

# Foundation course – name report

[Technology](#), [Development](#)



# **India: Reforms, Policies, Development**

## Report

### Abstract

India's economic miracle has always been the point of interests for western researchers. India has become a successful example of a rapidly growing economy due to a number of political, economic, social and industrial reforms. This country has become the world's leader in hi-tech sphere, producing, supporting and implementing the world's largest volume of software and hardware. In this report, the structural development patterns are shown during several periods, which brought tremendous shifts in economic, agricultural and industrial sphere making India the global leader in numerous aspects. However, efficient reforms have not solved certain social problems and poverty reduction in India revealing bottleneck points of structural change patterns in this country.

Keywords: structural patterns, industrial and agricultural reforms, social problems

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#### Introduction

Modern economy of the Republic of India is developing within the patterns of structural transformation. This country conquers independent positions in the world economy and is involved into the globalization process.

Considering historical aspect, it is important to underline the socio-economic system, formed during the colonial period and characterized by multistructurality, combination of capitalistic and pre-capitalistic forms of economy. Foreign (Britain) capital was acting on the Indian market through goods and services export creating certain barriers for Indian manufacturing development. Foreign capital, invested in India was functioning separately from the Indian capital confronting it significantly. Participating in joint ventures, foreign capital pocketed part of the government's profits and played the leading role in the control and management.

However, foreign capital created an important infrastructural part of India's market economy (railroads, highways, ports and communication), plantation enterprises (tea), manufacturing of cotton, jute, coffee, caoutchouc and spicery, encouraging their production in peasant farms and enabling their switching into market (export) economy. Indian large business in its turn was competing with the foreign capital, standing against small entrepreneurship and handicraft production creating monopoly manufacturing mainly in textile and consumer goods industry. Representatives of trading and usurious castes invested money in textile plants purchasing foreign equipment, forcing handicrafts and small entrepreneurs leave the market.

Simultaneously with this process, agricultural overpopulation was increasing. Huge unemployment in the city and the village, horrible poverty, massive starvation in various regions characterized the colonial period. National economy growth rate in 1930-40s was extremely low, sometimes even lower than the population growth rate. Thus, India becoming officially an independent state on 1947 had to face an extremely difficult task - creating of an independent economy. This country has to focus on mechanisms, which could transform an underdeveloped Indian economy into industrial urbanized and diverse environment.

#### Historical Background of the Structural Economic Change: Agriculture and Industry

According to Lewis's structural change model of growth presented to the world in 1954, countries with huge agricultural sector create a surplus of working force, which can easily be transferred to production sectors leading to the growth of output in the underdeveloped economies by providing increase of employment, boosting of manufacturing and rapid urbanization (Table 1).

Economic structural development of independent India includes two stages: the first period from 1947-1991 and the second period from 1991 until present time. Each period can be characterized by own model of country's economic development and peculiarity of its inclusion in the world economy (Kochhar, et al., 2006). An official state concept on the first stage included the development of the so-called social pattern society, which can be understood as a mixed type of economy and import substitution model of structural modernization basing on the crucial role of the state and state

economic sector (state capital). This concept included the range of structural elements, which were consequentially realized in 1950-1980th. This was focused on industrialization and self-dependence methods of severe protectionism, substantial limitation of consumer goods import and increase in production of equipment, manufactured in India (Ahluwalia, 2001).

Industrialization, which began initially as an indispensable part of the public sector, meant, first of all, creation and development of basic branches supplying Indian economy by fuel, metal, industrial equipment and raw materials.

Nationalization of existing enterprises did not have a character of expropriation. In 1950th, all branches of industry were officially divided into three groups: list A, list B and not included in the lists (Topalova, 2004).

Branches of the A list belonged completely to the public sector. This group included defense industry, atomic energy, power engineering, aviation and shipbuilding, coal mining, oil and manganese ore extraction, electric power plants and electrical services as well as aviation and railway transport. List B grasped multiple branches of mechanic engineering, chemical and pharmaceutical industry, water and highway transport. Enterprises belonging to this list also had a large share of public participation while private sector in list B demanded special licensing. Branches not included in both lists were given to private entrepreneurial structures.

Manufacturing of light and food industry (including national clothes) was narrowed to a certain range in order to provide employment for small handicraft production and village trading. State encourages small and medium entrepreneurship. Indian government nationalized several largest

banks and insurance companies, which allowed broadening financial and mortgage institutions network and enabled efficient financing of priority economic spheres including agricultural sector and small manufacturing units (Topalova, 2004). An important instrument of India's economic strategy was a long-term 5 years planning, which connected the manufacturing, consumption and employment issues with economic and social factors. India organized a special planning committee headed by the India's Prime Minister. Indian 5-years plans include projected costs spent on the development of certain branches and social programs; financial resources and their sources (federal/state budget, private capital, foreign investment, etc), control figures of important economic indicators, investments and some natural indices. Speaking about structural change and patterns of Indian development it is necessary to mention the efficient accumulation of human capital during the transformation path from the traditional agricultural country to a modern developed economy via a number of reforms (Bajpai, 1995). These reforms had a tremendous significance for agricultural India with overwhelming prevalence of rural population and archaic manufacturing relations in villages. Government set the limits to the land tenure size as well as leasing agreement rules. Expropriation of lands was no longer practiced. These measures provided more of an accelerant to the fire of the reforms (Fujita, 2003).

Growth of agricultural goods production was connected with the so-called "green revolution", which can be characterized with increase of crop yield (cereal crops). As a result, of new types of crops implementation, construction of artificial irrigation, advanced farming methods and

mechanization, the green revolution in India proved to be successful (Fujita, 2003; pp. 5-12). Another pleasant consequence of the green revolution was a substantial broadening of loan offices network, emergence of numerous companies supplying agricultural sector with electricity, fertilizers and services. Government elaborated a number of social programs for rural regions. It is considered that at the end of the 20th century India achieved self-sufficient level of goods provision (considering low level of consumption) and started food export to other countries (Easterly. & Hebbel, 2010).

However, at the same time a range of disproportions and contradictions in the industrial policy became obvious, such as the lack of investments, problems with the balance of payments and budget deficit. Closed nature of economy, tough protectionism and severe state regulation, which played earlier a positive role, came to contradiction with the newest tendencies of the world economy, interests of the monopolistic capital, newly emerging entrepreneurial structures (which created thousands of small and medium enterprises), and rich farmers, who benefited from the agricultural reforms (Kazmin & Mallet, 2012).

These circumstances brought to the necessity to transit to the new patterns of structural development, the essence of which implied liberalization of economy and soft changeover to the export-oriented model, which characterizes fundamental principles of new industrial countries like China or South Eastern countries. Liberalization of economy began in 1990th. Official transition to the new pattern of economic development got the name of “new industrial policy” and concerned the state sector and state regulatory policies at large (Kazmin & Mallet, 2012).

## Government Policies and Reforms

Indian economic reforms coincided at times with the transition period from centralized planned economy to the market one in the countries of Central and Eastern Europe and former Soviet Union territories. Indian reforms were quite different. Market economy in India in a more or less effective way existed before actual independence of Indian territories (Kapur & Kim, 2007). Therefore, reforms in India were carried evolutionary, gradually and softly without any sharp or shock transition from one market model to another. There was no decline in output or substantial crisis. Alternative to privatization became commercialization of state governed enterprises, their market transformation as well as partial corporalization (Cortuk & Singh, 2013). Regulating role of the state remained stable, though has substantially modified and approximated new industrialized states of Eastern and South-Eastern Asia. Reforms were carried out gradually, despite the change of several governments, with active participation of international financial institutes. The major characteristics of the new Indian industrial policy patterns concluded in the broadening of free market by narrowing the regulation of prices, tariffs, percentages on deposits and loans to commercial banks. Besides, liberalization restrictions and extension of entrepreneurial opportunities took place. The number of branches, reserved for the state sector was narrowed down from 18 to 6. Maximum tax rates on companies' profits and private individuals were lowered from 56-57% - 30-35% (Cortuk & Singh, 2013). Government allowed active participation of foreign investors in business and encouragement emergence of enterprises with 100% foreign capital (Bollard, et al, 2013).



Economic reforms of 2000-2007 gave a new impulse to the structural development of India, positively influencing the economy's growth rate. Average GDP growth in 1999-2004 composed 5, 8% while starting from 2004 it increased by 8-9% annually (Graph 1-2, Appendix). GDP increase in India in the first decade of 21st century on average have outgrown the world's average level (Government of India, 2010). World economic crisis 2008-2009 did not affected the Indian economy while GDP growth in 2008 and 2009 composed 7, 3% and 5, 4% accordingly. GDP indicators for 2014-2015 are estimated around 7, 4%-7, 5%. Forecasts for further economic growth in India is very favorable. In the process of economic development, the structure of GDP (Table 2) has changed dramatically.

While the structural development of industry (and economy at large) is unevenly distributed in the regional aspect, it becomes obvious that structural and territorial patterns of industry have the peculiar " frame" connecting the major urban conglomerates: Calcutta on the east, capital region Delhi on the north-west, Mumbai on the west, Bangalore and Chennai on the South (Bosworth, et al., 2007). The core of the structural economic patterns of Indian development and economic policy is represented by industrialization phenomenon. This phenomenon can be explained by the growth of the relative technology, engineering and business services share (Chenery, 2014). Accelerated industrialization in the government sector in India took place at the end of the 20th century, when large energy corporations, enterprises of iron-and-steel industry, chemical, heavy and armament manufacturing were built. Despite the existing restrictions, positions of the large capital have substantially improved; 75 largest

industrial groups (“ industrial houses” according to the Indian terminology) own 44% of non-governmental non-financial assets of the country. Large Indian corporations, such as the well-known “ Tata”, “ Birla”, “ Ambani”, “ Bajaj”, “ Khaitan”, “ Mittal” and others can successfully compete with transnational corporations in India and abroad (Cortuk. & Singh, 2013).

The private sector cover the whole spectrum of goods and services, including manufacturing of steel, pharmacy, jewelry, food, electronic equipment, automobile construction and other branches. Except for the large corporations existing in the 20th century thousands of other large, medium and small enterprises have emerged. These companies produce not only traditional but also modern and export goods. Around 6000 companies list equity on 23 stock exchanges in India. India as one of the leading developing countries has created a number of special economic zones, which were initially export oriented zones.

#### Analysis of Indian Structural Patterns of Development: Benefits and Drawbacks of Current Indian Policies

Analyzing structural development patterns in Indian economy it is necessary to understand that beyond industrial and post-industrial trends in economy, India is occupying of the leading places on the IT (informational technologies) market supplying IT services all over the world. IT services have become a new specialization field in India and occupied the first place among all exported services (Papola, 2012). So what factors are influencing the structural patterns of Indian economy? First, a new modern shift in economic structure took place when governmental policies favored and supported rapid development of hi-technologies based on a wide network of

scientific and research institutions financed by the state and private companies. Around 380 universities annually prepare 200 thousand specialists in engineering and 300 thousand other technical specialists. India opened 5 technological institutes and 4 management institutes with the worldwide reputation. Besides, India finance foreign education of the best students. State allocations in sphere of high technologies are concentrated mainly in three spheres - defense, space and nuclear research. In these areas, India achieved certain success; however, they cannot become the base of hi-tech export of goods (Gopalan & Madjd-Sadjadi, 2012). Therefore, production of software has become such a base. The volume of software export has achieved 16 billion dollars in 2010 reaching 30% annual growth. The fourth part of all software are business intelligence systems, which are developed, implemented and supported by the Indian companies. Indian government supports around 35 state and 25 private hi-tech parks, which were freed from import and other taxes and can attract up to 100% of foreign capital. Such a policy attracted around 200 largest world IT corporations "Microsoft", "Motorola", "Boeing", "Hewlett Packard" and others. South India has become the place of "Silicon Valleys" in Bangalore and Hyderabad regions, however, these places are not an only isle of hi-tech industry in this huge and previously backward country (Mathur, 2006). Another structural pattern deals with social sphere. Gradual and steady economic growth during the decades enabled the government solve severest social problems. Struggle with poverty, increase of life quality were and remain the major tasks a the new structural change for India (Ahuja, 1992). The share of extremely poor population has decreased from 55% in 1970 to

26% in 2014 while the national GDP per capita (in rupees) has tripled. Certain shift happened in demography process. Mortality rate (per 1000 population) has decreased at the end of the 20th century, while the birth rate increased on 30%. Average life duration increased from 33 to 62 years (Ahuja, 1992). Such a positive demography dynamics can be explained by the successful struggle with epidemics and efficiently undertaken sanitary and phytosanitary measures. Another social project was aimed at increasing population literacy rate, which presently increased to 70% of people above 5 years old. Special attention is paid to the growing Indian middle class, which composes 25-30% or 250-300 million people. Growth of the middle class is connected with the activity in urban and rural population and can be distinguished by intensive consumption of consumer and hi-tech goods and services. However, from the other side such a rapid population increase leads to the overpopulation, which makes struggle with poverty in cities and villages a difficult task (Sharma & Arora, 2010). It is quite paradoxical but an absolute quantity of population leaving below the poverty level is not decreasing. Inside this group, there is even more poor layers of population, the so-called "the poorest of the poor", which are quite numerous especially in some heavily populated areas of the Indian Northeast. Poor population, pushed out of the rural areas, settle in big metropolitan regions, forming slums on the outskirts. Therefore, concluding it is necessary to mark that structural pattern changes in social sphere has a double-sided character. Positive social and industrial shifts do not solve the problem of the poorest population, the amount of which remain stable through the decades despite successful reforms in agriculture and industry. It means that social policy

and reforms in India concerning the well-being of population has to be more seriously considered.

### Conclusion

Medium term forecast and the developmental patterns in India have a number of bottle neck problems. Rapid growth rates and certain success in economic development, except for positive influence, can make barriers for further growth. Uneven territorial distribution and regional disproportions can be referred to such barriers. Other obstacles include the insufficient infrastructure development, high oil-prices, lack of electrical energy, some backwardness of agricultural sphere at the increasing population consumption demands and, most important, remaining poverty for large social layers and low life quality. Therefore, it can be recommended in this report to pay a special attention to the following priority points in social and economic sphere:

Agriculture, especially growth of cereals. It is assumed that in agricultural sector the Indian government will continue with the “ green revolution”. Its main directions should include development and implementation of new technologies, storage of products, provision of rural population with services and goods, efficient loan and informational support of local farmers.

Accelerated development of electrical energy, including nuclear projects. Investments to education, medicine, which are supposed to increase life quality and population’s well-being.

Further development of informational technologies as the core factor of new structural pattern changes in the economy.

Priority attention paid to the industry branches, which are of strategic

importance to the country (defense industry complex, electronics, aviation building, atomic, space and telecommunication industries).

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Appendix

Graph 1. GDP Annual Growth Rate

Graph 2. GDP Annual Growth Rate