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INDIAN

ECONOMY

DEVELOPMENT EXPERIENCE OF INDIA

India's Development Experience : Policies, Priorities & and performance Post -independence Development Policy Regions.

For the first four decades after independence (in 1947) India followed a development Strategy of import Substituting Industrilisation, largely inspired by the Soviet model.

- Central economic planning
- a mixed economy was envisaged
- Clearly assigned role for the private Sector. but with pervaive regulatory Control by the government
- the public Sector was expected to reach the "Commanding heights" of the economy.

Post- Independence development Strategy (till mid-1980s)

- Restrictions on foreign investments; trade received very little attention, import Substitution for "Self reliance" Was the buzz word. Indian planners were effectively operating under the assumption of a nearly closed economy
- The Second 5 year plan model was in a sense the back bone of India's post-independence development Strategy.
- It closely resembled feldman's model of the Soviet Union in the 1920s.
- Stress on heavy industries (Capital goods Sector) primarily under the aegis of the state. Genesis of India's strategy of import Substituting Industrilisation for self reliance

Long Legecy of Colonical rule - do India's Strategy of Import Substitution do away with all elements of dependence on this Western World.

- Important to Signal to the rest of the World India's Capable of doing what the rest of World Can do - 'Nehruvian' Socialism - lack of faith in the market, role of State emphasized
- Influence of the latin American Structuralist School of thought - elastically pessimism and Inequalising trade.
- Standard argument of infant industry protection.
- Almost all developing nations embraced import Substitution at the time. This Strategy was almost universally endorsed by the international development policy Circle.

Post Independence Trade policy Pre 1966: Pervasive import and exchange Control policy relaying primarily on quantive restrictions (QRs)

- Based On detailed estimate of foreign exchange availability made by the Ministry of finance
- After pre-empting for essential requirements (Embassy expenses, food fertiliser and petroleum imports), the rest was allocated to Competing users through the mechanism of import licensing.
- Two principle Criteria (1) essentiality and (2) indigeous non availability, but absence of well defined set of Objective principles.

- Preference given to Small Scale (Over large Scale) and public Sector (Over private Sector)

1962 Onwards: QRs were supplemented by increasing use of import duties.

Export policy – intially an attitude of indifference and "pessimistic neglect" – there were exports during the first two plans)

From the third plan (1961/62) deliberate policies of export promotion through export incentive (Subsidies, fiscal incentive, and import entitlements.).

Devalution of 1966 – a full policy package of devalution with liberlisation – 57.5% devalution of the rupee – Substantial elimination of export incentives on non traditional exports – official declartion of a policy of liberlized import licensing and reduced import duties.

Post 1966 :– Strinkgly early revival of export Subsidies
- Continuation of QRs driven import control regime
- Import tariffs remained unusually high by international Standards – 140% + for 70% of lines 100% + 88% of lines and 99% of all traffic lines. To Summarise The Objective of India's inwards-looking Sale strategy of import Substitutions was to set up domestic Industrial Capacity for whichever goods (Consumer and producer) Could be produced domestically and protect them

from International Completion - Very high effective Rate of Protection (ERP) - Calculations by Bhagwati and Srinivasan (1975) - Disorted resource allocation towards Capital Intensive Industries that Would Otherwise be unprofitable domestically under an "efficient" market determined allocation of resources To Summarise - Strong anti-export bias in the regime Sought to be countered with export incentives - Bhagwati and Desai (1970) aptly Summarises "India should produce Whatever it can and Should export whatever it produces, (2) encouraged diverfield basket of manufactures (import Substitutes) being produced and exported, Completely ignoring the dicates of natural Comparative advantage.

Post - independence industrial Policy

- Aimed at - Creating a large public Sector reserving Certain industries for this Sector exclusively - mostly strategic and heavy industries - Consumer goods industries left to the Private Sector - Reducing monopoly and Concentration - Promoting Small Scale industries through extensive reservations. Promoting balanced regional devlopment.

- System of industrial licensing formed the backbone of industrial Policy - License must be obtained to Set up industrial units and for major expansions - Small Scale Sector exempted - Govt. can lay down

Criteria regarding size, location, foreign collaborations etc.

- Consequences – Throttled competition by restricting entry and exit – Pre emptive licensing behaviour by large houses – Serious adverse implications for scale of production and plant size – Preventing full exploitation of scale economies – Complex administrative prosedure caused hurdles, delays, and corruption resulting in inefficiencies.

Post – independence technology policy

The basic objective was "the devlopment of indigenous technology and efficient absorption and adaption of imported technology appropriate to national priorities and resources" to attain self – reliance.

- The main focus of India's technology policy was not only to build up search – selection –, implementation – absortive capablity, but also to acquire technological capabilities of adapration and minor innovation through reverse engincering.

- Govt. spent money on R&D and also offered fiscal and non – fiscal incentives for technologica capability building.

- Prior to the 1990's the main thrust of R&D incentives was to generate indigenous technologies primarily in the institutional Sector and facilitate effective Commercialisation, transfer and absorption of such technologies in the industrial Sector.

- Technology imports were restricted and highly regulated.

- Thus, India's technology policy in the pre reforms era was essentially grounded on building up or national level Capabilities through the public institutions, while at the same time the industry was encouraged to actively engage in R&D activities to devlop absorptive and adaptive Capabilities of minor innovations.

3.2. Economic reforms since 1991 - New Economic policy (NEP)

Economic reforms or structural adjustment is a long-term multi-dimensional package of various policies and programmes for further economic development. It includes reformsin agriculture sector, industrial sector, financial sector, fiscal sector, international trade, etc.

In India, the speedy and proper implementation for economics reforms were undertaken by the Narsimha Rao Government in July, 1991.

3.2.1 Objectives of NEP 1991

The objective of New Economic Policy are:

(a) To reduce fiscal deficit and to have relative price stability.

(b) To reduce the area of operation of the public sector and to open up more than areas for the private sector

(c) To liberalise industrial policy and abolish industrial licensing for most of the private sector industries.

(d) To encourage inflow of foreign capital by granting more concessions to foreign direct investment.

(e) To liberalise foreign trade by reducing tariff duties and abolishing quota restrictions in case of many imports.

The new Economic policy is also called the Policy of "Economic Reforms" since seeks to remove the inefficiencies in the economic system.

3.2.2 Compose of NEP 1991

The two components of NEP, 1991 are :-

1. Macroeconomic stabilisation - Demand Side Management.

Macroeconomic stabilisation politics are short-run measures to return to low and stable inflation and a sustainable fiscal and balance of payments position. Thus, stabilisation policies brings about demand side management which includes measures like :-

(a) Control of Inflation.
(b) Fiscal correction.
(c) Improvement in a balance of payments situation.

2. Structural Adjustment - Supply Side Management.

Structural adjustment policies are long-run measures to remove the bottlenecks and obstacles in the growth path of an economy. These policies bring about supply like side management which includes measure like:

(a) Trade and capital flow reforms
(b) Industrial deregulation.
(c) Public sector reforms and disinvestment.
(d) Financial sector reforms.

The goals of structural reforms is to abolish controls eliminate bureaucratic hurdles and redtapism and make the decision making process efficient and transparent.

3.2.3 NEP - Policy of Liberalisation, Privatisation and Glo

In the NEP 1991, structural reforms can be seen with respector to:

1. Liberalisation.
2. Privatisation.
3. Globalisation.

3.3 LIBERALISATION

3.3.1 Meaning of Liberalisation

Liberalisation means removing all unnecessary controls and restrictions like permits, licenses, protectionist duties, quotas ete. imposed by the government.

Prior to 1991, government was enforcing regulation in many ways:

(a) Industrial licensing (in this every entrepreneur had to get permission from government to start a firm, expand a firm, or to start production of an new good).
(b) Private sector was not allowed in many industries.
(c) Some goods could be produced only in small scale industries.
(d) Price controls and control on distribution of selected industrial products.
(e) Import license (in this, license had to be taken to import)
(f) Foreign exchange control.
(g) Restrictions on investment by big business house etc.

These controls resulted in:

(a) Consumption delays.
(b) Losses.
(c) High cost economy.

3.3.2 Objectives of liberalisation.

It was believed that market forces would guide the economy in a more effective manner with liberalisation. Countries like Korea, Singapore and Thailand which gained rapid economics development due to liberalisation had set and examples.

Objective of the policy of liberalisation in 1991, were:

1. To raise internal competitiveness of industrial production.
2. To raise foreign investment and technology.
3. To reduce debt burden of the country.
4. To get an opportunity to export to developed countries and to import capital goods and machinery from them.

3.3.3 Liberalisation Measures.

Liberalisation was introduced in many areas in July 1991. These were:

1. Industrial Sector Reforms

Government announced the New Industrial Policy in 1991. The main industrial reforms were:

1. Abolition of industrial licensing: Industrial licensing was abolished for all projects except for 6 industries related to security and strategic concerns and items of elitist consumption. These industries are:

(i) liquor
(ii) cigarettes
(iii) industrial explosives,
(iv) defense equipments
(v) drugs and pharmaceuticals, and
(vi) dangerous chemicals.

2. Contraction of Public Sector :
The number of industries exclusively reserved for the public sector has been reduced from 17 to 3. The only industries reserved for the Public sector are : defence equipments, atomic energy generation and railway transport.

3. Reforms in Small Scale Sector : According to the new policy investment limit of small scale industries has been increased to one crore with a view to modernise them. Many goods produced by SSI units have now been de-reserved.

4. Concession in the MRTP Act :- The new industrial policy scrapped the threshold limit of assets in respect of MRTP and dominant undertakings. These firms will now be at per with others, and not require prior approval from the government for investment in the delicenesed industries. The MRTP Act has been accordingly amended. The new Act gives more emphasis to the prevention and control of monopolistic, restrictive and unfair trade practices.

2. Financial Sector Reform
Prior to 1991, banking institutions were subject to too much control by the RBI through high bank rate, high case reserve ratio and statutory liquidity ratio.
Financial sector includes :
(a) banking and non-banking financial institutions.
(b) Stock exchange market and.
(c) foreign exchange market.

In India, financial sector is regulated and controlled by the RBI (Reserve Bank of India), liberalisation implied:

1. There was a substantial shift in role of the RBI from 'a regulator' to 'a facilitator' of the financial sector. Earlier as a regulator, the RBI would itself fix interest rate structure for the commercial banks. After liberalisation in 1991, RBI as a facilitator would banks to decide their interest rate structure. Thus, with liberalisation competition prevails rather than controls.
2. Both Cash Reserve ratio (CRR) and Statutory liquidity Ratio (SLR) have been reduced to increase availability of funds with commercial banks to advance more credit.
3. Bank rate has been reduced. It lowered the interest rate charged by the commercial banks thus, encouraging credit.
4. Foreign Institutional Investors (FII) such as Merchant bankers mutual funds and pension funds are now allowed to invest in indian financial markets.
5. There was establishment of private sector banks, Indian as well as foreign. Foreign investment limit in banks was raised to around 50 percent.
6. The stock market (SEBI) has been made a statutory body. The Securities and Exchange Board of india (SEBI) was established in 1988 with defined responsibilities for development and regulation of the stock market.

3. Tax Reforms

Fiscal policy refers to the public expenditure and revenue policies of the government. By Before 1991 both direct and and indirect taxes were high. This encouraged tax evasion and provided disincentives to honest tax payers. Direct taxes are those taxes the impact of which cannot be shifted