Impact of Economic Reforms,1991

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Introduction

- The Economic Policy of India, declared on July24, 1991 is considered as the most contemporary and influential public law of the country after its independence.
- It opened the ways for Liberalization, Privatization and Globalization (LPG era).
- It was the result of economic crisis of the country.
- It was also affected by the GATT.
- It changed the entire scenario of Indian economy.

Major Impacts

- As per Cato. org., the United States sees India as potentially the only country in Asia that can check a rising Chinese juggernaut in the 21st century. And Newsweek has called India a "potential superpower."
- Once a poor economic laggard, India now has the third-largest GDP ($7.98 trillion) in the world in purchasing power parity terms after China and the United States .
- Per capita income is up from $375 per year in 1991 to $1,700 today. India has long ceased to be a low-income country as defined by the World Bank, which uses a threshold of $1,045, and has become a middle-income country.

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- India's annual GDP growth rose from 3.5 percent in 1950-80 and 5.5 percent in 1980-92 to an average of 8 percent since 2003, with a peak exceeding 9 percent in the three years 2005-8 (see Table 2). The International Monetary Fund estimates India's GDP growth at 7.3 percent in 2015 and 7.5 percent in 2016, faster than China's rates (6.9 percent and 6.5 percent, respectively). In a depressed global economy, the IMF sees the United States and India as the two bright spots, as the two major economies holding up an otherwise slowing world.

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- Before 1991 India was derisively called a bottomless pit for foreign aid. Every few years, a food crisis or foreign exchange crisis would send Indian ambassadors and politicians scurrying around the world, asking like Oliver Twist for more. Today, aid has not vanished but has become irrelevant to the balance of payments or investment plans. Gross aid flows exceed $5 billion, but after debt servicing, the net inflow is barely $0.5 billion.
- An unexpected new development has been the rise of India's own aid to developing countries (though some would call it quasi-commercial loans to sell Indian equipment). India's net aid giving is now well over $1 billion per year, with Bhutan ($813 million) being the biggest beneficiary in 2014-15. Prime Minister Modi has offered African countries a $10 billion combined line of credit and Bangladesh $2 billion. The country that used to be a bottomless pit for aid is now a bountiful financier.

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- Its commercial finance has been spurred by economic reforms that have attracted inflows of foreign exchange other than foreign aid. Total foreign investment (equity plus portfolio inflows) came to $51.2 billion in 2014-15. Foreign commercial borrowing in the same year came to $68.2 billion gross and $10.4 billion net, whereas remittances from Indians overseas exceeded $70 billion. The remittance boom was a consequence of globalization, of Indians going abroad. Remittances remained stable through the Asian financial crisis and Great Recession (2007-9) and have greatly helped counter the volatility of foreign portfolio capital (sometimes called hot money) in difficult times. Critics of globalization once claimed it would make India subservient to foreign masters. Instead, by encouraging the movement of persons and goods, it has created a remittance flow and export strength that makes foreign aid irrelevant.

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- In the bad old days, any major drought meant India was dependent on food aid. When two droughts occurred in a row, as in 1965 and 1966, India survived only because of record food aid from the United States. A 1967 best-selling book by William and Paul Paddock declared that simply not enough food aid existed to save all needy countries, and so hopeless countries like India should be left to starve, conserving food aid for countries that were capable of survival.

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- The Green Revolution made India first self-sufficient and then a surplus producer of food. India suffered two consecutive droughts in 2014 and 2015, yet agricultural production actually rose slightly; India became the world's largest rice exporter in 2015, exporting 10.23 million tons. India has also become a substantial exporter of wheat and maize in recent years. That is a measure of its agricultural transformation. Paddock and Paddock never imaged that India, which swallowed almost the entire food aid of the world in the mid-1960s, would become a donor of food aid to North Korea in 2010.

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- India's poverty ratio did not improve at all between independence in 1947 and 1983; it remained a bit under 60 percent. Meanwhile, the population virtually doubled, meaning the absolute number of poor people doubled. That was a cruel reflection of the failure of the socialist slogan Garibi Hatao (Abolish Poverty). Poverty started declining gradually after 1983, but the big decline came after economic liberalization. In the seven years between 2004-5 and 2011-12, no fewer than 138 million Indians rose above the poverty line .
- India's poverty decline was 0.7 percentage points per year between 1993-94 and 2004-5, when GDP growth averaged about 6 percent per year. The annual rate of decline accelerated to 2.2 percent between 2004-5 and 2011-12, when GDP growth accelerated to over 8 percent per year. The link between fast growth and poverty reduction is striking.

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- In 1991, it took two years for anyone to get a telephone landline connection. N. R. Narayana Murthy, head of top software company Infosys, recalls that in the 1980s, it took him three years to get permission to import a computer and over one year to get a telephone connection.
- Today, the cell phone revolution means instant access to communication even in remote villages. The number of cell phone connections has just exceeded one billion. India has among the cheapest cell phone rates in the world, barely two cents per minute, and second-hand cell phones cost just $5, so even the poor can afford to make calls. That advancement has facilitated migration out of and remittances to poor areas. Once unconnected India is now globally connected.

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- In 1991 India's main exports were textiles and cut-and-polished gems. Today, its main exports are computer software, other business services, pharmaceuticals, automobiles, and auto components. Most developing countries grew fast by harnessing cheap labor. India never did so, because its rigid labor laws inhibited labor flexibility, and they still do so today. Software and business services are estimated at $108 billion in 2015-16, up from virtually nothing in 1991. The range of business services has expanded from call centers and clerical work to high-end financial, medical, and legal work. Credit ratings agencies like Moody's and Standard and Poor's, which once gave India very poor ratings, now do a significant amount of their work out of India.

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- In 1991 Indian companies used obsolete technologies based on ancient licensing agreements and did very little research and development. Today, India has emerged as a global research and development (R&D) hub. General Electric has located one of its five global R&D centers in Bengaluru. Suzuki and Hyundai have made India a hub for small-car research and production. Microsoft and IBM are among the global companies using India as an R&D base.
- Imports and exports, of both goods and services, have soared as a proportion of GDP because of India's opening up and consequent globalization. The World Bank estimates that in the period 2011-15, India's total trade (imports and exports) as a proportion of GDP was 49 percent, higher than the only two other continental-sized economies: China (42 percent) and the United States (30 percent). Many Indian politicians are still instinctively protectionist, yet the data show how much opening up has already happened.

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- India has become a global hub for computer software development. Microsoft, Oracle, SAP, IBM, Accenture, and other top international companies use India as a base. IBM has more employees in India than in the United States, because Indian skills are often as good as — and much cheaper than — those in the West. That fact has led to many complaints that IBM is shifting jobs to India. Many Indian engineers and scientists who used to work for multinationals abroad have returned to work in the companies' Indian subsidiaries and branches. The former brain drain has turned into brain circulation. The Guardian carried an analysis titled "India Is an Emerging Geek Power."

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- India is now a low-cost commercial satellite launcher. By October 2015, it had launched 51 satellites for foreign countries, with payloads of less than 1,600 kilograms. To gain market share, it needs to develop payload capacity of over 3,000 kilograms, and building that capacity is a work in progress.
- In 1991 India produced fewer than 50,000 engineers per year, mostly from government colleges. India's economic success after 1991 has spurred the creation of thousands of private engineering colleges, with estimated admissions of 1.5 million students per year. The quality of the colleges is spotty, often dreadful. One oft-quoted rule of thumb is that half the graduates are useless, a quarter are usable, and a quarter are world-class. That outlook suggests massive waste. Yet producing up to a quarter million world-class engineers per year is a very solid base for future progress.

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- In 1991 Indian politicians and industrialists feared that economic liberalization would mean the collapse of Indian industry or its conversion into subsidiaries of multinational companies. Twenty-five years later, Indian companies not only have held their own but also have become multinationals in their own right. Dozens of Indian pharmaceutical companies — such as Sun Pharma, Cipla, Lupin, and Dr. Reddy's Labs — are now multinationals with higher sales abroad than in India. Through acquisitions, ArcelorMittal became the biggest steel company in the world. The Tata Group acquired Corus Steel and Jaguar Land Rover and in the process became the largest private-sector employer in the United Kingdom.

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- India is about to reap a demographic dividend that will give it a big edge over rivals. The number of working-age people between 15 and 60 is expected to rise by 280 million between 2013 and 2050, even as China's workforce dwindles from 72 percent to 61 percent of a soon-to-be declining population. All the Asian tigers enjoyed a demographic dividend in their boom years, and all are aging now.
- The Indian word jugaad has crept into management literature. It originated when Indian farmers wanted an inexpensive vehicle and got the idea of strapping an irrigation pump on a steel frame with four wheels to create a functioning vehicle called a jugaad.
- *Source-https://www.cato.org/publications/policy-analysis/twenty-five-years-indian-economic-reform#related-content*