poverty line of $1 (PPP) a day, currently 356.35 rupees a month in rural areas (around $7.4 a month). Indian official estimates of the extent of poverty have been subject to debate, with concerns being raised about the methodology for the determination of the poverty line. As of 2005, according to World Bank statistics, 75.6% of the population lives on less than $2 a day (PPP), while 41.6% of the population is living below the new international poverty line of $1.25 (PPP) per day. However, data released in 2009 by the Government of India estimates the percentage of the population living below the poverty line to be 37%. Housing is another major problem area for the Indian population, i.e., "a majority of Indians have per capita space equivalent to or less than a 10 feet x 10 feet room for their living, sleeping, cooking, washing and toilet needs." and "one in every three urban Indians lives in homes too cramped to exceed even the minimum requirements of a prison cell in the US.

Around half of Indian children are malnourished. The proportion of underweight children is nearly double that of Sub-Saharan Africa. The state-run National Commission for Enterprises in the Unorganised Sector (NCEUS) found that 65% of Indians, or 750 million people, lived on less than 20 (US$ 0.44) per day, with most working in "informal labour sector with no job or social security, living in abject poverty. Since the early 1950s, successive governments have implemented various schemes, under planning, to alleviate poverty, that have met with partial success. All these programmes have relied upon the strategies of the Food for work programme and National Rural Employment Programme of the 1980s, which attempted to use the unemployed to generate productive assets and build rural infrastructure.ln August 2005, the Indian parliament passed the Rural Employment Guarantee Bill, the largest programme of this type in terms of cost and coverage, which promises 100 days of minimum wage employment to every rural household in all the India's 600 districts. The question of whether economic reforms have reduced poverty or not has fuelled debates without generating any clear cut answers and has also put political pressure on further economic reforms, especially those involving the downsizing of labour and cutting agricultural subsidies.

Recent statistics in 2010 point out that the number of high income households has crossed lower income households. 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, 8% is in the organised sector, two-thirds of which are in the public sector. The NSSO survey estimated that in 1999-2000, 106 million, nearly 10% of the population were unemployed and the overall unemployment rate was 7.3%, with rural areas doing marginally better (7.2%) than urban areas (7.7%). Unemployment in India is characterised by chronic or disguised unemployment. Government schemes that target eradication of both poverty and unemployment (which in recent decades has sent millions of poor and unskilled people into urban areas in search of livelihoods) attempt to solve the problem, by providing financial assistance for setting up businesses, skill honing, setting up public sector enterprises, reservations in governments, etc. The decline in organised employment due to the decreased role of the public sector after liberalization has further underlined the need for focusing on better education and has also put political pressure on further reforms. Child labour in India is a complex problem that is basically rooted in poverty. The Indian government is implementing the world's largest child labour elimination program, with primary education targeted for —250 million. Numerous non-governmental and voluntary organizations are also involved.

In the revised 2007 figures, based on increased and sustaining growth, more inflows into foreign direct investment, Goldman Sachs predicts that "from 2007 to 2020, India's GDP per capita in US$ terms will quadruple", and that the Indian economy will surpass the United States (in US$) by 2043. In spite of the high growth rate, the report stated that India would continue to remain a low-income country for decades to come but could be a "motor for the world economy" if it fulfills its growth potential. Goldman Sachs has outlined several things that it needs to do in order to achieve its potential by 2050, including improving governance, education, infrastructure and environmental quality, controlling inflation, introducing a credible fiscal policy, liberalising financial markets, increase trade with its neighbours and raising agricultural productivity. Slow agricultural growth is a concern for policymakers as some two-thirds of India's people depend on rural employment for a living. Current agricultural practices are neither economically nor environmentally sustainable and India's yields for many agricultural commodities are low. Poorly maintained irrigation systems and almost universal lack of good extension services are among the factors responsible. Farmers' access to markets is hampered by poor roads, rudimentary market infrastructure, and excessive regulation. According to the World Bank, India's large agricultural subsidies are hampering productivity-enhancing investment. While overregulation of agriculture has

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increased costs, price risks and uncertainty, governmental intervention in labour, land, and credit markets are hurting the market. Infrastructure and services are inadequate. Adoption of modern agricultural practices and use of technology is inadequate, hampered by ignorance of such practices, high costs, illiteracy, slow progress in implementing land reforms, inadequate or inefficient finance and marketing services for farm produce and impracticality in the case of small land holdings. The allocation of water is inefficient, unsustainable and inequitable. 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. A good monsoon results in a robust growth for the economy as a whole, while a poor monsoon leads to a sluggish growth.

The economic reforms of 1991 reduced the red tape, bureaucracy and the Licence Raj that had strangled private enterprise and was blamed by Chakravarthi Rajagopalachari for the corruption and inefficiencies. Yet, a 2005 study by Transparency International (TI) India 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. The Right to Information Act (2005) and equivalent acts in the Indian states, that require government officials to furnish information requested by citizens or face punitive action, computerisation of services and various central and state government acts that established vigilance commissions have considerably reduced corruption or at least have opened up avenues to redress grievances. The 2010 report by Transparency International ranks India at 87th place and states that significant setbacks were made by India in reducing corruption The Economist's 2008 article about the Indian civil service stated that the Indian central government employs around 3 million people, including "vast armies of paper-shuffling peons". At local level, administration can be worse. It is not unheard of that a majority of a state's assembly seats can be held by convicted criminals. One study found that 25% of public sector teachers and 40% of public sector medical workers could not be found at the workplace. India's absence rates are one of the worst in the world. India has made huge progress in terms of increasing primary education attendance rate and expanding literacy to approximately two thirds of the population. The right to education at elementary level has been made one of the fundamental rights under the eighty-sixth Amendment of 2002, and legislation has been enacted to further the objective of providing free education to all children. However, the literacy rate of 65% is still lower than the worldwide average and the country suffers from a high dropout rate. Water supply is a major problem even in urban India, with most cities getting water for few hours during the day and in some cases, after several days. A World Bank report says it is an institutional problem in water agencies, or "how the agency is embedded in the relationships between politics and the citizens who are the consumers. Better designed labor regulations can attract more labor- intensive investment and create jobs for India's unemployed millions and those trapped in poor quality jobs. Given the country's momentum of growth, the window of opportunity must not be lost for improving the job prospects for the 80 million new entrants who are expected to join the work force over the next decade .One of the critical problems facing India's economy is the sharp and growing regional variations among India's different states and territories in terms of per capita income, poverty, availability of infrastructure and socio-economic development. Six low-income states - Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa and Uttar Pradesh - are home to more than one third of India's population. After liberalization, the more advanced states are better placed to benefit from them, with infrastructure like well developed ports, urbanisation and an educated and skilled workforce which attract manufacturing and service sectors. The union and state governments of backward regions are trying to reduce the disparities by offering tax holidays, cheap land, etc., and focusing more on sectors like tourism, which although being geographically and historically determined, can become a source of growth and is faster to develop than other sectors.

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