INDIAN ECONOMIC FREEDOM IN THE NEW MILLENNIUM

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Abstract

"We will have time to reach the Millennium Development Goals – worldwide and is most, or even all, individual countries – but only if we break with business as usual. We cannot win overnight. Success will require sustained action across the entire decade between now and the deadlines. It takes time to train the teachers, nurses and engineers; to build the roads, schools and hospitals; to grow the small and large business able to create the jobs and income needed. So we must start now. And we must more than double global development assistance over the next few years. Nothing less will help to achieve the Goals".
***keywords**: Indian economy, Nehruvian Model, New Economic Policy, globalization, agreement on agriculture, WTO*

Introduction

The basic philosophy, which guided the Indian economy during the poor independence era, was basically rooted in a mixed economic regime in which the public sector had a primary significance over the private sector, and the centralized democratic economic planning wedded to the goals of the socioalistic pattern of society. Contemporary writers have called it as the "Nehruvian Model", the concept of a mixed, planned and Nehru authored socialistic pattern. However, forty years of planning has not made any significant dent in the basic problems of rural poverty and unemployment. The common man has scarcely benefited from development achieved under nine five-year plans that had been implemented till then. For decades, the Indian economy has not been able to expand faster at 3.5 per cent to a large extent because of socialistic restrictive policy. This was compounded by a heavy burden of public debt and a high rate of inflation that was the direct outcomes of the way development plans had been financed. The development policies pursued in the past had, thus become unworkable. The New Economic Policy (NEP_, in which stress was laid on liberalization and globalization, was the country's response to the crisis.

Agricultural Development

Nowadays, the word most often repeated in the parlance of economy is that of globalization. It is opening of the door of our economy, so that there will be flow of capital from various countries to ours and vice versa. In short, globalization is a process by which we integrate our economy with that of the world economy. Indian agriculture has a district

position in the world agricultural production. It is the second largest producer of rice, wheat, fruits and vegetables and the largest producer of milk, Still, in the world.

Agricultural trade's share is very meager. The share of Indian agriculture in the world export is less than one per cent. (Economic Survey-1999-2000). Export of agricultural product is an important component of the country's agrarian scene. Its present position in the Indian economy is quite significant as exports contribute a great deal to the development of an economy through foreign exchange earnings. Agricultural exports comprised of about 30 per cent of the total exports from Indian during 1980 – 1981 and the share dropped to 19 per cent in 1990-91. Agricultural exports in 1995-96 constitutes 19.87 per cent of the total exports from India and this share has decreased to 15.08 per cent in 1999-2000. Though the proportionate share of agriculture products in total exports declines, the value of agricultural exports increased during this period.

The value of agricultural exports was Rs.21138 crores in 1995-06. This rose to Rs.26104 crores in 1989-99 and the value stood at Rs.24576 crores in 1999-2000. Traditionally, coffee, tea, spices, tobacco, raw cotton and marine products were the major agricultural exports from India. They still continue to be important but over the years export composition has undergone various changes and many new commodities like fruits, vegetables flowers, etc., have emerged in the export baskets.

Provision in the WTO for a mandatory reduction in production/subsides will raise the prices of agricultural products in the developed countries. According to the provisions of the agreement on agriculture (AOA), all member countries are required to remove quantities restrictions and import licensing and also reduce tariffs and duties with a view to improving opportunities for exports.

In India, the external trade regime has been considerably liberalized and quantitative restrictions on imports of most of the agricultural products have been withdrawn from April, 2001. Concerned with the possible increase in imports due to the removal of the quantitative restrictions, the Government of India has simultaneously imposed certain conditions, which would make import of agricultural products difficult. For example, only Government nominated state trading enterprises are allowed to import certain food products that should comply with the domestic health standards and regulations, etc. These efforts provide continued protection to Indian agriculture in the post WTO regime.

In the liberalized trade regime, it is necessary to analyse the competitiveness of the Indian agriculture. The country, which is more competitive, will gain much in liberalized trade regime. To study the competitiveness of Indian agriculture, it is necessary to make a review of the export performance of the major agricultural commodities since 1995, when the WTO system became operative. It can be argued that those commodities

that are recording a high growth in exports are considered as competitive while other commodities are said to be losing competitiveness.

The positive export growth is observed in tea, tobacco, cashew kemels, spices, fish and fish preparations, fruits, vegetables and pulses. The commodities whose export growth is in the negative Oct-Dec 2005. Knowledge Society Journal are coffee, oilcakes, sugar, raw cotton, rice, meat and miscellaneous processed foods. Nearly 70 per cent of India's agricultural exports have shown positive growth during 1999-2000. More importantly, over the years, the share of commodities displaying positive export growth during 1995-96-1999-2000 has increased from 50.33 per cent to 68.53 per cent, while that of the other group showing negative growth has declined from 49.67 per cent to 31.47 per cent. On an average, the agricultural products showing the positive export growth constitutes 56.75 per cent in the total agricultural exports. These figures indicate that a large part of Indian agriculture especially those which enter the export trade, are competitive in global terms.

Economic Progress

If there is a base line for judging the success of reforms, it has to be the acceleration and sustainability of growth. By this yardstick, the Indian economy has done extremely well. The transition from a closed to an open economy lasted only two years and the GDP growth stagnated for only one year. In the third year of reform, growth pitch forced upto 5.2 per cent and in the fifth to seven per cent. In the current year, it is likely to be 6.6 per cent. Industrial growth picked up steadily to 12 per cent in 1995-96 and is likely to be nine per cent in the year mainly because of a drop in the output of coal and oil. The growth of exports has been equality striking, over 20 per cent in the year and the foreign exchange reserves now stands at around $410 million (Sept 24, 2004)/ The rate of growth of agricultural sector was about four per cent per annum, a steady shift from cereals to cash crops has increased the number of days of work available during the year for an average family, and thus, sustainability increased their real income. There has also been a significant reduction in import duties from 125 per cent on an average in 1990 to less than 20 per cent today. The FERA has been virtually abolished. The Rupee has been made convertible. The ratio of export earning to import payments has risen to an average of 60 per cent, in the last two years.

For the banking system, a set of prudential accounting norms of income recognition, asset classification, and provisioning and capital adequacy have been implemented with effect from the accounting year 1992-93/. The pre-emption in the form of Cash Reserve Ratio and Statutory Liquidity Ratio an incremental deposit, which amounted to 63.5 per cent in May 1991, was brought down to little below 39 per cent today. In linewith international standards, public banks are required to achieve a capital to

Risk Assets Ratio (CRAR) of eight per cent by 1996. Already the Government has contributed Rs.5,700 crore towards recapitalization of nationalized banks in January 1994 and again a contribution of about Rs.5,292.37 crore was made in 1994-95. A similar allocation has also been made in the subsequent budget.

Legislative changes have been made to enable stake-owned banks to tap the capital market to the extent of 49 per cent of their total capital. A Board for Financial Supervision (BFS) has been set up to provide a new system of off-site Surveillance and on-site supervision. In order to import greater element of competition, the existing banks have been allowed greater flexibility to expand their operations and new private sector banks are being permitted. Besides, foreign Institutions have been permitted to have equity participation upto 20 per cent in the private sector banks. In all, 31 foreign banks are presently operating in India with a network of 161 branches.

Ratio of Inflation

The rate of inflation was also negatively affected by the lack of fiscal discipline. Consumer prices have been rising b nine to ten per cent in the recent years. Government controlled prices play another crucial role. The International Monetary Fund (IMF) wanted the Government authorities to gradually remove these anomalies. The inflationary pressures manifested themselves when the government decided to increase prices of oil by 15 to 30 per cent. Petroleum and related products accounted for approximately value of Indian rupee is into existing price pressure. Since March 1991, the rupee has been devalued by Rs.10.80 for U.S.$1 to Rs.35.80 with massively growing imports, especially of oil and petroleum products, capital and intermediate goods, this exchange rate pass through effect is gaining more and more importance.

Since, the implementation of the economic reforms, the exports of GDP ratio has increased from 7.8 per cent in 1990-91 to 12.6 per cent in 1995-96. At the same time, the current account in our balance of payments was facing deficit. However, the deficit of U.S.$5.1 Billion in 1995-96 (1.6 per cent GDP) is for less worrying than the $11.8 Billion gap in the 1991-92 reform years (4.7 per cent of GDP) because export earnings and creditor relations had improved.

Inflow of Foreign Capital: In a bid to attract foreign capital and integrate the Indian Economy with the global economy, the Government of India has thrown open the doors to foreign investors and Multinational Corporations. In 1991, the Government announced a specified list of high technology and high-investment priority industries wherein automatic permission was granted for directed foreign investment up to 51 per cent foreign equity. In December 1996, the government allowed automatic approval of foreign direct investment up to 74 per cent by the Reserve Bank of India in nine categories of industries. FERA,

companies have been allowed to use their trademarks in India and carry on any activity of trading.

Commercial or Industrial Nature : Repatriation of products by foreign companies has been allowed. FERA Companies (other than banking companies) wanting to borrow money or accept deposits are not now required to obtain permission from the Reserve Bank. FERA companies can now deal in immovable property in India, restrictions on transfers of shares by a non-resident to another non-resident have been removed; disinvestments of equity by foreign investors no longer needs to be at prices determined by the Reserve Bank. 100 per cent foreign equity participation has been allowed for setting up power plants in the country. 20 per cent of total imports. It was estimated that this measure pushed up inflation by at least two points. Finally the declining the in NRIs and Over –seas Corporate Bodies (OCBS) predominantly owned by them have been allowed to invest upto 100 per cent equity high priority industries with reparability of capital and income. NRI investment up to 100 per cent of equity has been allowed to export houses, trading houses, star trading houses, hospitals, IOUs, sick industries, hotels etc., reputed Foreign Institutional Investors (FIIs) have been allowed to invest in Indian Capital Market subject to registration with the securities and Exchange Board of India and approval of RBI etc.

Effects of the External Sector

Liberalisation and openness have actually increased self-reliance. Exports now finance over 90 per cent of imports compared to only 60 per cent in the latter half of the eighties. At the time of crisis, our external debt was rising at the rate of $8 Billion a year. In 1993-94 the increase in external debt was reduced to less than $1 Billion. In the first half of 1994-95, our external debt Stock actually declined by almost $300 Million. Foreign Exchange is flowing through legal channels in ample quantities instead of through illegal channels as earlier. International confidence in India has been restored. As a result foreign direct and portfolio investment has increased rapidely in the last three to four years.

The Balance of Payments situation improved considerably and there was a reserve build-up of $5.8 Billion. This was significantly higher than the average accumulation of $3.4 Billion during 1991-92 -1996-97. The main factors responsible for the substantial build up of foreign exchange reserves in 1996-97 were a sharp rise in non-resident deposits, respectable increase in foreign flows, net inflow of external assistance and a decline in repayments to the IMF. The Balance of foreign payments position in 1997-98 and 1998-99 also remained comfortable as the surplus in the capital account exceeded the deficit in the current account by a substantial margin, resulting in large accretion to foreign exchange reserves amounting to $3.9 Billion in 1997-98 and $3.8 Billion in 1998-99. However, both

export growth and import growth has decelerated sharply over the last three years because of international and domestic factors.

In fact, the rate of growth of exports fell from 20.3 per cent in 1995-96 to 5.6 per cent in 1996-97 and 4.5 per cent in 1997-98. In 1998-99 exports actually declined by 3.9 per cent. According to the Economic Survey 1999-2000, structural constraints operating on the demand as well as supply side of exports contributed to the slow down on decline in exports during 1996-97-1998-99. Total net capital inflows in 1998-99 at $7.8 Billions were about $1.53 Billion lower than in 1997-98. The deceleration was primarily because of net outflow under portfolio investments by foreign institutional investors. The deceleration in export growth in recent years and the sharp slowdown especially since 1998-99 in foreign investment flows have been a major cause of concern in management of the balance of payments.

WTO - Government Reports

The Union Government made out a case that India had benefited from joining the General Agreement of Tariffs and Trade (GATT) and its Successor the World Trade Organization. According to an official release, when India join the WTO, India's exports almost doubled in less than a decade with exports going up from $26.33 Billion in 1994-95, to $51.70 Billion in 2002-2003.

When India joined WTO, India's share in total world exports of goods and commercial service increased from 0.61 per cent in 1995 to 0.86 per cent in 2002 whereas its share to total world imports of goods and commercial services increased from 0.79 per cent to 0.99 per cent during the same period.

In accordance with the WTO Agreement on Textiles and clothing, all WTO members were required to integrate specific volumes of their textiles and clothing trade into the WTO framework. Moreover, the restraining countries that maintained the quota system expanded the size of the quotas annually. These measures have led to an increase in market access a certain extent, although most of these quotas would be removed only at the last stage of integration, under the WTO agreement, which is by December 2004. With affect from January 1, 2005, the entire textiles and clothing trade would get integrated into the multilateral framework of the WTO with the completion of the phasing out of the regime of textile quotas.

By being a WTO member, India also avails itself of the Most Favoured Nation (MFN) treatment and National Treatment (Preferential Treatment) for its exports to other WTO members. India in collaboration with United Nations Conference on Trade and Development (UNCTAD) and the U.K. Department of International Development, has launched a project entitled Strategies and Preparedness for Trade and Globalisation in India.

The aim of the project is two-fold, to assist in understanding the development dimension of key trade issues, particularly as they are related to the current WTO agenda, and to strengthen the country's human and institutional capacity for analysis of globalization related issues and facilitate a policy environment that would support and sustain a more equitable process of stabilization.

Disturbing Development

On the domestic front economic reform has failed to make any dent on poverty and unemployment in the country or economy. In fact the policy of liberalization and the adoption of hi-tech by multinationals coming to India and the Indian Industrialists generated a capital intensive pattern of employment and has led to labour displacement, rather than in generating spread effects in terms of enlarging new employment opportunities. A major change against the process of economic reform is the neglect of agriculture. Data reveal that during the period 1990-2003 there has been a virtual stagnation in agriculture with the rate of growth of being 1.5 per cent per annum, which is less than even the growth of population (2.1 per cent per annum).

The process of globalization in India has led to an unequal competition-a competition between grant MNCs and dwarf Indian enterprises. Even the large Indian enterprises are just pygmies compared to the MNC's and while the latter has already gobbled some of them up, some others are awaiting their turn with berated breath. As more noted by an MP from West Bengal, the globalization of the Indian economy is like integrating a mouse into a herd of elephants.

Conclusion

India remains a growing country with enormous potential. This government has, no doubt taken significant policy measures to integrate domestic economy, but this has to be within limits and brought about steadily, rather than by fits and starts. To improve India's economic growth more both the central and state governments as well as substantial foreign capital need fiscal discipline and technology and if this foreign capital flows could be channelized into the infrastructure, the protective potential of the economy could be enhanced. Actions such as these would help to put India in lime light as the "Second Giant Asian Market"

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