UNIT 6 ECONOMIC REFORMS IN INDIA

Structure

6.0 OBJECTIVES

The unit introduces and assesses the economic reforms undertaken in India during early 1990's after four decades of development planning. After going through this unit, you will be able to:

- know the rationale behind economic reforms introduced in 1991;
- state the key elements of the economic reform process viz. liberalisation, privatisation and globalisation;
- identify the challenges faced during its implementation; and
- assess the impact of economic reforms on Indian economy.

6.1 INTRODUCTION

After attainment of independence, India adopted the regime of economic planning with a glorious vision of a resurgent India. It aimed to marching firmly on the path of progress while ensuring an equitable distribution of the nation's wealth. Policies relating to licensing focussed on public sector, putting infant industry argument for imposing trade barriers, import-substitution policies, etc. This gamut of policies led to over-protection, inefficient resource utilisation, high revenue deficits, mismanagement of firms and economy, poor technological development and shortage of foreign exchange.

The resultant stress and pressures compelled the government to revisit the policy framework. The outcome came to be a set of changes in economic policies, which in a broad sense came to be identified as economic reforms. The principal aim of economic reforms was to enter an era of globalisation which meant a) free flow of goods and services, b) free flow of technology, c) free flow of capital, and d) free movement of human beings, especially labour from one country to another. Economic reforms, therefore, required integrating the Indian economy with world economy and the emphasis in economic reforms shifted to *export-led growth strategy* from import substitution strategy.

6.2 RATIONALE OF ECONOMIC REFORMS

Indian economy was highly regulated during the first four decades of economic planning (1950-1990). The five-year plan objectives were focussed on development of public sector for setting up heavy and basic industries, self-reliance, import-substitution strategies, nationalisation and state-interventionist regime. While on one hand it helped in setting up some key industries like SAIL, ONGC, IOC, BHEL, etc., on the other hand it restricted the growth of private sector, private business plans and brought about bureaucracy-led corruption, sick public sector enterprises, deteriorating trade balance, economic and financial crisis in early 1990s. India had to borrow foreign exchange from IMF and comply with the conditionality imposed by it such as stabilisation and structural stability programme, reduction of trade barriers, revision of fiscal and monetary policies, active role of market and integration of the Indian economy with the world economy. In a nutshell, the three basic elements of economic reforms were liberalisation, privatisation and globalisation (also known as LPG strategy) of the Indian economy.

6.3 KEY FEATURES OF ECONOMIC REFORMS

The New Economic Policy (NEP) during the economic reforms process reflected neo-liberalism. The rationale of economic reforms was provided by the Industrial Policy announced by the Government in 1991. Its basic philosophy was summed up as 'continuity with change'. The key objectives can be summarised as:

a) to set free the Indian industrial economy from the hassles of unnecessary bureaucratic controls;

b) to introduce liberalisation with a view to integrate the Indian economy with the world economy;

c) to remove restrictions on foreign direct investment (FDI) and also to lessen the restrictions of Monopolies and Restrictive Trade Practices (MRTP) Act for the domestic entrepreneur;

d) to dilute the monopoly of public sector enterprises and encourage competition from new private enterprises.

6.3.1 Liberalisation

A liberal policy adopted on both domestic and external fronts aimed to counter the financial crisis during early 1990's included the following measures:

a) All industrial licensing was abolished except for 18 industries relating to security and strategic concerns, social sectors, hazardous chemicals, environmental reasons and items of elitist consumption industries. (Presently, only five industries are subject to licensing)

b) To promote domestic and global competition, reservation of Small-scale industry (SSI) items is being reduced gradually since 1990s. Currently, the number of items facing reservation stands only 21, a marked decline from 836 in 1996.

c) MRTP Act was amended to account for removal of pre-entry restrictions, concentration of economic power, threshold limits of assets in respect of dominant undertakings and MRTP companies. (Subsequently, the MRTP Act has been withdrawn and the MRTP commission stands disbanded)

6.3.2 Privatisation

Privatisation refers to any process that reduces the involvement of the state/public sector in economic activities of a nation. Contrary to the post-independence thrust on enlargement of public sector, the economic reforms of 1991 recognised private sector as the engine of growth. Policies were framed to increase the role of private sector in the process of development. Privatisation in a mixed economy like India can take several forms such as:

a) **Total denationalisation**, implying complete transfer of state ownership of productive assets into private hands. Some prominent examples in India were of Allwyn Nissan, Mangalore Chemical and Fertilisers, Maharashtra Scooters – transferred to private hands.

b) **Joint venture**, implying partial induction of private ownership from 25 to 50 per cent or even more in a public sector enterprise, depending upon the nature of the enterprise and state policy in this regard. The basic aim is to improve efficiency, productivity and profitability of the firms. Three kinds of proposals are put forward in it:

   - 26 per cent ownership by the private sector (banks, mutual funds, corporations, individuals). Workers also to be included and equity to the extent of 5 per cent to be transferred to them.

   - 51 per cent equity to be retained by the Government and 49 per cent to be sold to private sector.

   - 74 per cent of the equity transferred to the private sector and Government retains 26 per cent.

c) **Worker's co-operative** is another form of privatisation where a loss-making public sector firm is transferred to the workers. A classic example of the Indian case is the Indian Coffee Houses run by a chain of worker cooperative societies, retained from the British rule post-independence. However, it did not assume a significant role in economic reforms due to requirement of investments for expansion of businesses.

d) **Token Privatisation,** also known as **deficit privatisation or disinvestment,** implying sale of 5-10 per cent shares of a profit-making public sector enterprise in the market with the objective of obtaining revenue to reduce budget deficits. During the period 1991-92 to 2011-12, the government could raise a sum of Rs. 60,000 crore by way of disinvestment. On an average, disinvestment receipts have managed to cover 7 per cent of the revenue deficit and 4 per cent of the fiscal deficit over the period 1992-2012.

Government announced a new policy on November 5, 2009 which has two components: One dealing with listed profit-making units and another extending to all other government-owned companies. While the former will have to off load minimum 10 per cent equity stake, unlisted ones (meeting 3 criteria – a positive net worth, no accumulated reserves and a net profit for three consecutive years) will have to opt for listing on the stock exchanges by divesting similar amounts.

6.3.3 Globalisation

Globalisation is the process of integrating the various economies of the world without creating any barriers in the flow of goods and services, technology, capital and labour/human capital. It involves four components:

a) Reduction of trade barriers in the form of custom duties/quotas/quantitative restrictions so as to permit free flow of goods and services in different economies.

b) Creation of an environment in which free flow of capital (or investment) can take place between nation states.

c) Creation of an enabling environment for the free flow of technology; and

d) From the viewpoint of developing countries, creation of an environment in which free flow of labour or human resources can take place among different countries of the world.

Essentially, globalisation is an extension of the process of liberalisation in the international domain. It therefore signifies internationalisation plus liberalisation.

In India, the process of globalisation began with the adoption of LPG model during economic reforms since 1990s. Some of the key features in this context are:

a) Its key impact was seen in India's service sector particularly in fast-paced growth of industries like information technology (IT), information technology-enabled services (ITES), outsourcing, telecommunications, tourism, real estate, transport, banking, insurance, entertainment, etc.

b) Inducement to foreign investment flows (FDIs and FIIs) has brought about efficiency, competition, profitability and global standards in productivity and quality of economic goods. Mergers, joint-ventures, PPPs, and contracting to foreign players have accelerated the development process in the Indian economy.

c) The two decades of economic-reforms have seen an increase in the rate of exports, migration (domestic and international), etc.

6.3.4 Public Private Partnership (PPP)

India is setting out a successful example of PPP projects and encouraging private participation in key development projects. The main advantages of public-private partnerships are efficient and speedy delivery of projects, alleviation of capacity constraints and bottlenecks in the economy, innovation and diversity in provision of world-class facilities, value for money of the tax-payer through optimal risk transfer and risk management, etc. There are various models of PPP and the ones primarily followed in India are:

- build-operate transfer (BOT), example – Mumbai Metro rail undertaken by Anil Ambani group
- build-own-operate-transfer

- build-own-operate (BOOT), example – Rajiv Gandhi International airport, Hyderabad.
- concession
- design-build-finance operate
- management contract
- asset sale

These models are being developed as per the needs of the projects for highways (expressways, flyovers, sub-ways and foot-over-bridges), railways (IRCTC), metro rails as well as airports. As of now 450 PPP projects are under implementation.

In a nutshell, the key transformation in various policy-making during economic reforms period (1991- 2012) can be summarised in Table 6.1.

Table 6.1: Model of Economic Management in India.

	Pre-Reform Strategies	Economic Reform Strategies
Liberalisation	License dominated regime	Delicensing, deregulations, debureaucratisation
	Politically administered prices	Market determined prices at large
	State-led economic growth	Market-determined economic growth
	Not much concern for deficits	Contain all kinds of deficits
	Development by inflationary process	Deflationary monetary and fiscal policies
	Restrictions on currency movement	Liberalisation of restrictions
	State-controlled interest rates	Deregulation of interest rates
	State controlled credit	Credit policy reforms
	Under developed capital market	Reforms in capital market
	Huge public sector budgetary resources (PSBR) liability on government	Minimise PSBR
	High tax rates	Tax reforms
Privatisation	PSUs as engines of growth	Private investment as engine of growth
	Frequent state interventions	Selective and effective state interventions
	Dominance of PSUs	Withdrawal from the areas of private interest
	Philosophy of natural monopoly	Minimise gap between public and private sectors
Globalisation	Closed economy	Open economy
	Self-reliance	Integration with world markets
	Import-substitution strategies	Export oriented strategies
	Restrictions on FDI and MNCs	Inducement to FDI and MNCs

Source: The Indian Economy (2012), I.C.Dhingra.

Check Your Progress 1

1) What was the rationale behind introduction of economic reforms in the early 1990s? Do you find it justifiable?

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2) Outline the four major objectives of economic reforms. What are the key features of LPG model in the Indian context?

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3) What is the essence behind Public-Private Partnership (PPP)? Do you feel it is more beneficial than privatisation? Give reasons in support of your answer.

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4) Identify the key reform strategies that have transformed Indian Economy post-1991.

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6.4 PARAMETERS FOR ASSESSING ECONOMIC REFORMS

The goals of economic development have been defined in the First and the Second five-year plan. They also serve as parameters for judging the impact of economic reforms. The major goals are:

i) A higher rate of growth of GDP.

ii) Enlargement of the employment potential leading to full employment.

iii) Reduction of the proportion of population below poverty line.

iv) Promotion of equity or distributive justice to enhance the conditions of the poor and less well off sections of the society.

v) Reduction of regional disparities between the rich and poor states of India.

vi) Improvement in human development in terms of health and education of the population.

6.5 CRITIQUE OF ECONOMIC REFORMS

The critique of economic reforms needs to look at the actual growth rates achieved, its impact on employment and poverty reduction, labour, agriculture, balance of trade as well as balance of payments, industrial growth, FDI and FII, economic and social infrastructure as well reduction in regional disparity between states.

6.5.1 GDP Growth, Employment and Poverty

Advocates of economic reforms point out that the reform process has the potential of accelerating economic growth. After the initial turbulence of the economic environment in early 1990s, growth rate has picked up and GDP growth has averaged around 7.5 in the recent years. The growth process however has not been uniform and has been subject to year-to-year fluctuations, at times in response to domestic adverse factors, and other times in response to adverse external environment. For example, further growth remained uniformly stable for the next three years (2005-08), until the outbreak of global recession which hit the economies of almost all the countries across the globe, with India being no exception. A noteworthy point is, however, the fact that the recessionary pressures declined India's growth rate moderately as compared to other countries and growth picked up momentum the very next year, indicating the strength of Indian economy. It implies that economic reforms have finally shown its positive impact on growth process.

Table 6.2 : GDP Growth-rate at 2004-05 prices.

Year (Pre-Reform)	GDP (Rs.Crore)	Growth Rate
1980-81	7,98,504	7.2
1990-91	13,31,040	5.1
Post-Reform period		
2000-01	18,64,301	
2001-02	19,72,606	5.8
2002-03	20,48,286	3.8
2003-04	22,22,758	8.5
2004-05	29,67,599	33.5
2005-06	32,49,130	9.5
2006-07	35,64,627	9.7
2007-08	38,93,457	9.2
2008-09	41,54,973	6.7
2009-10	44,79,973	8.4
2010-11	48,33,178	7.9
2011-12	51,71,538	7.0

Annual Average GDP Growth Rate	
1980-81 to 1990-91	5.6
1990-91 to 2000-01	5.5
2000-01 to 2009-10	10.4
2010-11	7.9
2011-12	7.0

Source: Economic Survey 2011-12.

Economic reforms have brought about a decline in poverty ratios but not uniformly all over the years. The Table shows that although there was a marked decline in both rural and urban poverty rates in 1983-84, yet the decline in the post-reform period has not been impressive and thus can't be attributed to economic reforms alone. As evident from the table, during the period of 1993-2000, poverty has declined by nearly 10 per cent in both rural and urban areas posing a satisfactory picture. However, thereafter, there has been an increase in the per centage of population living below poverty line in 2004-05 indicating ineffective poverty reduction strategies.

Few economists have identified stagnation in rural growth as a major cause of it. To sum up, the whole scenario shows an unimpressive decline in poverty in India in the post-reform period.

Table 6.3 : Percentage of population below poverty-line.

Year	Per cent of Population below Poverty Line (Headcount Index)		
	Rural	Urban	India
1973-74	56.44	49.01	51.50
1987-88	39.09	40.79	38.86
1993-94	37.27	32.36	35.97
2004-05	42.0	25.50	29.80
2009-10	33.80	20.9	29.80

Source: Planning Commission website.

Should a country concentrate on accelerating economic growth rate or should its efforts be based on inclusive but moderate growth? Are poverty and unemployment, the two biggest challenges to India, inter-related to the growth story too? The answer is a simple interactive growth-employment relationship. If acceleration in growth is unaccompanied with acceleration in employment opportunities, then it leads to unemployment or under-employment, a major factor behind poverty.

To put it simply, in general: Acceleration in Growth and Qualitative Employment leads to a decline in poverty and Un/under Employment.

However this equality is hollow until one examines the country's population growth rate too. The following table shows that although India's population growth rate declined from 2.12 to 1.93 in 1994-2000, yet even the labour force as well as employment declined in the same period, marking a serious question on the impact of economic reforms. This startling development led to a decline in organised sector employment also from 1.20 in the prereform period to just 0.53 in the post-economic reforms period, clearly confirming decline in the quality of employment too. The latest data on some key parameters however put forward a different story as summarised in the table below.

Table 6.4: Growth of population, labour-force and employment.

Growth Rate (per cent)		1999/00-2004/05	2004/05-2009/10
(i)	Labour Force	2.47	1.54
(ii)	Employment	2.39	1.71
(iii)	Formal employment	1.73	4.02
(iv)	Informal employment	0.39	11.59
(v)	In unorganised sector	2.54	0.95

Source: DGE & T

The key aspects of this trend were:-

1) While the growth rate of population and labour force declined during the post-reform period 1994-2000, the growth of employment also declined during the same period and with much wider intensity from 2.39 per cent in 1999-2005 to 1.71 per cent in 2004-2010. This is a serious setback in the era of globalisation because consistency if not acceleration is necessary in the growth of employment in order to absorb the increasing labour force. While such a trend was rationalised on the grounds of the obvious impacts of stabilisation programme, however it is important to check this picture before it gets too late. Detailed discussion in this regard has been provided in Unit 12.

2) What the data in this table tells us is that improvement in employment conditions was very modest during 1999/00-2004-05 and very substantial during 2004/05-2009/10. In the first period, employment growth in the organised sector was much slower than the overall growth of employment or labour force. Thus incremental labour force was being largely absorbed by the unorganised sector. In the second period, in contrast, there was very substantial movement of workers from the unorganised to the organised sector so that the number of workers in employment in the unorganised sector grew at a substantially slower rate than did the labour force.

3) Formal Employment in the organised sector has increased from 1.73 per cent to 4.02 per cent during the same period, posing a healthy trend. It is so because an increase in employment in organised sector is necessary to ensure quality of employment. Moreover, the private sector has done a better job in creating employment opportunities than the public sector.

4) Estimates of growth of unemployment have revealed a rise in it during the period from 4.5 per cent during 1983-1993/94 to 5.05 per cent to 1993/94 - 2004/05. When one observes this fact, it seems as if the pool of employed labour force has transformed into pool of unemployed labour force. Labour force growth is not only affected by population growth rate, but also by those who are still seeking work, on women who may rejoin the labour force after a ‘break’ in their careers and teenagers who do part-time work or summer jobs and quit later.

Table 6.5: Relationship between Sector and Type of Employment (UPSS).

(All workers in millions)

Sector/Worker	Informal/ Unorganised Worker	Formal/ Organised Worker	Total
1999-2000			
Informal/Unorganised sector	341.3 (99.6)	1.4 (0.4)	342.6 (100.0)
Formal/Organised sector	20.5 (37.8)	33.7 (62.2)	54.1 (100.0)
Total	361.7 (91.2)	35.0 (8.8)	396.8 (100.0)
2004-05			
Informal/Unorganised sector	393.5 (99.6)	1.4 (0.4)	394.9 (100.0)
Formal/Organised sector	29.1 (46.6)	33.4 (53.4)	62.6 (100.0)
Total	422.6 (92.4)	34.9 (7.6)	457.5 (100.0)

Source: NCEUS (2007).

A logical question that comes to one's mind is: Why poverty did not decline during the post-economic reforms period despite a stable and increasing growth since 1990s. What does the increased employment in Informal sector of India suggest?

Perhaps it's a prominent indicator of deterioration in the quality of employment opportunities which have grown over the years. As per the latest data available for 2004-05, the employment in organised sector constituted only 6 per cent of the total employment. The growth in organised sector employment has taken place at a slow rate and this has led to informalisation of the vast labour force of India. This is evident if we see the data in the above table.

These estimates explain the wide disparity in the employment of workers in the formal and informal sectors of the economy, which is a serious matter concerning the quality of employment. While the trends in informal sector employment have remained more or less the same during both the periods, however the formal sector has been increasingly employing informal workers from 20.5 millions in 1999-2000 to 29.1 millions in 2004-05. Thus there has been informalisation of employment not only in the informal sectors of Indian economy but also in the formal sectors as well.

Female employment constitutes about 96 per cent in the informal sector itself as against 91 per cent for males. In urban areas, the per centage of organised sector employees is around 65-70 per cent.

6.5.2 Impact of Economic Reforms on Labour

In a poor country like India, being employed itself does not ensure a decent standard of living. So in the efforts to raise the level of employment vis-à-vis the growth of labour force, the quality of employment very often gets compromised.

In recent years, some serious questions have been raised regarding the nature and quality of employment in India. The quality of employment can be judged by evaluating a variety of indicators such as :- productivity of employment, trends in self-employment and casual workers, earnings/wage-rates of self-employed and casual workers, proportion of workers in organised and unorganised workers, etc.

Self-employed registered a large increase in their numbers and casual labour a decline during the period 1999-00 to 2004-05. During this period a total of 83.7 per cent of additional workers numbering 49.75 million were added to the ranks of self-employed. From this, 27.10 million were self-employed in agriculture and 25.06 million in rural areas. The latest data also proves this fact.

Table 6.6 : Per centage distribution of workforce (UPSS) by Employment Status, 1993-94 to 2004-05.

Employment Status	1993-94	1999-2000	2004-05
RURAL			
1. Self employed	57.96	55.76	60.2
2. Wage workers	42.04	44.24	39.9
(i) Regular	6.45	6.83	7.1
(ii) Casual	35.59	37.41	32.8
URBAN			
1. Self-employed	42.29	42.23	45.4
2. Wage workers	57.71	57.77	54.5
(i) Regular	39.40	40.03	39.5
(ii) Casual	18.31	17.74	15.0

Source: Report of MoL & E, NSSO surveys.

6.5.3 Impact on Productivity and Real Wage Earnings

Productivity of employment

In 1999-2000, the per centage of people below poverty line was high at 26.1 per cent whereas the unemployment rate was 2.23 per cent. This shows that of the total employed persons, about 23.87 per cent fall under the category of working poor. The low productivity of employment was mainly a result of low educational and skill levels of the workers which could not be matched with the requisite jobs which emphasises the need to bring about professionalisation in education sector. A planned link between education and employment has to be created.

Table 6.7 : Average daily wage (In Rs.) of Regular and Casual workers (15-59 years) 2004-05.

	Male	Female	Index of Gender bias in Wage Payments
Regular			
Rural	144.93	85.53	0.59
Urban	203.28	153.19	0.75
Casual			
Rural	55.03	34.94	0.63
Urban	75.1	43.88	0.58

Source: Report to people, DGE&T

In the above table we can observe that on an average, casual workers have received a lower wage rate than the regular ones in both urban and rural areas. Amongst them female workers working as casual labour have been at the receiving end, as their wage-rates were less than $1/3^{rd}$ of the female workers in urban areas.

Another noteworthy point was the gender bias in the wage rates of females which was higher in urban areas as compared to rural areas in regular employment.

Check Your Progress 2

1) Enumerate the parameters for the assessment of economic reforms.

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2) Explain the trends in GDP growth during the pre-reforms and post-reforms period in India.

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3) Has economic reforms been successful in eradicating poverty and unemployment in India? Give reasons in support of your answer.

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4) Do you consider that the economic reforms has benefited labour in India? What have been the recent trends in quality of employment?

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6.5.4 Sectoral Performance during Reforms Era

Agriculture

Table 6.8 provides us the growth of the various components of GDP. It can be observed that during 1980-81 to 1990-91, the annual average GDP growth was 5.6 per cent. However during the post-reform period, it has increased to 7.6 per cent in 2001-12 from 5.7 during 1991-2001, which shows a marked increase in the last decade. However, the growth rate in agriculture was 3.7 per cent per annum during the pre-reform period (1980-81 to 1990-91) and has witnessed a decline to 2.9 per cent during 1991-2012. A near stagnation of the agriculture sector in period of economic reforms shows that the emphasis of growth process was on industry, corporate sector, banking, infrastructure and communications, and a near neglect of agriculture sector. This does not seem well in the nation's growth story. An obvious reason though has been decline in gross capital formation in agriculture. Especially the public sector investment has almost stagnated from 6.42 per cent in 1993-94 to 7.79 from the total gross capital formation in the country. Since public sector largely takes care of irrigation and rural investment, it has adversely affected food-grains production. Green revolution also didn't benefit all the regions in the country equally and so consequently, agricultural growth has suffered a decline.

Table 6.8 : GDP and GDP growth rates in different sectors.

Sector	GDP Contribution (Rs. Crores)						Annual Average Growth				
	1980-81	1990-91	2001-02	2009-10	2010-11	2011-12	1980-91	1991-2001	2001-10	2010-11	2011-12
Agriculture	49640	164575	534488	1243566	818524	834190	3.7	2.9	2.9	6.8	1.9
Manufacturing, Construction, Electricity, Gas and Water supply	30389	124684	483661	1499601	1249305	1305330	7.0	5.6	8.3	7.4	4.5
Trade, Hotels, Transport and Communications	21298	97313	476230	1477456	1330455	1479748	5.8	7.8	10.4	11.1	11.2
Finance, Insurance, Real estate and Business services	14010	59856	292862	1027158	849995	927546	9.9	8.1	10	10.4	9.1
Public Administration, Defence and other services	17183	68604	310485	885449	637675	675213	6.1	6.6	6.8	4.5	5.9
GDP at Factor cost	132520 (100.00)	515032 (100.00)	2097726 (100.00)	6133230 (100.00)	4885964 (100.00)	5222027 (100.00)	5.6	5.7	7.6	8.4	6.9

Industry

One of the major objectives of economic reforms was to remove obstacles for investments in industry. Abolishment of industrial licensing was undertaken to liberalise and accelerate industrial production. However the index of industrial production (IIP) has showed a growth rate of 7.8 per cent in the pre-reform period (1980-81 to 1990-91), and decelerated to 5.8 per cent during the post-reform period (1993-94 to 2002-03).

6.5.5 Economic Reforms, India's Foreign Trade and Balance of Payments

One of the major objectives of economic reforms was to boost exports in order to improve India's Balance of Trade position. As India was having a positive balance in net invisibles, the invisibles were able to partially wipe out trade deficit and the balance of payments deficit too.

Table 6.9 : Economic reforms, India's Foreign Trade and Balance of Payments.

($ million)

	Exports	Imports	Trade Balance	Net Invisibles	BoP on Current Account
	(1)	(2)	(3)	(4)	(5)
1991-92	18,266	21,064	-2,798	1,620	-1,178
1992-93	18,869	24,316	-5,447	1,921	-3,526
1993-94	22,683	26,739	-4,056	2,898	-1,158
1994-95	26,855	35,904	-9,049	5,680	-3,369
1995-96	32,311	43,670	-11,359	5,449	-5,910
Annual Average (1991-96)	23,797	30,339	-6,542	3,514	-3,028
Average growth rate	**11.8**	**9.3**			
2005-06	1,05,152	1,57,056	-51,904	42,002	-9,902
2006-07	1,28,888	1,90,670	-61,782	52,217	-9,565
2007-08	1,66,162	2,57,629	-91,467	75,731	-15,737
2008-09	1,89,001	3,08,521	-1,19,520	91,605	-27,915
2009-10	1,82,235	3,00,609	-1,18,374	79,991	-38,383
Annual Average (2005-2010)	1,54,287	2,42,897	-88,609	68,309	-20,300
2010-11	2,50,468	3,81,061	-1,30,593	84,648	-45,945

During the five year period (1990-91 to 1995-96), exports increased from $ 18,266 million in 1991-92 to $ 32,111 million in 1995-96, indicating a growth rate of 11.8 per cent. Similarly, imports grew from $ 21,064 in 1990-91 to $ 43, 670 million in 1995-96, indicating a growth rate of 9.3 per cent. The annual average exports were of the order of $ 23,797 million and imports were $ 30,339 million, resulting in a negative balance of trade of $ 6, 542 million. Surplus of net invisibles averaged $ 3, 514 million and they wiped out the trade deficit by 53.7 per cent. Consequently, balance of payments was adverse to the extent of an annual average of $ 3, 028 million.

The situation has improved in the last six year-period 2005-06 to 2009-10, as the exports have increased from $ 1,05,152 million in 2005-06 to $ 2,50,468 million in 2010-11. On the other hand, imports increased from $ 1,57,056 million in 2005-06 to $ 3,81,061 million in 2010-11 resulting in a negative trade balance of $ 1,30,593 million. The growth of net invisibles was however commendable at $ 84,648 and they wiped out the deficit in balance of trade by 77 per cent. Consequently, balance of payments was adverse to the extent of an annual average of $ 45,945 million. You will find more details on this issue in Unit 18.

It may be concluded that export promotion effort was nullified by a relatively larger increase in imports. Unlike China which has been able to generate a positive trade balance, India is far behind in this regard. A noteworthy feature of India's trade is the continuing growth of net invisibles, of which a major part is accounted by software exports. India has, therefore, been a gainer in net invisibles account.

Check Your Progress 3

1) Neglect of agriculture has been a major drawback of economic reforms. Why do you think agriculture sector has not received policy-attention during 1990s in the post-reform period?

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2) What has been the impact of economic reforms on Industrial growth in India?

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3) 'India has not been able to generate a positive trade balance in the post-economic reform era.' In the light of this statement, explain the trends in India's foreign trade.

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6.5.6 Economic Reforms and Investment Flows

A major objective of economic reforms was also to increase foreign investment, which helps to increase capital formation of the economy without creating foreign debt. Foreign investment flows take two ways — Foreign direct investment (FDI) and Portfolio investment (PI).

Foreign direct investment figures show that it has been increasing gradually from just \$ 97 million in 1990-91 to \$ 8901 million in 2005-06 and further to \$ 12,585 in 2010-11. As against it, foreign portfolio investment which is generally considered hot money is prone to fluctuations depending upon the economic environment. It was only \$ 6 million in 1990-91, rose to \$ 12,494 in 2005-06, went down to a net - \$ 13, 854 million, to again rise to \$ 32, 376 million. Such sharp fluctuations in portfolio investment has made it an unreliable source of foreign funds as it's related to international climate.

Table 6.10: Foreign Investment flows in India. (In US \$ Million)

Year	Direct Investment	Portfolio Investment	Total
1990-91	97	6	103
2000-01	4031	2760	5862
2005-06	8901	12494	15528
2006-07	22739	7004	14753
2007-08	34728	27270	43326
2008-09	37672	-13854	5785
2009-10	33124	32376	51167
2010-11	12585	23904	29137
Total (2005-06 to 2010-11)	149749 (93.77)	89194 (6.33)	159696 (100.00)

6.5.7 Economic Reforms and Reduction of Regional Disparities

An important objective of economic reforms was also to reduce regional disparities. Government has been helping the backward states with higher allocations so that regional disparities could be reduced.

An important point to note is that generally bigger and relatively more developed states attract more investments. Let us observe the progress of forward and backward states in the following table during post-economic reforms period.

Data provided in Table 6.11 reveals that NSDP in forward states indicated a growth rate of 6 per cent per annum during the period 1990-91 to 2000-01, but as against them, it grew in backward states at merely 1.4 per cent per annum. It is an indicator of increase in regional disparities.

A further look at the recent data from 2000-01 to 2008-09 reveals a U-turn in the growth of backward states. Impressive performance was reported during 2004-05 to 2008-09 in backward states leading to an average growth rate of 8 per cent. Orissa achieved the highest growth rate of 17.53 per cent, higher than any forward state also. Among the forward states, the average growth rate went down to 4.54 per cent per annum in 2000-01 to 2003-04 followed by a double increase during the period 2004-05 to 2008-09 at 8.42 per cent per annum. Detailed discussion on regional disparity has been given in Unit 13 of Block 4 of this course.

Table 6.11 : State-wise net State Domestic Product average growth rates.

States	1990-91 to 2000-01	2000-01 to 2003-04	2004-05 to 2008-09
Forward States	**6**	**4.54**	**8.42**
Punjab	4.7	0.86	10.01
Haryana	4.6	6.45	7.52
Maharashtra	6.2	1.35	9.24
Gujarat	5.7	3.95	12.65
Tamil Nadu	6.0	1.97	7.25
Andhra Pradesh	5.3	5.62	6.61
Kerala	5.7	2.32	6.18
Karnataka	7.6	8.84	8.32
West Bengal	6.7	6.01	3.39
Chhattisgarh		8.10	13.03
Backward States	**1.4**	**1.04**	**8**
Rajasthan	4.1	–0.93	7.79
Madhya Pradesh	–1.0	–4.40	6.73
Assam	2.3	7.37	3.61
Uttar Pradesh	2.4	2.67	6.54
Bihar	–3.1	–4.77	5.8
Orissa	3.3	6.34	17.53
All India	**5.5**	**5.63**	**8.54**

Source: Compiled and computed from Planning Commission website- Data Tables.

Thus, the data reveals that economic growth rate has accelerated during the period of 2004-05 to 2008-09 all over India, improving the all-India NSDP also from 5.5 per cent in 1990-2000 to 8.54 per cent per annum during 2004-2009.

6.5.8 Economic Reforms and Human Development

Impact of growth and economic reforms on human development is worth examining as it implies the actual benefits reaching the grass-root level. Human development can be assessed through data on key social indicators relating to education and health. Literacy rate is considered as a good indicator of human development in terms of education. For health, the indicators used are life expectancy, infant mortality, birth and death rates, sex ratio etc.

A quick glance through the available relevant data in different reports by as varied agencies as UN, World Bank, Asian Development Bank, Government of India various NGOs, both domestic and international, as also primary data collected by different research institutions, universities and corporate bodies, brings on the unmistakable fact that there has been an encouraging improvement on all these counts over the last two decades. The growth may not be similar throughout the country, but it is unmistakably there. Moreover, the available data indicates that it is possible to achieve higher levels of human development even with relatively lower levels of economic development as has been demonstrated by Kerala and Tamil Nadu. Among the backward states, Bihar has shown a considerable improvement in literacy rates and has improved from 47.5 as total literacy rate in 2001 to 63.82 in 2011. The other backwards states, have also marginally improved literacy by 5-6 per cent in the past decade. Incidentally even among the forward states like Haryana, Andhra Pradesh and Karnataka, the female literacy rate is relatively poor.

Most of the backward states have poor record in health indicators too. It may be pointed out that even among the forward states, Haryana indicates a poor record in terms of infant mortality and sex-ratio (i.e. no. of females per 1000 of males, though it enjoys 5th rank in NSDP. Kerala represents a case where a relatively lower level of economic development has accompanied a high level of human development. Sex ratio in Kerala (1,084) is highly appreciable. Even Orissa's sex ratio is 978 which is highly commendable given its lower literacy rate, life expectancy as well as NSDP.

Check Your Progress 4

1) How far economic reforms have been successful in increasing the foreign investment flows?

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2) 'Government has been helping the backward states with higher allocations so that regional disparities could be reduced.' Do you feel it has been successful in this objective in the post-economic reforms period?

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3) Has economic growth led to an improvement in human development in India uniformly? Explain with the help of relevant data.

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6.6 LET US SUM UP

This unit has mainly dealt with the rationale, features and impact of economic reforms initiated in 1991. The rationale behind the reforms was primarily to introduce liberalisation, restrict bureaucratic controls, remove restrictions on direct foreign investment and to encourage privatisation with a view of decompressing the load on public sector enterprises. The key feature of economic reforms was the LPG model put forth by the Government with a view of integrating the Indian economy with the global economy.

The impact of economic reforms has been positive in terms of GDP growth and also the increase in foreign investments has been satisfactory. However the broader problems of our nation like poverty and unemployment have not got the stimulus from these reforms. The agricultural growth has also been neglected as seen by the near stagnation of capital investments in it by public sector. Economic reforms have also not been successful in accelerating industrial growth.

Economic reforms have helped foreigners to penetrate in the Indian market to a greater extent than Indians to penetrate in foreign markets. The continuing balance of trade deficit is evidence to it.

Economic reforms have also failed in reducing regional disparities. The gap between the bigger and smaller states is rising over-time.

6.7 EXERCISES

1) 'The growth process has not been uniform as its prone to economic as well as political environment of the country.' Discuss

2) 'In a poor country like India, being employed itself doesn't ensure a decent standard of living.' Do you agree? Give reasons in support of your answer.

3) Did the economic reforms of 1991 been successful in meeting India's challenges in improving human development and standard of living? Also explain the linkages of economic development and human development, if any.

6.8 KEY WORDS

Trade Balance : The difference between the value of exports and imports of a country.

Balance of Payment on Current Account includes three items : (i) Visible trade relating to exports and imports; (ii) Invisible items, viz. receipts and payments for such services as shipping, banking, insurance, travel, software services, etc. and (iii) Unilateral transfers such as donations.

Direct Investment : It includes equities held by: (a) Government and Reserve Bank of India, (b) Non-resident Indians, (c) Acquisition of shares in incorporated bodies, (d) Equity capital of unincorporated bodies, (e) Reinvested earnings and (f) Other capital or inter-company debt transactions of FDI companies

Portfolio Investment : It includes: (a) Global Depository Receipts/ American depository receipts, (b) Investment by Financial Institutional Investors and (c) Off Shore Funds, etc.

6.9 SOME USEFUL BOOKS

Dhingra, I.C. (2012): *The Indian Economy: Environment and Policy (27th edition.2012).*

Panagriya, Arvind (2008): *India: The Emerging Giant,* Oxford University Press, New York.

Government of India (2011-12): *Economic Survey.*

Planning Commission: *Data and Statistics,* www.planningcommission.nic.in

Annual Report to the People on Employment (2010), Government of India, Ministry of Labour and Employment.

6.10 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) See Section 6.2
2) See Section 6.3
3) See Section 6.1 and Sub-section 6.3.4
4) See Table 6.1

Check Your Progress 2

1) See Section 6.4
2) See Sub-section 6.5.1
3) See Sub-section 6.5.1
4) See Sub-section 6.5.2

Check Your Progress 3

1) See Sub-section 6.5.3
2) See Sub-section 6.5.4
3) See Sub-section 6.5.5

Check Your Progress 4

1) See Sub-section 6.5.6
2) See Sub-section 6.5.7
3) See Sub-section 6.5.8