International Journal on Future Revolution in Computer Science & Communication Engineering ISSN: 2454-4248
Volume: 3 Issue: 8 89 – 92

Impact of Economic Reforms (Liberalization) on Indian Economy Since 1991

Dr. Parul Kumar
Ass. Professor
Satyawati College(Evening)
University of Delhi
New Delhi. India.

Abstract:- The present research paper aims to study impact of economic reforms on India. The research has found that it becomes important to understand that globalization is not concerned with the socio-economic development as they are merely looking at the profit chart of their respective products and not at the development of the society in general. This demands the urgent need to fill the gap created by private sectors. Poverty has to be eradicated and the best way to do that will be introduce new jobs for the existing companies and employees.

Keywords: *Economic reforms, liberalization, Indian economy*

*****

I. INTRODUCTION

Economic reforms are necessary in every country and India is no exception. The necessary economic reforms in India commenced on 24 July 1991. India stuck to socialist policies after independence of 1947. There were two attempts made to make the economy more liberal in the years 1966 and 1985. The first ever attempt was shut down in the year 1967. After this, the government became more stringent with their socialist policies and strengthened their resolve to revolutionize the economy. This attempt was undertaken by then Prime Minister Rajiv Gandhi in the year 1985. The process came to a stop in the year 1987 but it wasn't reversed like the one that took place in 1966. In the year 1991, around 20 tons of gold was pledged by India to the Union Bank of Switzerland and another 47 tonnes of gold to the Bank of England. This was done because of the balance in the payments crisis and India had to make a bailout deal with the International Monetary Fund. Apart from this deal with the IMF, India also had to work on some of its policies in order to reform the economy. The then government of PV Narsimha Rao and Dr. Manmohan Singh did work on many reforms. However, they didn't implement most of the reforms which were suggested by the IMF [1]. Some of the neo-liberal policies of economic reforms which were taken from the international economic reforms included discontinuing the privatization of economy, opening international channels for trade and investment, measures to control inflation and tax reforms.

Despite the different governments that have come in power, the basic liberalization policies of the economy have remained the same. No major changes have been introduced by any specific ruling party and they have not tried to take charge of the trade unions and the farmers or have tried to change the subsidies on agriculture.

India today is the second fastest growing economy after China and this was confirmed after India's GDP was recored to be 6.1% in the year 2017 as shown in the figure 1 below.

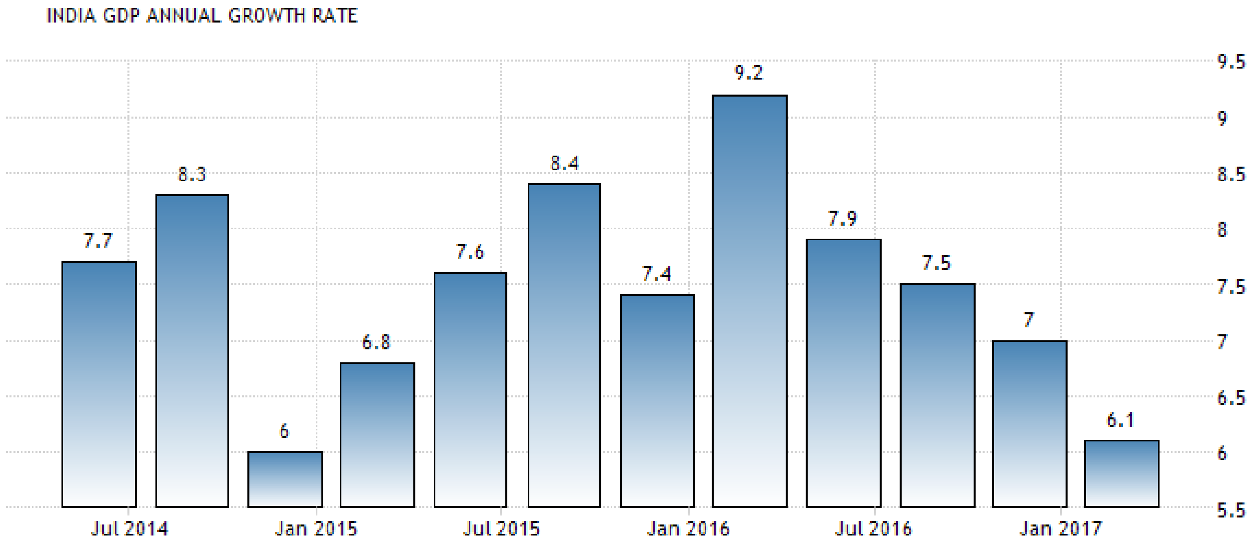

Figure 1: Growth rate of Indian GDP
(Source: MOSPI, 2017)

However, this growth rate slowed down in the latter part of the fiscal year 2012. OECD has also reported that the current growth rate of 7.5% has been expected to double up by the next decade and this will further increase the earnings of the common man and better reforms will speed up the entire pace. Liberalization as an inclusive growth strategy is another topic altogether and there is constant debates happening on whether this should happen or not. Income inequality has been a major problem since 1992 and it has only deepened with the poor just living by a stable income while the rich people having the control of the consumption growth. India's growth rate in the GDP worsened in the year 2012-2013 and this started the criticism of the economic reforms. The growth rate came down to 5%. The government was criticized for its failure to implement reforms that would address the loss of nutritional value in food and also the employment rate. Along with this, there was the question of export and import of food products which further helps the GDP of any country. Privatization was introduced in the year 1991 and this is one of the policies which have worked in the favor of the economy because it aims at giving control of the major economic decisions to the public and private sector instead of involving the state or any other sector. The fiscal deficit is countered by introducing the first part of the privatization process which is the fiscal dimension. Liberalization happened at a quicker pace because the industrial licensing was removed, international reforms were introduced and the public sector became more diluted. Also, the private sector was given control of economic reforms so that they could expand the business activities considerably. After the 1991 liberalization reform, there was less red tape, less paperwork, taxes were also lowered, better place to work and lesser government interference [2].

The private sector has taken control of the economy of India today and this has happened despite the fact that the public sector has better ways to plan reforms and other activities related to economy. The fixed capital share of the company was just 25.5% in the year 2014-15. However, the employment rate of the private companies was much higher in the same fiscal year. The private companies had around 60% of employment rate compared to 30% of the public sectors [3].

The opening of the economy to the international companies has further led to restrictions on the private sector as there are mergers, acquisitions and other collaborations happening where companies are focusing on their strength more than anything else.

There has been a huge shift in the growth of the private sectors after the liberalization of 1991. India has been smart in using the mixed strategy and the reforms of private sector in order to accelerate the economic growth rate of the country. The private owners of the companies are driven by the need to earn more profit and this ensures that they organize everything properly which includes getting the raw material, labor and the required capital and putting it all together to start production and market the products to the customers. The economic reforms of 1991 gave the control of the industrial sectors and development to the private sectors.

Globalization has various meaning and the type of meaning it holds for a person depends on the context in which they are talking about. Brainbant has said of globalization that it is a process which covers everything and this does not limit to opening up of trade and commerce to international markets. It also includes handling international communication of financial reforms, growing importance of MNCs and also the flow of labour, goods and other products along with ideas and culture as well.

In reference to India, this globalization means that India opens its door to foreign direct investments from other country [4]. They should be allowed to invest in various activities and fields relating to investments. Obstacles in MNCs have also been removed so that the Indian private companies could enter into collaborations with international investors. The financial crisis of the 1991 was a huge blow to the Indian economy. The inflation rate went up to 17% and India lost investments from foreign countries as they refused to make any transactions and exchanges with Indian companies. The fiscal deficit was also high and that is when globalization was applied to the Indian economy in the following stages:

1. The first important step which was the groundwork for globalization and redeeming India's economy was devaluation of the currency by 17-19% against the foreign currencies.
2. The process of globalization was further made smooth when the public sectors were sold to the private sectors. This was happening because of the liberalization and privatization policies that were undertaken by the government.
3. There were many items which were on the restricted list of imports. Around 42 items were removed from this list in the year 1996-97 themselves.
4. Moreover, the tariff rates were brought down from 255 to 150 percent on around on 35 imported items. Apart from this, there were few exceptions made to certain imported products on which the rate was slashed from 110 to 85 percent.

The major motif of globalization has been the inflow of foreign capital in the country's economy. In order to make this happen, the government has allowed the partnership of foreign investor's up to 51% for certain products. These foreign investors don't need the approval of the government also before they can proceed with the investments.

ISSN: 2454-4248
89 – 92

The FDI has also seen dramatic growth from just $129 million in the year 1992-1993 to the highest level of $3904. The debt to GDP which was hanging on Indian government also went down from 7.9% to 7.6% in the fiscal year 2015-16 [5].

Since the export to import ratio also increased from 66.2% to 78%, there has been an increase in the self-reliance of the country's companies which was not there earlier.

The important steps that the government has taken to ensure that the globalization increases in the country has been discussed in this chapter.

II. EXCHANGE RATE ADJUSTMENT AND RUPEE CONVERTIBILITY

When it comes to ensuring globalization, the first thing that should be done is combine the country's economy with that of the world by making it easily convertible when needed. In this regard, our government took the first step in the year 1991 when it went for the two-step downward movement of 18-19% on the current exchange rate of the currency. The dual exchange system was introduced later by the government which made the currency partially convertible.

A. Import Liberalization

The World Bank had suggested various reforms for the Indian economy in its report titled 'India: strategy for trade reforms'. They advocated better taxation policies on all the imported goods which included lowering the tariffs on all goods and making the entry of capital goods tax-free [4]. This will improve the inflow of goods in the country considerably and boost the international relations of the country as well.

B. Opening up to Foreign Capital

The Indian government has done their bit for attracting international investors. They have opened their doors to foreign investors and removed almost all the heavy duty customs which were imposed on them. The Indian government came up with a list of high priority industries which were to be given a share of 51% in their investments in Indian companies and this could happen without any permission from the government, This share percentage was later increase to 74% and now it is 100% for the companies which are planning to sell products that will help the country's economy. Many NRIs and overseas corporate bodies (OCBs) have put in their subsidies and equities for up to 100% and they are even ready to share the losses which they might have to face. The industries which have been allowed the 100% are the hospitals, trade houses, sick industries and other such companies.

III. GLOBALIZATION'S IMPACT ON INDIA

When the growth rate of both the merchandise and service sectors are combined together, one can easily see that there has been tremendous growth in the exports of the country. This has been possible because of globalization [3]. There are MNCs and international clothing and food brands across the countries which have helped in improving the GDP of the country to a great extent.

IV. EMPLOYMENT SITUATION

However, globalization has had its own set of disadvantages and that came as a blow to the employment rate [6]. This happened because the rate of growth in the agriculture sector went down. The agriculture sector employed majority of the population and after everything was being exported and imported, there source of livelihood was no longer feasible as shown in figure 2 below.

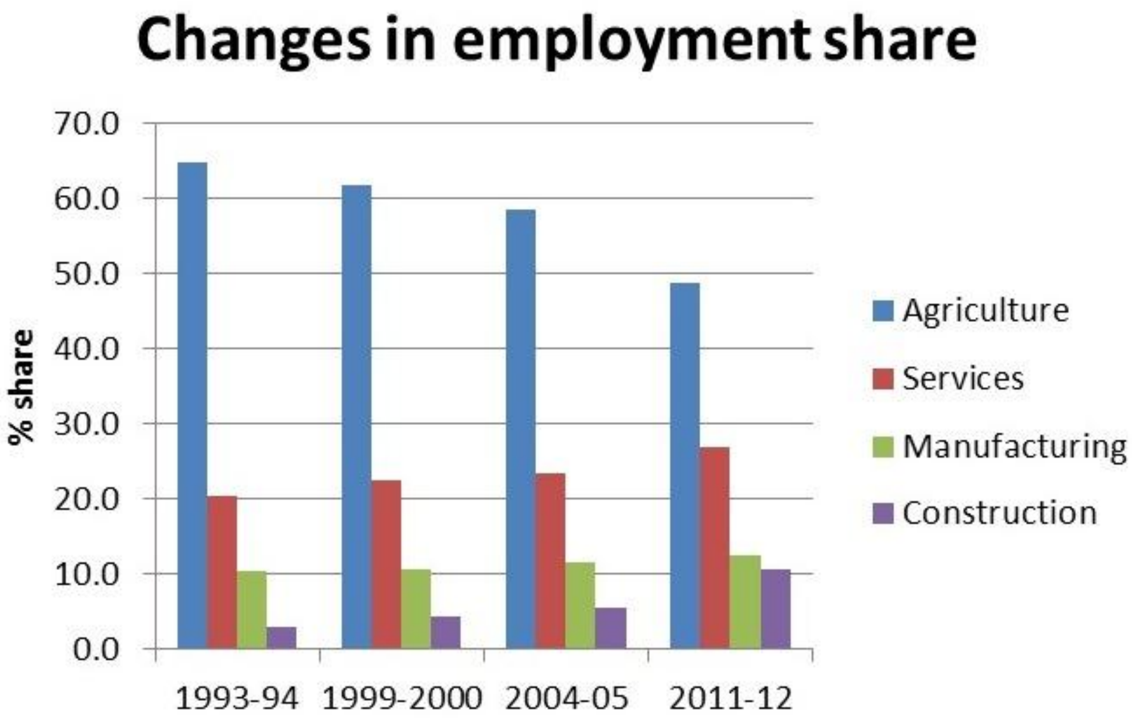

Figure 2: Employment by sectors

(Source: MOSPI, 2017)

V. CONCLUSION AND FUTURE WORK

Thus, it becomes important to understand that globalization is not concerned with the socio-economic development as they are merely looking at the profit chart of their respective products and not at the development of the society in general.

This demands the urgent need to fill the gap created by private sectors. Poverty has to be eradicated and the best way to do that will be introduce new jobs for the existing companies and employees. This means that having the right kind of exposure and ensuring that the MNCs which establish them in India are ready to hire Indians as well. This will improve the employment rate along with the GDP of the country.

VI. REFERENCES

[1] Prasad, Prakash Charan (1997) "Foreign Trade and commerce in Ancient India. New Delhi Abhinav Publication.

[2] World Bank. Org. 2011 "International Economics of Trade India foreign Trade Policy.

[3] Sharma, Chanchal Kumar (2011)"A Discursive Dominance Theory of economic reforms sustainability"

[4] Privatization and Public Sector enterprises in India. Geeta Gauri " Economic and Political Weekly" Nov. 30 1996.Indian Economy

[5] Datt & Sundharam. Gaurav Datt & Ashwani Mahajan S. Chand & company Ltd. New Delhi. 64th revised edition.

[6] Misra S.K. & Puri V.K. " Indian Economy" Twenty Ninth Revised & Updated Edition : 2011 Himalaya Publishing House Mumbai.