9 . Development Experiences in India

Introduction

DURING THE PERIOD OF INDEPENDANCE

- At the time of Independence in 1947, India was a typically backward economy.
- Owing to poor technological and scientific capabilities industrialization was limited and lop-sided.
- Agricultural Sector exhibited features of feudal and semi-feudal institutions, resulting into low productivity.
- Transport and communications were underdeveloped.
- Educational and health facilities were in poor condition.
- The country suffered from the twin problems of rampant poverty and widespread unemployment, both resulting in low standard of living

Post-Independent India.

- The year 1991 is an important landmark in the economic history of post-independent India.
- After forty years of planned development, India has been able to achieve a strong industrial base and became self-sufficient in the production of food grains.
- Nevertheless, a major segment of the population continues to depend on agriculture for its livelihood.
- In 1991, a crisis in the balance of payments led to the introduction of economic reforms in the country.
- This unit is an appraisal of the reform process and its implications for India.

Structural Reforms.

- The country went through a severe economic crisis in the form of serious Balance of Payments problem.

- Indian economy responded to the crisis by introducing a set of policies known as Structural Reforms.

- These policies were aimed at correcting the weaknesses and rigidities in the various sectors of the economy such as Industry, Trade, Fiscal and Agriculture.

Meaning of Liberalization ,Privatization and Globalization (LPG)

Various Long-Term Structural Reforms were categorized as:

- **Liberalization**
- **Privatization**
- **Globalization**

Liberalization

- The basic aim of liberalization was to put an end to those restrictions which became hindrances in the development and growth of the nation.
- The loosening of government control in a country and when private sector companies' start working without or with fewer restrictions and government allow private players to expand for the growth of the country depicts liberalization in a country.

Objectives of Liberalization Policy

- To increase competition amongst domestic industries.
- To encourage foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- To expand global market frontiers of the country.
- To diminish the debt burden of the country.

I. **Privatization**

II. This is the second of the three policies of LPG. It is the increment of the dominating role of private sector companies and the reduced role of public sector companies. In other words, it is the reduction of **ownership** of the management of a government-owned enterprise. Government companies can be converted into private companies in two ways:

III. By disinvestment

IV. By withdrawal of governmental ownership and management of public sector companies.

Objectives of Privatization

- Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Increase the efficiency of government organizations.
- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI)

Globalization

- It means to integrate the economy of one country with the global economy.
- During Globalization the main focus is on foreign trade & private and institutional foreign investment. It is the last policy of LPG to be implemented.
- Globalization is attempting to create a borderless world, wherein the need of one country can be driven from across the globe and turning into one large economy.

Arguments in favour of LPG

a. **Liberalization was necessitated** because various licensing policies were said to be deterring the growth of said to be deterring the growth of the economy.

b. **Privatization was necessitated because** of the belief that the private sector was not given enough opportunities to earn more money.

C .**Globalization was necessitated** because today a developed country can grow without the help of the under developed countries.

- The surplus capital of the developed countries are invested in backward economies.
- Ultimately, the rich countries can grow further at the cost of developing economies.

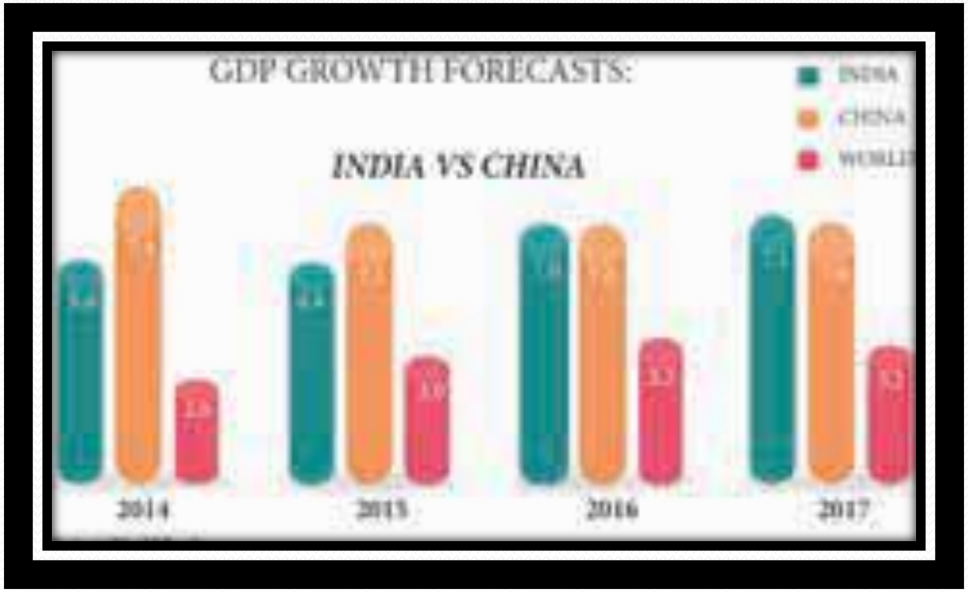
Arguments against LPG

- **a. Liberalization measures, when** effectively enforced, favour an unrestricted entry of foreign companies in the domestic economy Such an entry prevents the growth of the local manufactures.

- **b. Privatization measures favour the** continuance of the monopoly power Only the powerful people can sustain in business markets. Social justice cannot be easily established and maintained.

- **c. As globalization measures tend to** integrate all economies of the world and bringing them all under one umbrella; they pave the way for redistribution of economic power at the world level. Only the already well developed countries are favoured in this process and the welfare of the less developed countries will be neglected..

Relative Position of an Indian Economy



Relative Position of Indian Economy

- According to International Monetary Fund, World Economic Outlook(Ocoter-2016), GDP (nominal) of India in 2016 at current prices was

  $2,251 billion.
- India was now 7th largest economy of the world in 2016.
- India was at 3rd position after China and Japan among Asian countries.
- India shared 8.50% of total Asia’s GDP (nominal) in 2016.

Industrial Sector Reforms

- The Prime Minister of India announced the new industrial policy on July 24, 1991.

- The primary objectives of the industrial policy were to promote major industries from the clutches of bureaucrats, to abolish restrictions on foreign direct investment, to liberate the indigenous enterprise from the restrictions of MRTP Act.

Important Initiatives by the Government towards Industrial Policy

- 1. Industrial delicensing
- 2. Dereservation of the industrial sector
- 3. Public sector policy (dereservationand reform of PSEs)
- 4. Abolition of MRTP Act
- 5. Foreign investment policy and foreign technology policy.

- **Impact of LPG on Agricultural Sector Reforms**
- Since the inception of economic reforms, Indian economy has achieved a remarkable rate of growth in industry and service sector.
- However, this growth process by passed the agricultural sector, which showed sharp deceleration in the growth rate (3.62percent during to 1.97percent in 1995/96 – 2004/05) 1984/85 – 1995/96 .

Crop Insurance

- Agriculture in India is highly prone to risks like droughts and floods.
- It is necessary to protect the farmers from

  natural calamities and ensure their credit eligibility for the next season.
- The Government of India introduced many agricultural schemes throughout the country.

INSURANCE SCHEMES

- Pradhan Mantri Fasal Bima Yojana (PMFBY)

- Weather based Crop Insurance Scheme (WBCIS)

- Coconut Palm insurance scheme (CPIS) and

- Pilot Unified Package insurance scheme UPIS) (45 districts).

Cold Storage

- **Cold storage** units are equipped with refrigeration systems to cool the agri-produce and maintain them at low temperatures.

- Fruits, vegetables, dry fruits, nuts and spices are the most common products preserved in the **cold** stores.

The Essential Commodities Act, 1955.

- India is the largest producer of fruits and second largest producer of vegetables in the world.
- Most of the problems relating to the marketing of fruits and vegetables can be traced to their perishability.
- Perishability is responsible for high marketing costs, market gluts, price fluctuations and other similar problems.
- In order to overcome this constraint, the Government of India and the Ministry of Agriculture promulgated an order known as "Cold Storage Order, 1964" under section 3 of the Essential Commodities Act, 1955.

Post Harvest Measures

a) In order to reduce wastage of agricultural produce and minimize post-harvest losses, the Ministry of Food Processing Industries(MOFPI) has implemented various components of Central Sector Schemes namely:

- Mega Food Parks; Integrated Cold Chain; Value Addition Preservation Infrastructure; Modernization of slaughter house.
- Scheme for Quality Assurance; Codex Standards; Research and Development and Other promotional activities.

Kisan Credit Card Scheme

- A Kisan Credit Card (KCC) is a credit delivery mechanism that is aimed at enabling farmers to have quick and timely access to affordable credit.
- It was launched in 1998 by the Reserve Bank

  of India and NABARD.
- The scheme aims to reduce farmer dependence on the informal banking sector for credit– which can be very expensive and suck them into a debt spirala and NABARD.

Agricultural Produce Market Committee

A)Functions of APMC

1. **To promote public private partnership** in the ambit of agricultural markets.

2. **To provide market led extension** services to farmer.

3. **To bring transparency in pricing** system and transactions taking place in market in a transparent manner.

4. **To ensure payments to the farmers** for the sale of agricultural produce on the same day.

5. **To promote agricultural activities.**

6. **To display data on arrivals and rates** of agricultural produce from time to time into the market.

Agrarian Crisis After Reforms

a) **High input Costs.**

b) **Cutback in agricultural subsidies.**

c) **Reduction of import duties.**

d) **Paucity of credit facilities**

Trade Reforms:

- **Free imports and exports.** The trade policy of 1 April 1992 freed imports of almost all intermediate and capital goods. This would affect the domestic industries.
- **Rationalization of tariff structure and removal of quantitative restrictions.** The Chelliah Committee's Report had suggested in drastic reduction in import duties. The1991-92 budget had reduced the peak rate of import duty from more than 300 percent to 150 percent. This also affected the domestic industries.

Export and Import Policy

I. **Salient Features of “EXIMPOLICY (2015—2020)**

Ministry of Commerce and Industry announced New Foreign Trade Policy on 1 April 2015 for the period of 2015-2020.

- Make in India concept.
- Digital India concept
- Repeated submission of physical copies of documents is not required.
- Export obligation period for export items related to defence, military store, aerospace and nuclear energy to be 24 months
- EXIM Policy 2015-2020 is expected to double the share of India in World Trade by the year 2020.

Special Economic Zones

- A special economic zone (SEZ) is an area in a country that is subject to different economic regulations than other regions within the same country.
- The economic regulations of special economic zones (SEZs) tend to be conducive to–and attract–foreign direct investment (FDI)
- The Special Economic Zones (SEZs) Policey was announced in April 2000.

Major Objectives of SEZs

- **1. To enhance foreign investment**, especially to attract foreign direct investment (FDI) and thereby increasing GDP.
- **2. To increase shares in Global Export** (International Business).
- **3. To generate additional economic** activity.
- **4. To create employment opportunities**.
- **5. To develop infrastructure facilities**.
- **6. To exchange technology in the global** market.

Main Characteristics of SEZ

a. **Geographically demarked area with** physical security.

b. **Administrated by single body**/authority.

c. **Streamlined procedures.**

d. **Having separate custom area.**

e. **Governed by more liberal economic** laws.

f. **Greater freedom to the firms located in** SEZs. As a result, they need not respect the government's rules and regulations.The social and environmental impacts were disastrous.

Fiscal Reforms

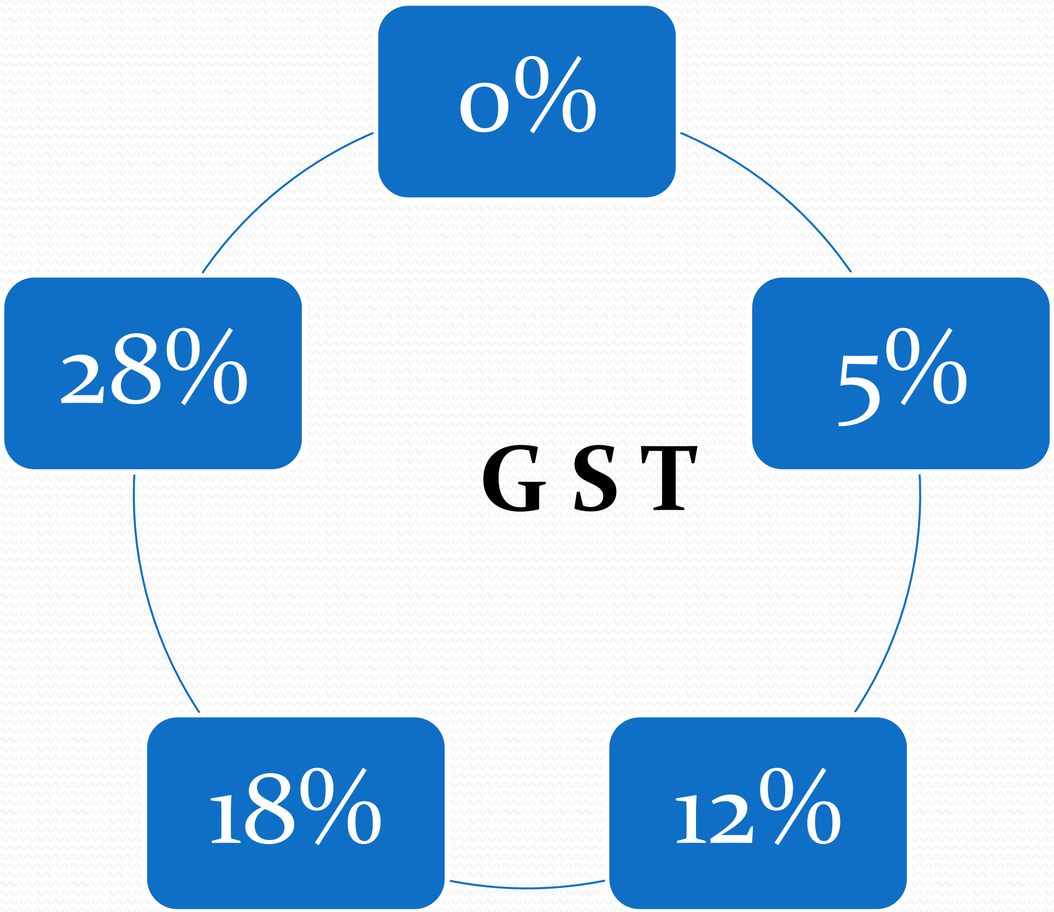
- Some of the important policy initiatives introduced for correcting the fiscal imbalance were:
- reduction in fertilizer subsidy, abolition of subsidy on sugar and
- disinvestment of a part of the government's

  equity holdings in select public sector undertakings.

Goods and Services Tax (GST)

- The Goods and Service Tax Act was passed in the Parliament on 29th March 2017.
- The Act came into effect on 1st July 2017. *The motto is one nation, one market, one tax.*
- Goods and Services Tax (GST) is defined as the tax levied when a consumer buys a good or service.
- It is a "one-point tax" Unlike VAT which was a multipoint tax.
- It is proposed to be a comprehensive indirect tax levied on manufacture, sale and consumption of goods as well as services.

Current GST Rates In India



Advantages of GST

- Removing cascading tax effect
- Single point tax
- Higher threshold for registration
- Composition scheme for small business
- Online simpler procedure under GST
- Defined treatment for e-ecommerce
- Increased efficiency in logistics
- Regulating the unorganized sector

Monetary and Financial Sector Reforms

I)The new policy tried in many ways to make the banking system more efficient, some of the measures undertaken were;

a .Reserve Requirements:

b. Interest Rate Liberalisation.

c. Greater competition among public sector, private sector and foreign banks and elimination of administrative constraints.

d**. Liberalisation** of bank branch licensing policy in order to rationalize the existing branch network.

e. Banks were given freedom to relocate branches and open specialized branches

f. Guidelines for opening new private sector banks.

g. New accounting norms regarding classification of assets and provisions of bad debt were introduced in tune with the Narasimham Committee Report.