

## India Rising

### I. Understanding Reforms

- § The balance of payment crisis in the early 90s prompted a re-think on the economic direction that the country was taking.
- § In 1991, the Forex reserves of the country went down to as low as \$ 1 Billion (enough for just 2 weeks of imports)
- § the inflation touched 17% in the month of August
- § . The fiscal deficit was nearly 10% of the GDP and the Current Account Deficit nearly 3% of the GDP

### Macroeconomic Stabilisation

- § The response to this crisis was measured
- § India undertook short term stabilization measures and long term economic reform in the wake of this crisis.
- § In the short term, India engaged in some stabilization measures.
- § Pledging of gold to meet short tem payment,
- § a de-valuation of the rupee,
- § tightening of imports,
- § change in monetary policy
- § and some international loans.
- § This process succeeded in ensuring that the crisis was tided over.

### Structural Adjustments

Once the short term was delt with India embarked on structural reform of the economy.

### **Liberlisation – Major steps**

#### Agriculture Reforms

Year	Reforms Initiated
December 1992	<ul style="list-style-type: none"><li>• Government placed Draft Agricultural Policy Resolution (DAPR) in the parliament in December 1992.</li><li>• Decided to step up public investment in agriculture to accelerate the development of rural infrastructure.</li><li>• Dovetail research and development in agriculture.</li><li>• Involvement of NGOs in agricultural development.</li></ul>
1997	Recommendations of High Powered Fertilisers Pricing Policy Review Committee (C.H. Hanumantha Rao Committee) suggested fertiliser industry be deregulated, units be allowed to fix their retail pricing.

2003-04	Initiatives towards setting up Commodities Futures Market
2004	National Commission on Farmers
2005-06 Budget	Major boost to Agricultural Sector, Outcomes specified along with expenditures

### Food Policy

Year	Reforms Initiated
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Jan 1992	<ul style="list-style-type: none"> <li>• A scheme of Revamped Public Distribution System has been launched in about 1700 blocks falling in drought prone, desert, integrated tribal development project areas and designated hilly areas.</li> <li>• Prices for RPDS foodgrains will be lower by Rs.50 per quintal than the central issue prices.</li> </ul>
August 1994	<p>New Scheme for utilisation of surplus food stocks to benefit weaker section–</p> <ol style="list-style-type: none"> <li>(1) supply of subsidised wheat to Modern Food Industries Ltd. and franchised units</li> <li>(2) supply of subsidised foodgrain to SC/ST/ObC hostels.</li> </ol>
June 1997	<ul style="list-style-type: none"> <li>• New targeted PDS scheme to streamline PDS announced.</li> <li>• States to identify below poverty line (BPL) families and ensure guaranteed supply 10 kg per month to them at prices lower than CPI.</li> <li>• Special card to be issued to BPL families for better monitoring of delivery system.</li> </ul>
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### Industrial Policy Reforms

Year	Reforms Initiated
Situation Prior to Reforms	Since the Industrial Policy Resolution, 1956, 17 industries were reserved for investment by the public sector. Private sector was allowed to invest in these sectors on a selective basis. An industrial licensing policy attempted to allocate resources for industry efficiently. Foreign participation in industries restricted. Opposition to Foreign Capital.
1991-92	Statement on industrial policy tabled on 24 <sup>th</sup> July, 1991 stated that only 8 industries will continue to be reserved. Iron and steel, electricity, air transport, ship building, heavy machinery industries were dereserved.
1992-93	<ul style="list-style-type: none"> <li>• Manufacturing of industrial alcohol delicensed.</li> <li>• The System of Endorsement of Capacity Expansion under modernisation/renovation was discontinued except in industries under compulsory licensing.</li> <li>• Private sector invited to invest in oil exploration and refining.</li> <li>• Power sector is opened to both domestic and foreign investment.</li> <li>• An Investment Promotion and Project Monitoring Cell set up in Department of Industrial Development to provide information and guidance to entrepreneurs.</li> </ul>

1993-94	<ul style="list-style-type: none"> <li>• Sick Industries Companies (Special Provision) Act, 1985 (SICA) amended in December 1993 to facilitate early detection of sickness in companies and speedy enforcement of remedial measures.</li> </ul>
1994-95	<ul style="list-style-type: none"> <li>• Industrial licensing for almost all bulk drugs abolished.</li> <li>• Automatic approval of foreign investment up to 51 per cent and foreign technology agreements permitted for bulk drugs and formulation.</li> <li>• Five year tax holiday for new industrial undertakings in all backward states.</li> </ul>
1997-98	<ul style="list-style-type: none"> <li>• A High Powered Export Promotion Board has been set up to improve export performance.</li> <li>• Enhanced autonomy granted to selected PSES referred as 'Navaratna'.</li> <li>• Two more PSEs, GAIL and MTNL given same status.</li> <li>• 97 other profit making PSUs referred to as 'mini-ratnas' granted greater autonomy.</li> </ul>

#### Reforms in Infrastructure : Power

Year	Reforms Initiated
1994	The Government decides to set up a National Power Tariff Board to evolve broad principles and guidelines to ensure uniform approach in the fixation of power tariff.
1995	Government of India decides to extend counter guarantees to the eight fast track Independent Power Projects (IPP) with total generating capacity of 5000 MW.
1996	<ul style="list-style-type: none"> <li>• Common Minimum Action Plan for lower introduced.</li> <li>• Government to set up Central Electricity Regulatory Commission (CERC).</li> <li>• Governments agree to a gradual programme of private sector participation in the distribution of electricity.</li> <li>• Government to encourage co-generation/captive power plans.</li> </ul>
April 25, 1998	Government of India issued the Electricity Regulatory Commission Ordinance, 1998 for setting up the Central Electricity Regulatory Commission (CERC) at Centre and State Electricity Regulatory Commission (SERC).
2004-05	National Electricity Policy

#### Reforms in Infrastructure : Telecommunication

Year	Reforms Initiated
1992	Value Added Services (VAS) opened to the private sector. These services include cellular mobile phones, radio paging, electronic mail, voice mail, audiotex services, videotex services, data services using VSATS and video conferencing.

May 1994	<ul style="list-style-type: none"> <li>• The National Telecom Policy (NTP), 1994 opened up basic telecom services to competition. Private initiative will be used to complement DOT efforts to raise additional resources.</li> <li>• Permitted foreign equality participation of 49 per cent in joint ventures in basic telecom services.</li> <li>• Decided to set up the Telecom Regulatory Authority of India (TRAI) to separate regulatory function from policy formulation and operational functions.</li> </ul>
February 20, 1997	TRAI begins functioning. To discharge regulatory functions to provide a level playing field in the telecom sector. Enable market-making and fixing of tariffs.
October, 2004	Broadband Policy announced

#### Reforms in Infrastructure : Road Sector

Year	Reforms Initiated
1994	<ul style="list-style-type: none"> <li>• The Motor Vehicle Act of 1988 was amended with a view to simplify procedures and to give more powers to the state governments in matter of granting driving licenses and permits.</li> <li>• Road sector declared an industry to facilitate borrowings on easy terms and to permit floating of bonds.</li> <li>• MRTTP provision relaxed to allow large private firms to enter highway sector.</li> </ul>
1995	National Highway Act amended to allow private participation by enabling levy of a fee on national highways, bridges and tunnels.
June, 1997	Policy on Toll Structure for four lane national highways and other related issues announced.

#### Reforms in Infrastructure : Port Sector

Year	Reforms Initiated
Position Prior to Reforms	Governed by Indian Ports Act, 1908, Major Port Trusts Act, 1962. These acts have enough flexibility to allow private participation in ports.
1991 onwards	<p>Since 1991, process of privatisation of ports have started within the ambit of existing statutory provision. Activities offered from private participation :</p> <ol style="list-style-type: none"> <li>(1) building and maintenance of containers, terminals and cargo handling facilities</li> <li>(2) storage and warehouse facilities</li> <li>(3) pilotage service</li> <li>(4) dredging</li> </ol>
1997	<ul style="list-style-type: none"> <li>• Guideline for foreign investment in port sector further liberalised. Automatic approval will be accorded for foreign equity participation up to 74 per cent of construction activities in ports.</li> <li>• A Tariff Authority for Major Ports (TAMP) has been set up to fix and</li> </ul>

	<p>revise various port charges to be collected by private providers of port facilities.</p> <ul style="list-style-type: none"> <li>• To have an integrated approach to the development of major and minor ports, Maritime State Development Council (MSDC) has been formed.</li> </ul>
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### Reforms in Education

Year	Reforms Initiated
Situation Prior to Reforms	<p>State action were governed by following policies –</p> <ul style="list-style-type: none"> <li>• National Policy on Education (1986)</li> <li>• National Adult Education Programme (1978)</li> <li>• National Literacy Mission (1988)</li> <li>• Scheme of Vocationalisation of Secondary Education, 1988.</li> </ul>
1992	A National Development Council Committee on Literacy was set up in April 1992 to give decisive lead in universal literacy. The Committee submitted its report in September 1993. Suggested purposeful networking of government and non-government organisation at the grass-root level.
1994	District Primary Education Programme (DPEP) initiated with IDA credit of US\$ 260 mn from World Bank.
1995	National Literacy Mission (WLM) to make 100 million persons literate by the end of Eighth Plan mandated.
August 1995	National Programme of Nutritional Support to Primary Education (Mid-Day Meal Programme) launched.
July 2003	National Programme for Education for Girls at Elementary Level

### **Financial Sector Reforms**

- § First, since the introduction of financial sector reforms, the SLR has been reduced to a statutory minimum of 25 per cent while CRR has been reduced to 5 per cent.
- § Second, the complex structure of administered interest rates has been almost totally dismantled. Prescriptions of rates on all term deposits, including conditions of premature withdrawal, and offering uniform rate irrespective of size of deposits have been dispensed with.
- § Third, since the onset of the reforms process, monetary management in terms of framework and instruments has undergone significant changes, reflecting broadly the transition of the economy from a regulated to liberalised and deregulated regime. A multiple indicator approach was adopted in 1998-99, wherein interest rates or rates of return in different markets (money, capital and Government securities markets) along with such data as on currency, credit extended by banks and financial institutions, fiscal position, trade, capital flows, inflation rate, exchange rate, refinancing and transactions in foreign exchange available on high frequency basis are juxtaposed with output data for drawing policy perspectives.

- § Fourth, architectural policy efforts have been driven mainly by the need to improve the effectiveness of the transmission channel of monetary policy. The development of financial markets have therefore, encompassed regulatory and legal changes, building up of institutional infrastructure, constant fine-tuning in market microstructure and massive upgradation of technological infrastructure.
- § Fifth, the financial sector in India is increasingly being integrated with the rest of the world. Over the last few years, sustained investor optimism about the resurgence of growth in India brought in massive capital inflows reaching US \$ 32 billion in 2004-05 on top of capital inflows to the tune of US \$ 20.5 billion in 2003-04, leading to an unprecedented accretion to the foreign exchange reserves. The foreign exchange reserves rose to US \$ 113 billion by end-March 2004 and further to US \$ 141 billion as on end-March 2005. Thus, India had accumulated the fifth largest stock of international reserves, sufficient to finance about 14 months of imports and over five years of debt servicing. The level of reserves exceeded the level of external debt by the end of March 2004.
- § Strategic shifts in the policy stance in recent years were also reflected in significant liberalisation of the exchange and payments system extended to freeing outward capital flows, fine tuning of interest rates on non-resident deposits to align them more closely with international interest rates and a tighter linkage between funds raised abroad and end-use domestically.
- § Sixth, concerned efforts have been made towards achieving and maintaining financial stability. The overall approach of the Reserve Bank to maintain financial stability is three-pronged: maintenance of overall macroeconomic balance; improvement in the macro-prudential functioning of institutions and markets; and strengthening micro-prudential institutional soundness through regulation and supervision.
- § The Reserve Bank has achieved considerable success in attaining monetary stability through maintaining low and stable inflation. Since the second half of the 1990s, inflation has been brought down to an average of five per cent per annum compared to an average of around 8-9 per cent per annum in the preceding two and a half decades.

### **C. Privatisation Measures**

Since the Statement of Industrial Policy, 1991, a number of industries, which hitherto were exclusively reserved for State has been dereserved. by reorienting the regulatory framework and minimising budgetary supports.

To enhance the efficiency of the public sector units, a series of reform measures have been adopted.

- § First, a disinvestment commission was set up to look into the modalities of PSE restructuring. Under the guidelines of the Disinvestment Commission, the

ownership pattern of public enterprises has undergone noticeable transformation. Second, in order to establish a system of rehabilitation without the government having to face excessive financial burden, the Sick Industrial Companies Act (SICA) was amended in December 1992.

§ To protect the interest of workers in PSEs, a national renewal fund was established in 1992 to assist in retraining and redeployment of workers.

§ This apart, there has been a significant reorientation of the pricing policy over the last few years.

## **Globalisation – Major steps**

### **II. Balance sheet of Reforms**

#### **a) Achievements**

##### **1. Higher Growth Path**

##### **2. Poverty Reduction**

###### **I. Proportion of People Living Below Poverty Line**

1977-78 – 51.3 per cent

1990 – 36.0 per cent

1999-2000 – 26.1 per cent

Target 2007 (end of Eighth Plan) – 19.3 per cent

Target 2012 – 15 per cent

###### **II. Reduction in Poverty [Absolute no. (Million)]**

1977-1990 – 23.2 Million

1977-2000 – 34.0 Million

Target 2000-2012 – 88.5 Million

##### **3. Greater Resilience**

##### **4. Strong External Sector**

## b) Disappointments

### 1. Slower Job creation

I. Organised Employment as a proportion of population declined

1981 - 3.45 per cent

1991 - 3.19 per cent

2003 - 2.52 per cent

2. In absolute term, decline in absolute number of public sector jobs

during 1991 to 2003 from 19.06 million to 18.58 million

III. In private sector, organised employment rose, but slowly

### Employment

	<b>1981</b>	<b>1991</b>	<b>2003</b>
Public Sector	15.48	19.06	18.58
Private Sector	7.95	7.68	8.42
Total	23.43	26.74	27.0
Organised employment per cent of population	3.45	3.19	2.521

- Rate of job creation has showed down in post-reform period.

#### **Rate of job creation in organised sector**

#### **(average annual growth rates)**

1980-90

1.4 per cent  
(Over one per cent per year)

1991-2003

0.07 per cent  
(less than one tenth of one per cent per year)

- Female employment grew, while male employment stagnated.

Between 1990 and 2003

While male employment declined by 0.2 per cent per year

(1990 – 22.7), (2003- 22.03)

Female employment increased by 2.81 per cent per year

(1990 – 3.64 million), (2003 – 4.97 million)

[Source: Economic Survey, Government of India, Various years]

## 2. Remaining Challenge of Poverty Reductions

### 3. Fiscal Determination and Later Improvement

- Gross Fiscal deficit was 7.85 per cent in 1990-91, declined to 5.1 per cent in 1995-96. Then it deteriorated to 6.18 per cent in 2001-02. Since then a phase of fiscal consolidation is underway (2004-05 at 4.48 per cent, 2005-06(BE) placed at 4.34 per cent)
- Revenue deficit improved during 1991-96 (1990-91 – 3.26 per cent, 1995-96 2.5 per cent) deteriorated thereafter to 4.4 per cent (2001-02) RE in 2004-05 at 2.7 per cent
- Interest Payment to revenue receipts also improved in recent years  
1990-91 – 39.1  
1995-96 – 45.4  
2001-02 53.4 per cent  
RE 2004-05 41.8 per cent

Combined finance of Centre + States

	1990-91	1995-96	2003-04
GFD	9.4	6.5	8.3
RD	4.2	3.2	4.1
Debt/GDP	64.8	61.3	82.0
Int. Pay / Rev. Receipts	23.6	27.2	30.6
RD/GFD	49.7	48.8	44.6

- Combined Contingent Liability (such as Government Guarantees)  
1993-94 13.4 per cent of GDP  
1996-97 9.7 per cent of GDP  
2001-02 12.2 pr cent of GDP  
2004-05 10.6 per cent of GDP

## 4. Infrastructure

### Power

#### I. Average per capital consumption of Electricity

(88 out of 108 countries)

1981-85	156 k.w.h.	(World Rank)
2001-03	371 kw hours	(104 out of 129 countries)

II. The cost of power in India is 74 per cent higher than Malaysia and 39 per cent higher than China in 2002-03

#### III. Average Energy Production (in kg of oil equivalent)

1981-85	2,55,712
2001-02	4,33,588 (Ranked 5 <sup>th</sup> in World)
In per capita terms (Ranked 104 in World)	
1981-85	503.7 (China – 890 kg)
2001-02	513.3 (China – 960 kg)

### Telecom

#### Telephone per 1000 people

	India	China	US
1980-85	4	3	471
1991	9	17	576
2001-03	41	171	646

#### Mobile Phone per 1000 people

	India	China	US
1990	0.0	1.0	71
2001-03	14.4	162	494

The growth is impressive, China going faster, India and China catching up in teledensity.

## Road

- India ranks second (after US) in road length
- quality of Roads not up to the mark, India has spent only US \$ 2.5-3 billion a year on development of roads as compared to US \$ 25 billion in China since mid-1990s.

## Ports

- India has 6000 km of Coastline
- 12 major ports, 185 minor ports
- 12 major ports handle 75 per cent of traffic

### Average Turnaround time in port

		European Ports
1997	7 days	35 hours
2003	3.5 days	15 hours

The world area, private participation in ports increasing. Ports are increasingly run by private bodies

India has joined the global trend

- foreign investment is encouraged.
- private sector has been allowed to set up captive facility

## Civil Aviation

- The sector is undergoing a phase of liberalisation

Passenger Traffic		India	China
	1985	9.3 million	4.7 million
	2001	18 million	76.1 million
Freight		India	China
	1985	464 mt/km	252 mt/km
	2001	580 mt/km	5,651 mt/km

## Railways

- India is the second largest rail network in world (after US)
- But China is fast catching up

India (Km)	China (Km)	US (Km)
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1991	62,759	58,656	160,000
2003	63,140	60,627	141,961

### **III. India Rising**

A. India has emerged Centre of Growth shifted to Asia.

According to BIS, India and China now contribute to 30 per cent of global growth in real GDP terms. Thus, without India and China, Global Growth may fall by about 1.5 per cent.

B. Why India will become a super power

#### **Confidence**

#### **External**

#### **International perceptions about the Indian economy:**

- § International economic agencies and analysts are terming India as the economic powerhouse of tomorrow. numerous reports published by international financial institutions and private corporate entities
- § The BRIC Report of Goldman Sachs argues that India has the potential to grow fastest among the four BRIC (Brazil, Russia, India and China) countries over the next 30 to 50 years — higher than 5 per cent over the next 30 years and close to 5 per cent as late as 2050.
  - Mr. Rodrigo de Rato, Managing Director of the International Monetary Fund stated, “Globalization is a much-discussed theme. But I believe India is the perfect venue to bring to it a new perspective. For India recently has grasped firmly the opportunities of globalization”.
- § Mr. Raghuram Rajan, Economic Counsellor and Director of the Research Department of the International Monetary Fund highlighted, “The stars are well aligned for India to become a hub of globalization”.
- § The McKinsey Quarterly in a Report titled ‘A richer future for India’ says, “India’s competitive intensity could give it a better position than China to serve as a global low-cost auto-manufacturing base”.

## **Internal**

- § Equally important in this process is a very crucial intangible change that has taken place in this country – the change in the mindset of the Indian about what country and the people can achieve.
- § Reflecting this newfound confidence, as Governor Reddy mentions, today Indians consider 6 per cent rate of growth as the inertial rate of growth.
- § This changed mindset has enabled India to achieve various feats including becoming the most competitive steel producer in the world, the most preferred centre for cross-border outsourcing of high-end services activities and one of the most preferred destination for foreign investment.

## **"Inclusive" Growth - FM in budget**

FM's Budget Speech

2004-05

“One of our greatest assets is our human resources, our people. Empowering the people, especially the poor, with universal access to education and health, and **facilitating their full participation in the growth process** through gainful employment, will enhance their welfare. It will also reinforce the growth process itself. This win-win strategy is the keystone of the economic policy framework of the Government”

**2005-06**

“I wish to restate my commitment to inclusive economic growth. It is important to bring scheduled castes and scheduled tribes into the development process. For the first time, you will find in the Budget papers a separate statement on schemes for the development of SCs and STs. The allocation for the programmes is Rs.6,253 crore. The key to empowering the scheduled castes and scheduled tribes is to provide top class education opportunities to meritorious students. The three on-going scholarship schemes for SC/ST students under the Central Plan – pre-Matric, post-Matric, and merit-based – will continue”.

## Demographic Advantage

The world is experiencing major demographic shift.

The Western hemisphere is entering into the third phase of demographic transition, with a very high proportion of old, retired population. On the other hand, India and China are approaching their demographic peak, and are in the second stage of demographic transition.

China will hit its demographic peak in 2010-15, India in 2035.

This will impact economic performance through labour supply and ability to absorb new technology

This is likely to generate self reinforcing growth dynamics in Asia.