

THE NEED FOR ECONOMIC REFORMS BEYOND LIBERALIZATION

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Abstract

In recent decades, India's economic growth trajectory has been marked by a distinct acceleration, delineated from the 'Hindu' growth rate of 3.5% that characterized the period following independence until the mid 1970s (Rodrik and Subramanian, 2005). This has been proceeded by an average GDP growth rate of 5.7% between 1981-82 and 1990-91, 6% between 1992-93 and 2001-02 (Ahluwalia, 2002:67), and a peak rate of 9% in the 'boom' years between 2003-04 and 2007-08 (Nagaraj, 2013:39). India's economic growth 'miracle' is commonly explained by the swathe of liberalizing reforms introduced by the government in 1991, widely argued to mark the end of the dominant 'license raj'. Met with euphoria by many scholars at the time (Bhagwati, 1993; Sriviniwasan, 2003), they signified 'a fundamental transformation of India's economic strategy' (Varshney, 1999:230). India's balance of payments has remained in a state of surplus over the last two years, despite all the disruptions caused by the global pandemic.

Keywords

Economic Reforms, Economic Growth, Liberalization, Privatization

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1. Introduction

According to the International Monetary Fund (IMF) data, India has overtaken the United Kingdom in the last quarter of 2021 to become the fifth largest economy in the world. The IMF and the World Bank (WB) are trying to ensure that other countries can benefit from India's development; Especially their main financiers, big capital exporters can take advantage of this. But the IMF-WB's holy trilogy of structural land, labor and other market-opening reforms hurts India's domestic market and creates severe resistance beyond a point that then comes at great political costs.

After 1991, India began to relax its economic controls and the increased level of liberalization led to a massive increase in the private sector of the country. Our country's growth journey since then has been an interesting story of ups and downs, opportunities exploited and lessons learned.

Although liberalization has created new opportunities, India's transformation into a global economic power has not yet fully benefited all its citizens.

1.1 What is Needed?

- Focus on digital aspects, where India has a comparative advantage
- Supply chain diversification away from China
- Moving to a net zero economy and harnessing green initiatives as a source of investment and innovation.
- Developing skills and capabilities
- Improving employability
- Augmenting infrastructure
- Reducing logistics and other business costs through better Centre-state coordination
- Enhancing the quality of governance
- Improve data use and privacy, functioning of courts and police.

1.2 Potential Areas to Give India a Comparative Edge

1.2.1 Inward Looking Liberalized Economy:

The Indian economy is largely an introverted and domestic demand driven economy. Moreover, India is no longer a 'closed' but liberalized economy, which aims to pursue its competitive advantage and this will put India on the path of becoming a middle-income country by the year 2047.

1.2.2 Demographic Dividend:

India has entered the demographic dividend opportunity window in the year 2005-06 where it will continue till the year 2055-56. About 65 percent of Indians are of working age, making India the potential workforce for more than half of Asia in the future.

1.2.3 Leaders in Agriculture: Agriculture and allied sectors are undoubtedly the largest livelihood providers in India, especially in its vast rural areas. In addition, the cropping pattern in India has shifted towards cash crops like sugarcane and rubber.

According to the Economic Survey 2021-22, agriculture and allied sectors proved to be more resilient to the impact of COVID-19, registering a growth of 3.6% in 2020-21 and 3.9% in 2021-22.

1.2.4 Along with this, Food Processing is Emerging as 'Sunrise Industry'.

Able to Benefit from IT and Business Services Outsourcing: India has long been recognized as a 'tech-savvy' country. Indian IT giants like Infosys, Wipro and TCS have made their mark on the global stage.

Low-cost benefits, a large pool of skilled English-speaking manpower and latest technology solutions make India one of the most attractive outsourcing hubs.

1.2.5 Preferred Tourist Destination: Along with vast cultural and natural resources, India has been attracting international tourists for its rich history and remarkable diversity. Travel and tourism are reviving in the post-pandemic times with the awakening of travel desire in the world, providing an opportunity for India to develop its tourism industry. This will enable India to both provide warm hospitality and generate employment.

2. Objectives

- To study the need of economic reforms in India
- To study the major obstacles in the way of sustainable economic development in India

3. Major obstacles in the way of sustainable economic development in India

1. Contemporary Geopolitical Issues:

Emerging markets (including India) bear the brunt of geopolitical risk in many ways. In this, supply chain bottlenecks are prominent, which widen the gap between demand and supply. For example, the Russo-Ukraine war resulted in a global shortage, forcing India to pay more for imports of crude oil and fertilizers.

2. Jobless Growth in the Near Past:

According to the Center for Monitoring Indian Economy (CMIE), the unemployment rate in India is around 7-8%. This is because employment growth has not been in sync with GDP growth. Only 40% of the work-capable workforce is actually employed or looking for work, with female participation rates even lower.

3. Widespread trade deficit:

India's export trend has declined where India's trade deficit reached a record level of \$31 billion in July 2022. This was due to the bearish trend in developed economies (such as the US) and higher commodity prices.

4. Threats of Climate Change:

For developing countries like India, a collision of paths between economic progress and climate change is inevitable because many aspects of economic development are associated with environmental health, in the absence of which economic growth is adversely affected. Agricultural production, water resources, human health and ecosystems are significantly affected by the Indian Summer Monsoon (ISM). In recent times there has been an emergence of erratic patterns in the ISM resulting in catastrophic flooding and heat wavelike conditions.

5. Growing Gap between Rich and Poor:

According to the 'World Inequality Report 2022' (World Inequality Report 2022), the top 10% of India's population holds 57% of the total national income, while the share of the bottom 50% of the population has decreased to 13%. It is left.

5. Future Thinking

Setting Economic Development Goals: India's performance depends not only on how well it faces contemporary challenges, but also on how prepared it is for the challenges of the future. India needs to ensure that its policy choices are sound and forward-looking with modern technological solutions. For this, India should have an effective strategy which is based on transparent expression of the country's economic development goals. These goals should frame an ambition that is bold, energetic and reflective of the country's aspirations.

1. Integration of Social and Economic Development

Economic development which does not achieve social development tends to fragment the society and ultimately destroy the very foundation of prosperity. Therefore, there is a need to adopt appropriate social security measures with a focus on enabling the creation of competitive jobs for people outside the current active labor market.

2. Manufacturing in India, Manufacturing in India

There is a need to strengthen the 'Make in India' initiative with special emphasis on 'Zero Defect Zero Effect'. There is also a need for reforms in the banking sector which can help in promoting small scale manufacturing rather than just large manufacturing.

3. Providing Ease of Doing Business:

Identifying specific opportunities in various sectors and creating a healthy business environment, enabling Ease of Doing Business is of utmost importance to attract more foreign investment.

4. Empowering Indian Youth:

Skill development needs to be integrated with traditional schooling in India to tap the demographic dividend in the near future. India should take inspiration from examples like Peru, where ‘Innova Schools’ are being run, which provide an attractive model for providing cost-effective quality education to the students.

5. Opening the Door to the Potential of Indian Women:

Closing the gender gap in education and financial and digital inclusion of women as well as the end of the barriers to them should be our priority.

6. Strengthening of Special Economic Zones:

More Special Economic Zones are needed to increase foreign investment, increase exports and support regional development. Baba Kalyani Committee on SEZs has recommended that MSME investment in SEZs be encouraged by linking it with MSME schemes and allowing sector-specific SEZs.

6. Recent Liberalization Suggestions and Issues with it

1. Privatization of Banks:

However, with improvements in PSB governance and risk-based lending profiles, NPA ratios have fallen and therefore no need for privatization.

2. Rupee should be Completely Market-determined:

However, the fall in the exchange rate of the rupee from about Rs 8 in the 1990s to about Rs 80 currently has not brought about a sustained rise in exports. And therefore the argument that ‘Rupee should be completely market-determined’ is not fully justified.

This study evidences the necessity of going beyond an aggregate analysis of the economy to provide an understanding of whether liberalization leads to economic growth, and if so through what channels. In doing so, this paper contributes to wider debates about liberalization and growth. For example, over 2008 dominant ideas were that excessive liberalization and under-regulation of financial markets led to the global economic crash and subsequent recession, which would similarly benefit from a micro level analysis.

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