RESEARCH REVIEW JOURNALS
Volume-03
Issue-12
December -2018

ISSN: 2455-3085 (Online)
RESEARCH REVIEW International Journal of Multidisciplinary
www.rrjournals.com [UGC Listed Journal]

Twenty-Five Years of Liberalisation

Harpreet Kaur

Associate Professor, Mata Ganga Khalsa College for Girls, Manji Sahib, Kottan, Ludhiana, Punjab

ARTICLE DETAILS

Article History
Published Online: 10 December 2018

Keywords
economic policy, independence, protectionism

ABSTRACT

The economic policy after independence was influenced by the colonial experience tended towards protectionism, with a strong emphasis on import substitution, industrialization under state monitoring, state intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation, and central planning. The process of Five-Year Plans was followed in India which was based on the 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. Appropriate licences, rules and regulations accompanied with Red Taoism commonly referred to as Licence Raj, were required to set up business in India between 1947-90.Before the policy of liberalisation in 1991, the government attempted to close the Indian economy to the outside world. The Indian currency, the rupee, was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market. The bureaucracy often led to absurd restrictions. The central pillar of the policy was import substitution and India needed to rely on internal markets for development but not international trade.

1. Introduction

Liberalization is any process whereby a state lifts restriction on some private individual activities and it occurs when something which used to be banned is no longer banned, or when government regulations are relaxed. The economic liberalisation in India refers to the liberalisation of the country's economic policies, initiated in 1991 with the goal of making the economy more market- and service-oriented, and expanding the role of private and foreign investment. Most of these changes were made as part of the conditions laid out by the World Bank and the IMF as a condition for a $500 million bail out to the Indian government in December 1991. Specific changes include a reduction in import tariffs, deregulation of markets, reduction of taxes, and greater foreign investment. Liberalisation has been credited by its proponents for the high economic growth recorded by the country in the 1990s and 2000s. Its opponents have blamed it for increased inequality and economic degradation. The overall direction of liberalisation has since remained the same, irrespective of the ruling party, although no party has yet solved a variety of politically difficult issues, such as liberalising labour laws and reducing subsidies on agriculture. There exists a lively debate in India as to whether the economic reforms were sustainable and beneficial to the people of India as a whole.

Indian government coalitions have been advised by the IMF and World Bank to continue liberalisation. Before 2015, India grew at a slower pace than China, which had been liberalising the economy since 1978. In 2015, India's GDP growth outpaced that of China.The McKinsey Quarterly stated that removing major obstacles "would free India's economy to grow as fast as China's, at 10% a year".

Indian economic policy after independence was influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature) and by those leaders' exposure to socialism. Policy tended towards protectionism, with a strong emphasis on import substitution, industrialisation under state monitoring, state intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation, and central planning. 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. Elaborate licences, regulations and the accompanying red tape, were required to set up business in India between 1947 and 1990.

Before the process of reform began in 1991, the government attempted to close the Indian economy to the outside world. The Indian currency, the rupee, was inconvertible and high tariffs and import licensing prevented foreign goods reaching the market. India also operated a system of central planning for the economy, in which firms required licences to invest and develop. The labyrinthine bureaucracy often led to absurd restrictions—up to 80 agencies had to be satisfied before a firm could be granted a licence to produce and the state would decide what was to be produced, how much, at what price and what sources of capital were used. The government also prevented firms from laying off workers or closing factories. The central pillar of the policy was import substitution, the belief that India needed to rely on internal markets for development, not international trade—a belief generated by a mixture of socialism and the experience of colonial exploitation. Planning and the state, rather than markets, would determine how much investment was needed in which sectors.

The Finance ministry led by, the finance minister Manmohan Singh, initiated the economic liberalisation of 1991 with the support of the then Prime minister Narasimha Rao. The reforms did away with the License Raj, reduced tariffs and interest rates and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors. Since then, the overall thrust of liberalisation has remained the same, although no government has tried to take on powerful lobbies such as trade unions and farmers, on contentious issues such as reforming labour laws and reducing agricultural subsidies. By the turn of the 21st century, India had progressed towards a free market economy, with a

RRIJM 2015, All Rights Reserved

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, although urban residents have benefited more than rural residents. World Bank loans had been taken for agricultural projects since 1972, these continued as international seed companies were able to enter Indian markets.

On 12 November 1991, based on an application from the Government of India, World Bank sanctioned a structural adjustment loan that consisted of two components - an IBRD loan of $250 million to be paid over 20 years, and an IDA credit of SDR 183.8 million which is equivalent to $250 millionwith 35 years maturity, through India's ministry of finance, with the President of India as the borrower. The loan was meant primarily to support the government's program of stabilization and economic reform. This specified deregulation, increased foreign direct investment, liberalization of the trade regime, reforming domestic interest rates, strengthening capital markets including stock exchanges and initiating public enterprise reform which involves selling off public enterprises.

2. Steps Taken For Liberalisation

1. The Atal Bihari Vajpayee administration surprised many by continuing reforms, when it was at the helm of affairs of India for six years, from 1998–99 and from 1999–2004.
2. The BJP-led NDA coalition began privatising under-performing government-owned business including hotels, VSNL, Maruti Suzuki and airports, and began reduction of taxes, an overall fiscal policy aimed at reducing deficits and debts and increased initiatives for public works.
3. The United Front government attempted a progressive budget that encouraged reforms, but the 1997 Asian financial crisis and political instability created economic stagnation.
4. Towards the end of 2011, the Congress-led UPA-2 Coalition Government initiated the introduction of 51% in retail sector. But due to pressure from fellow coalition parties and the opposition, the decision was rolled back. However, it was approved in December 2012.
5. In the early months of 2015, the second BJP-led NDA Government under Narendra Modi further opened up the insurance sector by allowing up to 49% FDI. This came seven years after the previous government attempted and failed to push through the same reforms and 16 years after the sector was first opened to foreign investors up to 26% under the first BJP-led NDA Government under Atal Bihari Vajpayee's administration.
6. The second BJP-led NDA Government also opened up the coal industry through the passing of the Coal Mines (Special Provisions) Bill of 2015. It effectively ended the Indian central government's monopoly over the mining of coal, which existed since nationalization in 1973 through socialist controls. It has opened up the path for privateforeign investments in the sector, since Indian arms of foreign companies are entitled to bid for coal blocks and licences, as well as for commercial mining of coal. This could result in billions of dollars investments by domestic and foreign miners. The move is also beneficial to the state-owned Coal India Limited, which may now get the elbow room to bring in some much so needed technology and best practices, while opening up prospects of a better future for millions of mine workers.
7. In the 2016 budget session of Parliament, the Narendra Modi led BJP Government pushed through the Insolvency and Bankruptcy Code. The Code creates time-bound processes for insolvency resolution of companies and individuals. These processes will be completed within 180 days. If insolvency cannot be resolved, the assets of the borrowers may be sold to repay creditors. This law drastically eases the process of doing business, according to experts and is considered by many to be the second most important reform in India since 1991 next to the proposed GST.

On July 1, 2017, the BJP-led NDA Government under Narendra Modi approved the Act to Uniform Goods and Services Tax. It was approved 17 years after the legislation was first proposed under the earlier BJP-led NDA Government under Atal Bihari Vajpayee's administration in 2000. Considered to be India's biggest tax reform in 70 years of independence and the most important overall reform in terms of ease of doing business since 1991, GST replaced a slew of indirect taxes with a unified tax structure and was therefore showcased as dramatically reshaping the country's 2.5 trillion-dollar economy. There has been significant debate, however, around liberalisation as an inclusive economic growth strategy. Income inequality has deepened in India since 1992, with consumption among the poorest staying stable while the wealthiest generate consumption growth. India's GDP growth rate in 2012–13 was the lowest for a decade, at just 5.1%, at which time more criticism of India's economic reforms surfaced.It apparently failed to address employment growth, nutritional values in terms of food intake in calories, and also export growth—and thereby was leading to a worsening current account deficit compared to the period prior to reform.

The “reforms” in 1991 laid out a new trajectory in which federalism was dichotomised into two parts—political and fiscal. The fiscal was privileged and used to undermine the political. Fiscal federalism in India since 1991 rests on the contradictions generated by the theoretical infirmities of the sound finance paradigm along with a concerted undermining of federal provisions. This political drive is in keeping with the agenda since 1991, eroding the relative autonomy of the state to turn it into a facilitator of a macroeconomic expansion process in which the wage–surplus distribution becomes more and more favourable to capital.

Since 1991, there has been an acceleration of economic growth accompanied by a widening of the range of consumer goods produced, together with improvement in the quality of services available. Furthermore, the economy has passed through the longest period since 1947 without facing balance-of-payments crisis. However, not all sectors of the economy have shown the same dynamism, with the performance of agriculture actually becoming a cause for concern. The

unequal distribution of social opportunity has meant that this shortcoming has left a significant section of the population in a low-income pool. What underlies this outcome is examined and what is needed to correct the imbalance is proposed. Manufacturing output grew 7%–8% annually since 1991, with a marked improvement in the variety and quality of goods produced. Yet, its share in gross domestic product has practically stagnated, with a sharp rise in import intensity. Liberal and market-friendly policies were expected to boost labour intensive exports and industrial growth. But the manufacturing sector fail to realise these goals. It is widely believed that India needs to "complete" the reform agenda to realise its potential. Critically examining such a view, it is suggested that the long-term constraints on industrialisation perhaps lie in poor agricultural productivity and inadequate public infrastructure. Further, there is a need to re-imagine the role of the development state to realise goals, as the experience of all successful industrialising nations suggests. Even if adjustment and reform in 1991 were driven by economic compulsions, it was the political process that made these possible. However, liberalisation was shaped largely by the economic problems of the government rather than by the economic priorities of the people or by long-term development objectives. Thus, there were limitations in conception and design which have been subsequently validated by experience. Jobless growth, persistent poverty and rising inequality have mounted as problems since economic liberalisation began. And, 25 years later, four quiet crises confront the economy, in agriculture, infrastructure, industrialisation and education as constraints on the country's future prospects. These problems must be resolved if economic growth has to be sustained and transformed into meaningful development. Thus, India needs the developmental economic set up in order to improve the living conditions of its people.

References

1. Angela Saini, "India Is an Emerging Geek Power," *Guardian*, March 3, 2011..
2. Ambika Choudhary Mahajan, "1.5 Million Engineers Pass Out in India Every Year, Fewer Getting Hired," *Dazeinfo*, October 28, 2014.
3. Bhagwati, Jagdish N.; Srinivasan, T. N. (1975). *Foreign Trade Regimes and Economic Development: India*. The National Bureau of Economic Research. ISBN 0-87014-531-2.
4. Fareed Zakaria, "India Rising," *Newsweek*, March 5, 2006.
5. Jean Drèze and Amartya Sen, *An Uncertain Glory: India and Its Contradictions* (New Delhi: Penguin, 2013).
6. "Redefining The Hindu Rate of Growth". *The Financial Express. 12 April 2004.*
7. S. Mahendra Dev, "Economic Reforms in India."
8. Sharma, Chanchal Kumar (2011). "A Discursive Dominance Theory of Economic Reform Sustainability: The Case of India". *India Review*. 10 (2): 126–184.
9. Srinivas, V. (27 March 2018). "India's IMF Programmes—1966 and 1981: An Analytical Review". *Indian Journal of Public Administration*. 64 (2): 219–227.
10. Swaminathan S. A. Aiyar, "The Elephant That Became a Tiger: 20 Years of Economic Reform in India," Cato Institute Development Policy Analysis no. 13, July 20, 2011.