INDIA TRYING TO LIBERALISE: ECONOMIC REFORMS SINCE 1991

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INTRODUCTION

The foundation of credible national security is based on the level of economic prosperity and well-being of the population of any country. This is especially so for developing countries like India. The attainment of sustained high economic growth is a necessary condition for improving the national security and the quality of life of the people throughout the country.

Many developing countries in the Asia-Pacific region, including China and India where nearly one third of the world's population live, are currently going through economic transitions. The central objective of transition through economic liberalization is to improve the competitive efficiency of the economy in the global marketplace to sustain accelerated rates of economic growth and thereby continuously improve the security and well being of the people.

India launched its market-oriented economic reforms in 1991. China launched similar reforms from 1978 and is now well ahead of India in integrating its national economy with the global economy. However, India is slowly but surely catching up in this race. The contrast in the experiences of these two countries with economic reforms under radically different political systems is remarkable. While comparisons between China and India are often made by development analysts and are inevitable when we discuss economic transitions in Asia, a more realistic assessment of the experiences of both these major countries of Asia can only be made if we explicitly take into account the stark contrast in their political systems.

In India, post-1991 economic reforms have been evolutionary and incremental in nature. There have been delays and reverses in some areas due to the interplay of democratic politics, coalition governments, and pressure groups with vested interests. However, each of the five successive governments that have held office in India since 1991 have carried on these

[1] I thank Dr. N K Paswan for his help in preparing the statistical tables included in this paper.

economic reforms, which have been based on market liberalization and a larger role for private enterprise.

WHY THE POST-1990 REFORMS?

It is well known that from 1951 to 1991, Indian policy-makers stuck to a path of centralized economic planning accompanied by extensive regulatory controls over the economy. The strategy was based on an 'inward-looking import substitution' model of development. This was evident from the design of the country's Second Five-Year Plan (1956-61), which had been heavily influenced by the Soviet model of development.[2] Several official and expert reviews undertaken by the government recommended incremental liberalization of the economy in different areas, but these did not address the fundamental issues facing the economy.[3]

India's economy went through several episodes of economic liberalization in the 1970s and the 1980s under Prime Minsters Indira Gandhi and, later, Rajiv Gandhi. However, these attempts at economic liberalization were half-hearted, self-contradictory, and often self-reversing in parts.[4] In contrast, the economic reforms launched in the 1990s (by Prime Minister P V Narasimha Rao and Dr. Manmohan Singh as his Finance Minister) were 'much wider and deeper'[5] and decidedly marked a 'U-turn' in the direction of economic policy followed by India during the last forty years of centralized economic planning.[6]

THE DRIVING FORCES BEHIND THE REFORMS

As in many developing countries, India also launched its massive economic reforms in 1991 under the pressure of economic crises.[7] The twin crises were reflected through an unmanageable balance of payments crisis and a socially

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[2] See Government of India, *Second Five-Year Plan*, (New Delhi, 1956).

[3] Reference may be made to following illustrative books for tracking down these 'tinkering' changes in the thinking of Indian policy makers and planners : Bimal Jalan ed., *The Indian Economy: Reforms and Prospects*, (New Delhi : Viking Publishers, 1991); Charan D Wadhva ed., *Some Problems of India's Economic Policy* (New Delhi : Tata McGraw Hill, 2ed 1977); and Charan D Wadhva, *Economic Reforms in India and the Market Economy* (New Delhi: Allied Publishers, 1994), Ch. II.

[4] See for example, John Harris, 'The state in Retreat? Why has India experienced such Half-hearted Liberalization in the 80s? *IDS Bulletin* (Institute of Development Studies, Sussex, U.K.), Vol. 18, No. 4, 1987.

[5] Jeffrey D Sachs; Ashutosh Varshney; and Nirupam Bajpai eds., *India in the Era of Economic Reforms* (New Delhi, Oxford University Press, 1991), p.1.

[6] Charan D Wadhva, *Economic Reforms*, *op.cit.*, p.xviii

[7] For details of magnitude and diagnosis of causes of this economic crisis, see *Ibid.*

intolerably high rate of inflation that were building up in the 1980s and climaxed in 1990-91.[8] This can be seen from the data provided in Table 1.[9] The current account deficit as a percentage of GDP peaked at a high of 3.1 percent (compared to an average level of 1.4 percent in the early 1980s). The inflation rate (as measured by point-to-point changes in the Wholesale Price Index) had also climbed to the socially and politically dangerous double-digit level, hitting 12.1 percent in 1990-91.

TABLE 1: SELECTED MACRO ECONOMIC INDICATORS 1989-2003

Indicators	1989-90	1994-95	1999-00	2000-01	2001-02	2002-03
A. Growth of GDP (%)	5.6	6.3	6.1	4.4	5.6	4.4
B. GDP Growth by Sectors (%):						
i. Agriculture & Allied	2.7	4.9	0.3	-0.4	5.7	-3.1
ii. Industry, of Which Manufacturing	6.7	8.3	4.0	7.3	3.4	6.1
iii. Services	6.7	6.0	10.1	5.6	6.8	7.1
C. Inflation Rate (WPI Index (%))	9.1	10.4	4.8	2.5	5.2	3.2
D. Current Account Balance as % of GDP		-3.1	-1.1	-0.5	-0.5	na
E. Foreign Exchange Reserves (US $ Bn.)	3.37	19.65	35.06	39.55	51.05	69.89
F. Exchange Rates (Rs/US $)	16.6	31.4	43.33	45.51	47.69	48.44
G. Rate of Growth of :						
i. Exports (%)	18.9	18.4	10.8	21.0	-1.6	20.4
ii. Imports (%)	8.8	22.9	17.2	1.7	1.7	14.5
iii. Exports as % of GDP	6.4	9.6	9.1	10.4	9.9	na
iv. Imports as % of GDP	9.3	10.5	12.4	11.8	11.6	na
H. Fiscal Deficit as % of GDP	7.9	4.7	5.4	5.6	5.9	5.5
I. Revenue Deficit as % of GDP	2.6	3.1	3.5	4.1	4.2	3.9
J. Saving Ratio as % of GDP	22.3	24.9	24.1	23.4	24.0	na
K. Investment as % of GDP	24.9	25.4	25.2	24.0	23.7	na

Source: Ministry of Finance, Government of India, *Economic Survey*, (New Delhi, various years).

Most economic policy makers and analysts held widely convergent views on the causes of the unprecedented economic crisis faced by India in 1990-91. The root cause of the twin crisis could be traced to macro-economic mismanagement throughout the 1980s as reflected in an unsustainably high

[8] This can be seen from all references cited in footnotes 1,2,4 and 5. In addition see, Vijay Joshi and I.M.D. Little, *India's Economic Reforms 1991-2001* (Delhi, Oxford University Press, 1997).

[9] Other data used in the text (that is, not in the tables) is taken from Ministry of Finance, Government of India, *Economic Survey* (New Delhi, various years) unless otherwise noted.

fiscal deficit, in particular the revenue deficit and the monetized deficit.[10] The central government's fiscal deficit alone peaked at 7.9 percent as a percentage of GDP in 1989-90. Thus growing fiscal profligacy (and irresponsibility) and the unviable financing patterns of the fiscal deficit prevailing in the 1980s made high levels of annual GDP growth (peaking at 5.6 percent in 1989-90) unsustainable.[11] Foreign-exchange reserves dwindled to a low of US$2.2 billion (with less than 15 days' cover against annual imports). India stared bankruptcy in the face as it struggled to meet external debt obligations.

Prime Minister Narasimha Rao converted the prevailing economic crisis into an opportunity to launch massive economic reforms. First, he introduced an economist (rather than a politician) into the Cabinet as Finance Minister and gave the new Minister his full support, allowing him to evolve and implement path-breaking economic reforms. The new economic policies radically departed from the economic policies and regulatory framework pursued in India during the previous forty years.[12]

The Rao government recognized in 1991 that the time had come to reshape India's economic policies by drawing appropriate lessons from the 'East Asian Miracle' based on more export-oriented and more globally connected strategies of development, as successfully practiced earlier by Japan and South Korea and also by the South East Asian tigers Malaysia, Singapore, Indonesia and Thailand.[13] The East Asian development model had been remarkably successful in achieving sustained high growth rates accompanied by rapid growth in the living standards of the people in just two decades. India had missed on both these fronts by relentlessly pursing import substitution and a relatively closed economy model of development.

The Rao government, after launching the relatively aggressive (by past Indian standards) reforms, was soon confronted with the political constraints of 'competitive populism' during elections held at the state level in 1993. Therefore, the government adopted a 'middle path', furthering the economic

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[10] For further details, see Wadhva, *Economic Reforms, op.cit., c*h. I.

[11] Thus the claim that India had clearly transcended the so-called 'Hindu rate of growth' of GDP at 3.5 percent per annum (trend annual growth rate) achieved for the two decades of 1960s and 1970s and had moved over to higher annual average growth rate of 5.5 percent in the 1980s could not be accepted since the latter jump proved to be financially unsustainable.

[12] The major economic reforms launched during the full five-year tenure of the Narasimha Rao Government (1991-96) are highlighted below.

[13] There are of course, lessons to be learnt by India from the 'East Asian debacle' of 1997-98 (the so-called 'East Asian Financial Crisis) but these need not detract us here as most South Asian and Southeast Asian countries had overcome this crisis by 1999.

reforms in an 'incremental' fashion in order to continue to extending their width and depth during the remainder of the government's term.

The government took two years to get over the immediate macro-economic crisis, initially with the help of a balance of payments loan facility from the International Monetary Fund. The government came out with a clear enunciation of its vision and the objectives of its economic reforms only after regaining macro-economic stability. This was contained in the Discussion Paper on Economic Reforms brought out by the Ministry of Finance in July 1993. To quote:

> The fundamental objective of economic reforms is to bring about rapid and sustained improvement in the quality of the people of India. Central to this goal is the rapid growth in incomes and productive employment… The only durable solution to the curse of poverty is sustained growth of incomes and employment…. Such growth requires investment: in farms, in roads, in irrigation, in industry, in power and, above all, in people. And this investment must be productive. Successful and sustained development depends on continuing increases in the productivity of our capital, our land and our labour.
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> Within a generation, the countries of East Asia have transformed themselves. China, Indonesia, Korea, Thailand and Malaysia today have living standards much above ours…. What they have achieved, we must strive for.[14]

MAJOR ECONOMIC REFORMS

Economic reforms launched since June 1991 may be categorized under two broad areas:

- major macro-economic management reforms; and
- structural and sector-specific economic reforms

Naturally, the attention of the new government that took office in June 1991 was primarily focused on crisis management dealing with the balance of payments. It was of the utmost importance to restore India's international credibility by meeting its scheduled external debt liabilities and through maintaining a more realistic exchange rate consistent with market obligations. Achieving macro-economic stabilization was also an urgent priority, necessitating control of intolerably high inflation. It was recognized that

[14] Government of India, Ministry of Finance, Department of Economic Affairs, 'Economic Reforms : Two Years After and the Task Ahead', Discussion Paper, New Delhi : July 1993, pp.1-2.

macro-economic stabilization would provide a sound foundation for medium- and long-term structural economic reforms and accelerate the rate of economic growth in a sustained manner. This would be possible by removing distortions created by controls and by improving the competitive edge for Indian goods and services in global markets as well as in the markets of major regional trading blocs.

I describe below the major economic reforms, with greater focus on structural economic reforms in selected sectors of the economy.[15]

MACRO-ECONOMIC MANAGEMENT REFORMS

Macro-economic management reforms have focused on controlling the politically difficult problems of reducing the fiscal and (even more so) revenue deficits. The capital account deficit does not pose long-term problems as investment in productive capital made in the present, if prudently carried out, will generate an adequate income stream to pay for capital costs incurred and generate positive returns in the future.

India's problem is primarily in the area of revenue deficits. From 1950 to 1980 the national budget was usually characterized by revenue surpluses and capital account deficits . However, after 1980, all (democratic) governments for political reasons had willingly allowed the revenue deficit to rise over the years to dangerously high levels, and had found it increasingly difficult to reduce. The revenue deficits reflected an excess of annual consumption expenditure by the government over its annual income. The deficit was caused by excessive employment in the government sectors, uneconomical pricing of goods and services by public sector enterprises, a growing interest burden, mounting subsidies, and rising defense expenditures. Downsizing the government (through the bureaucracy or public sector enterprises and banks) was also difficult and met staff resistance from the organized employees.

Attempts at Reducing the Fiscal Deficit

Faced with the necessity of reducing the fiscal deficit in the crisis year of 1991-92, Finance Minister Singh attempted to reduce fertilizer and food subsidies in 1991-92 and to some extent in 1992-93. Simultaneously, he (and several subsequent finance ministers) resorted to the softer options of reducing public investment expenditure and reducing public expenditure on social welfare services from 1991 to 1995. These measures did help reduce the fiscal deficit of the central government to 4.8 percent of GDP at the end of

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15 I have drawn upon various annual issues of *Economic Survey* produced by the Government of India (Ministry of Finance) for this section.

1992-93. However, further cuts in fertilizer and food subsidies could not be carried out as these measures were opposed in Parliament and proved suicidal for the ruling Congress Party, which lost power in state elections in 1993-94.

Meanwhile, the fiscal position of the state governments also started deteriorating. The combined fiscal deficit of the central government and the states climbed to the unacceptably high level of 10-11 percent of GDP in 2002-03. Some state governments have begun to address their fiscal deficit problems. The central government has recently started linking further transfers of resources to the states to the progress of state-specific economic reforms aimed at reducing deficits.[16]

The good news for macro-economic management reforms is that the pre-1990 pattern of 'deficit financing' (that is, the printing of currency) to meet the fiscal deficit has now been effectively curbed. The autonomy of the central bank (the Reserve Bank of India) in regulating the money supply to control inflation has been assured within the limits of monetary policy. This has led the government to resort to larger and larger domestic borrowing.

The bad news is that government borrowings have risen so high that the economy is moving towards an 'internal debt trap'.[17] Further growth of internal debt needs to be curbed but the government is in no mood to close off this easy way of financing its rising fiscal deficit. The finances of most state governments are in even poorer shape and some have occasionally resorted to market borrowings to meet their payrolls.

Tax Reforms

Since 1991 several efforts have been made through the annual budget process to achieve tax reforms.[18] These have focused on: (i) expanding the tax base by including services (not previously taxed); (ii) reducing rates of direct taxes for individuals and corporations; (iii) abolishing most export subsidies, (iv) lowering import duties (covered below by us under structural reforms relating to trade policies/external sector); (v) rationalizing sales tax and reducing the cascading effect of central indirect taxes by introducing a Modified Value Added Tax and a soon-to-be implemented nationwide Value Added Tax; (vi) rationalizing both direct and indirect taxes by removing unnecessary exemptions; (vii) providing for tax incentives for infrastructure

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16 For details see Government of India, *Economic Survey 2002-03*.

17 It is estimated that the interest payments currently pre-empt more than 60 percent of the total revenue of the central government leaving very little resources for fresh public investment. See *Economic Survey 2002-03*.

18 For details see the relevant official annual documents for the Union Budget usually presented by the Finance Minister to the Parliament each year on February 28, 2003.

and export-oriented sectors, including setting up special (Export) Economic Zones; and (viii) simplification of procedures and efforts for improving the efficiency of the tax administration system especially through computerization.[19]

Resource Generation through Divestment

The governments of India, both at the central and state government levels, have initiated divestment programs to sell government equity in several public-sector enterprises. Unfortunately, the sales proceeds have mostly been used to finance fiscal deficits rather than for fresh public investment, social-sector spending, or reducing the interest burden on ballooning public debt.

STRUCTURAL ECONOMIC REFORMS

Structural reforms since 1991 have been sector-specific. The sectors subjected to reform have been carefully selected and the coverage of sectors under structural reforms has been extended over time. The major structural economic reforms carried out since 1991 have been primarily in the following areas: Trade Policy/External Sector; Industrial Policy; Infrastructural Sector Policies; Divestment/Privatization Policies; the Financial Sector; and in Policies for Attracting Foreign Direct Investment.[20]

The thrust of the reforms in all areas has been to open India's markets to international competition, remove exchange rate controls, encourage private investment and participation in industry and, in the finance markets, to liberalise access to foreign capital and to ensure that foreign investment is not penalized merely for being foreign.[21]

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[19] For the latest proposals for tax reforms, see the two (published) reports of the Committee on Reforms of Direct and Indirect Taxes (Chairman Dr. Vijay L Kelkar), New Delhi : Government of India, Ministry of Finance, 2003.

[20] It may be pointed out that in the vital areas of macro-economic policy including fiscal policy monetary policy and exchange rate policy, there is an overlap between macroeconomic stabilization policies and structural reforms. The long-term growth inducing roles of all macro-economic policies can be considered under structural reforms. We focus here on sector-specific reforms although overlaps exist with agro-economic policies in our discussion. For an annual overview of structural reforms carried out in India, see Government of India *Economic Survey* for the relevant year (latest available being 2002-03).

[21] Financial sector reforms were initiated on the basis of two reports by the Narasimham Committee. Government of India, Ministry of Finance, Report of the Committee on Financial System (Chairman : Mr. M Narasimham), New Delhi : November 1991; and Report of the Committee on Banking Sector Reforms (Chairman : Mr. M Narasimham), New Delhi 1996.

Reorientation of Planning

Consistent with the spirit of the market-oriented and private sector-led economic reforms launched since 1991, the government has reoriented the role of planning in India. It has been recognized that market forces and the state should be given roles that play to their comparative advantages and that they should work together as partners in the economic development of the nation. While private initiative should be encouraged in most areas of business activities, the state should increasingly play a pro-active role in areas in which the private sector is either unwilling to act or is incapable of regulating itself in the social interest. The areas in which the state has a comparative advantage over the private sector include poverty alleviation programs; human resource development; provision of social services such as primary health and primary education; and similar activities categorized as building human capital and social infrastructure. The state also has a new role in setting up independent regulatory authorities to encourage genuine competition and to oversee the provision of services by the private sector in critical areas such as utilities, water supply, telecommunications, and stock market operations to avoid the ill effects of speculation and to maintain a workable balance between the interests of the producer and the consumers.

Economic liberalization in the organized manufacturing sector (subjected to rigid labor laws for retrenchment) has led to growth with very little additional employment. This can create serious social unrest and fertile ground for terrorist and other anti-social activities that attract unemployed youths in the absence of gainful employment. Market-based economic reforms also often lead to increasing disparities between the rich and the poor and between infrastructurally backward and more developed states. The government has to intervene and calibrate the contents and speed of market-based economic reforms to more effectively address the specific areas of 'market failures and weaknesses' to optimize growth with social justice.

The new role assigned to planning, consistent with market-based economic liberalization, can perhaps best be illustrated with the goals and the strategies incorporated in India's Tenth Five-Year Plan (2002-07).[22] The Plan has targeted an annual growth rate of eight percent. Along with this growth target, the government has laid down targets for human and social development. Timely corrective actions will be proposed to ensure growth is accompanied by social justice. The key indicators of human and social development targeted

[22] See, Government of India, *Tenth Five Year Plan 2002-07* (in three volumes) (New Delhi : Planning Commission, 2002).

under this Plan include: a reduction of the poverty rate by five percentage points by 2007; providing gainful employment to at least those who join the labor force during 2002-07; education for all children in schools by 2003; and an increase in the literacy rate to 75 percent by March 2007.

The development strategy adopted for the Tenth plan envisages:

> redefining the role of Government in the context of the emergence of a strong and vibrant private sector, the need for provision of infrastructure and the need for imparting greater flexibility in fiscal and monetary policies. With a view to emphasizing the importance of balanced development of all states, the Tenth plan includes a state-wise break-up of broad developmental targets including targets for growth rates and social development consistent with national targets. The Tenth Plan has emphasized the need to ensure equity and social justice, taking into account the fact that rigidities in the economy can make the poverty-reducing effects of growth less effective. The strategy for equity and social justice consists of making agricultural development a core element of the Plan, ensuring rapid growth of those sectors which are most likely to create gainful employment opportunities and supplementing the impact of growth with special programs aimed at target groups.[23]

THE POLITICAL ECONOMIC DIMENSIONS OF THE REFORMS

India's heterogeneity and unity in diversity through a stable democratic system must be appreciated. A country like India, with more than one billion people, some 16 officially recognized major languages, and vast ethnic and religious diversities, poses major governance challenges. India has achieved remarkable success in holding the country together.

India had governed its economy through a policy regime of centralized planning accompanied by an extensive regulatory framework for more than forty years before it launched economic reforms in 1991. It has, therefore, not been easy to change the mindsets of policy makers (especially at the lower levels of bureaucracy) and of other beneficiaries of the entrenched regime.

Building a political consensus on economic reforms across the various political parties with their vastly different ideologies has been a very difficult process. This has been especially true under coalition governments but also even when a single party has held a majority. Consensus building and reform

[23] As summarized in Government of India, *Economic Survey 2002-03*, pp.41-42.

implementation is complicated further when the central government and the states are in the hands of different parties (or coalitions).

The rapidly increasing frequency of elections at the central and state levels during the post-1990 period of economic reforms has led the incumbent governments and the contesting opposition parties to resort to 'vote-bank' politics or 'competitive populism'. The vested interests of groups such as trade unions, producers with licenses and holding monopoly interests, and bureaucrats with 'rent seeking' capabilities have often scuttled or delayed further market-based economic reforms. These factors explain well India's 'stalled' reforms in certain areas directly hurting vested interests of selected lobby groups.[24] The growth of regional parties and their assumption of power in many Indian states has further delayed the percolation of central-level economic reforms down to the state level.

Weiner has recommended the need for a change in the mindsets of state policy makers:

> The pursuit of market-friendly policies by state governments requires a change in the mindsets of state politicians, new skills within the state bureaucracies, and a different kind of politics. More fundamentally, it requires rethinking on the part of state politicians, activists in non-governmental organizations, journalists and politically engaged citizens as to what is the proper role of government, and how and to what end limited resources should be used.[25]

Considering the compulsions arising from the above political factors, Montek S. Ahluwalia explains the rational for adopting the 'gradualist' approach in implementing of economic reforms and the resultant 'frustratingly slow' pace of reforms (compared to East Asian standards):

> The compulsions of democratic politics in a pluralist society made it necessary to evolve a sufficient consensus across disparate (and often very vocal) interests before policy change could be implemented and this meant that the pace of reforms was often frustratingly slow. Daniel Yergin (1998) captures the mood of frustration when he wonders whether the Hindu rate of growth has been replaced by the Hindu rate of change![26]

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[24] See, 'Introduction' in Jeffrey D. Sachs, Ashutosh Varshney and Nirupam Bajpai, *op.cit.*

[25] Myron Weiner, 'The regionalization of India's Politics and It's Implications for Economic Reforms' in *Ibid.*, Ch. 8, pp.292-3.

[26] Montek S Ahluwalia, 'India's Economic Reforms: An Appraisal', in *Ibid.*, pp.26-27. See also Daniel Yergin, *The Commanding Heights*, New York: Simon and Schuster, 1998.

Finally, most (if not all) political parties implementing market-based economic reforms since 1990 have failed to 'market' these reforms to the masses as being highly beneficial for them. The opposition parties have often termed these reforms as 'pro-rich' and 'anti-poor'. Ironically, even the Congress Party, which initiated the economic reforms when in power, has, as an opposition party, opposed some of them (such as further public-sector divestments) Varshney has made a valid distinction between 'elite-based' reforms versus 'mass-based' reforms. Market-based reforms have not drawn mass appeal nor aroused mass passions. This dichotomy between the concerns of the urban elite and the mass of the population has clearly defined the limits to economic reforms in India.[27]

STATE-LEVEL ECONOMIC REFORMS

To increase the effectiveness of the post-1990 economic reforms, they must be simultaneously extended from central to state governments and below to the third tier of local governments.

The maladies afflicting the finances of the state governments are similar in nature to those afflicting the central finances described earlier. According to the Reserve Bank of India, the Gross Fiscal Deficit of all the states of India (including the Union Territories) was estimated at 3.3 percent in 1991-92.[28] Throughout the 1990s the state governments also experienced a rapid rise in their revenue expenditures mainly through salaries, pensions, interest payments and subsidies (including free power to farmers in some states out of political considerations). This trend has 'severely constrained the states' ability to undertake development activities' and to devote more funds to provide social services such as primary education.[29] The situation worsened after the states were forced to follow the center to implement generous pay increases for government employees recommended by the Fifth Central Pay Commission in 1997-98.

Despite initial resistance in the Communist Party-ruled state of West Bengal, all state governments (including West Bengal), in their own ways and suiting their own conditions, implemented economic reforms in the 1990s and are continuing these reforms broadly in line with the ongoing national economic reforms. This owes in part to enlightened self-interest combined

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[27] For further details, see Ashutosh Varshney, 'Mass Politics or Elite Politics?', in Jeffrey D Sachs, Ashutosh Varshney and Nirupam Bajpai, *op.cit.*, Ch.7.

[28] Reserve Bank of India, 'Finances of state Governments : 1992-93', in the *Reserve Bank of India Bulletin*, March 1993.

[29] Government of India, *Economic Survey 2002-03, op.cit*, p.5.

with a healthy competitive spirit designed to improve their position and ranking among the states. There is also the states' desire to avail themselves of larger transfers of development funds from the center, which the central government linked to economic reforms at the state level. Every state has recognized the need to attract private investment flows from both domestic and foreign investors. State governments have therefore progressively liberalized their policies and procedures on a competitive basis. Several of them have also explicitly recognized the need to improve human resource development and have progressively expanded activities to provide a better quality of life to the population of their states.

Incentives and Conditionalities

The government of India has introduced a scheme called the States' Fiscal Reforms Facility (2000-05). Under the Facility, the central government set up a five-year incentive fund 'to encourage states to implement monitorable fiscal reforms'. Additional amounts by way of 'open market borrowings' are allowed if the state is faced with a structural adjustment burden. State governments may draw up a Medium Term Fiscal Reforms Programme (MTFRP) to achieve specified targeted reductions in their consolidated fiscal deficit, especially the revenue deficit.

The coverage of the MTFRP has been extended to cover a Debt Swap Scheme in order to help state governments reduce their growing public debt. This scheme is designed to help liquidate the burden of high-cost loans taken from the central government through the allocation of additional market borrowings at currently prevailing lower interest rates.

The major structural reforms carried out by several state governments include:

(i) Measures to improve quality of life through improvements in basic public services such as primary health, primary education, and rural infrastructural services such as electricity, water, and roads. Madhya Pradesh has brought out the first state-level *Human Resource Development Report*. Other states have followed suit. The Planning Commission has also published a comprehensive *National Human Development Report* assessing human development nationwide and in the major states.[30]

(ii) Clustering high-tech industries and services (for example, in software parks).

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[30] Government of India, *National Human Development Report 2001* (New Delhi : Planning Commission, 2002).

(iii) Setting up Special Economic Zones and Agri-Economic Zones to promote exports.

(iv) Formulating state-level industrial policies to attract investments.

(v) Power-sector reforms that restructure state Electricity Boards by separating generation, transmission and distribution activities, encouraging independent power producers in the private sector to invest in the power sector, and setting up independent state Electricity Regulatory Authorities.

THE PERFORMANCE OF THE INDIAN ECONOMY

Despite the slow pace of implementation of the economic reforms and certain hiccups and delays caused primarily by the compulsions of democratic politics, the performance of the Indian economy under the reforms carried out so far shows a mixed picture of notable achievements and weaknesses. The performance has been impressive on some fronts, satisfactory on several other fronts, and inadequate in certain respects. India has still to launch deeper (so-called 'second-generation') reforms in various areas to get the best results.

Areas of Impressive Performance

Through reform, India overcame its worst economic crisis in the remarkably short period of two years. Macro-economic stabilization reforms (along with structural economic reforms) were launched in June 1991. Through prudent macro-economic stabilization policies including devolution of the rupee and other structural economic reforms the balance of payments crisis was clearly over by the end of March 1994. Foreign exchange reserves had risen to the more than adequate level of US$15.07 billion and the current account deficit as a percentage of GDP was nearly eliminated. Export growth rate at 20.0 percent in 1993-94 over the previous year was quite encouraging.

Macro-economic stability has endured in the ten years of economic reforms to 2003. Foreign-exchange reserves peaked at US$70 billion at the end of March 2003 (and touched US$80 billion in June 2003).[31] The current account 'recorded a surplus—equivalent to 0.3 percent of GDP—in 2001-02'.[32] Food stocks with the Food Corporation of India, held to ensure national food security, peaked at sixty million tons (compared to the required twenty million tons). It took longer to control inflation but this led to relatively more enduring results (excluding the impact of externally determined fuel prices). Since 2002, the country has enjoyed a low interest-rate regime. These

[31] The Rupee had started appreciating against US$ after April 2003.
[32] Government of India, *Economic Survey 2002-03, op.cit.*, p.3.

performance indicators have helped to provide an 'enabling environment for the macroeconomic policy stance.'[33]

India has also increasingly integrated its economy with the global economy. After half a century of inward-orientation, the share of India's trade as a proportion of GDP rose from 13.1 percent in 1990 to 20.3 percent in 2000. By Indian standards this is an impressive performance.

India's economy has also successfully moved into a higher trajectory of growth and displayed strong dynamism in selected sectors. This encouraging performance brightens the prospects for stepping up India's growth rate and improving the competitive edge in the years to come through further appropriate economic reforms.

The average annual growth rate of 5.8 percent achieved by the Indian economy during the years of economic reforms since 1992 is encouraging. Currently, after China, India is among the fastest-growing countries in Asia. Since the annual rate of population growth has slowed significantly to nearly 1.8 percent during the 1990s, per capita income has been growing at a healthier real rate of four percent per annum.

India's growing middle class of more than 350 million people, with a reasonably affluent standard of living, provides a huge market for foreign corporations, especially since April 2003, when all quantitative restrictions on imports were lifted.

Along with its fairly good growth rate (which, however, is far below the potential growth rate of eight percent targeted by India's Tenth Five-Year Plan), India has been successful in reducing poverty. The poverty ratio (that is, people below the poverty line as a percentage of the population) as estimated by the Planning Commission at the national level came down from 36 percent in 1993-94 to 26.1 percent in 1999-2000. The poverty ratio during this period declined both in rural areas and in urban areas. There is little doubt that poverty in India has been reduced during the last decade. The Planning Commission has set a poverty ratio target of 19.3 percent by the end of the Tenth Plan period (to March 2007).

An important indicator of gains from economic reforms, reflecting the attractiveness of India as an investment destination, is shown by the increasing inflows of both FDI and Foreign Institutional Investment (FII) into India. Inflows of both FDI and FII into India has increased in the decade to 2002. On average, according to the Ministry of Finance's *Economic Survey*, India has

[33] Reserve Bank of India, *Annual Report 2001-02*, Mumbai, Reserve Bank of India, p.1.

been attracting US$2.5 billion to US$3 billion and nearly US$4 billion in 2001-02 in FDI per annum mostly in various infrastructural sectors such as large power and telecommunication projects.

India's economy under the reforms has made rapid strides in selected industrial areas and knowledge- and skill-intensive services. These specific growth areas have experienced significant restructuring under more competitive conditions in the marketplace through mergers and acquisitions and technological and managerial innovations. This has led to the achievement of recognizable increases in international competitiveness in a number of sectors including auto components, telecommunications, software, pharmaceuticals, biotechnology, research and development, and professional services provided by scientists, technologists, doctors, nurses, teachers, management professionals and similar professions. The spillover effects of India's increasing international competitiveness have helped in improving the rate of growth of export earnings. They have also directly benefited Indian consumers by making better quality, lower-priced goods available.

Areas of Weakness

The most notable weakness of the reform process has been in fiscal consolidation. Indian governments at both the central and state levels have failed miserably to reign in growing revenue deficits and reduce the overall fiscal deficit. The foundations for a sustainable high growth rate in any economy lie in maintaining fiscal discipline. This has not been adequately achieved by Indian policymakers. Excessive use of market borrowing to cover budget deficits has often put upward pressure on interest rates and pre-empted ('crowded out') borrowings by the private sector. The structure of revenue expenditure and political obstacles to any reduction of subsidies and downsizing the government at all levels have been primarily responsible for the lack of progress on fiscal reforms. The real issue in restructuring government finances is 'right-sizing' the government by adequately increasing government expenditure on infrastructure of both the hard and soft varieties, based upon growing resources.

India's record on social development expenditure has been poor considering Indian requirements and poor also in relation to many developing countries, including some of the least developed countries in Sub-Saharan Africa. The abysmally low ranking of India on the Human Development Indices computed by the United Nations bears testimony to this assertion.[34] Dreze and Sen remarked in 1995 that India's social development indicators in

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[34] United Nations, *Human Development Report*, available annually at http://hdr.undp.org.

1991 (when reforms were launched) were lower than in several East and Southeast Asian countries three decades ago.[35]

India must bridge this social development gap by significantly increasing its public expenditure on social services if it wishes to achieve the targeted annual growth rate of eight percent set by the country's Tenth Plan. As Ahluwalia has remarked, larger investment in the social sectors is 'necessary not only because social development is an end in itself, but also as a precondition of accelerating growth'.[36]

The massive shift required in the pattern of government expenditure in India in favor of social sectors and infrastructure can only be carried out through structural fiscal reforms. The Fiscal Responsibility and Budget Management (FRBM) Act (2003) provides for complete elimination of the revenue deficit by 31 March 2008. This Act is, therefore, a step in the right direction. Despite 'dilution' of the original draft bill, it is important legislation because it sets the condition that the government can run a fiscal deficit only if borrowings are made to finance investments which will enhance productive capacity'.[37]

Another major weakness of the Indian economic reforms is the economy's experience with 'jobless growth' in the post-1990 period. Rigid labor laws relating to retrenchments have constricted growth in the organized manufacturing sector. As a labor surplus country, there already exists a huge backlog of both 'open' and 'disguised' unemployment. With a growing population, every year adds to the labor force. Economic reforms have accelerated growth but failed to generate adequate employment. For example, the rural unemployment rate, after declining to 5.61 percent in 1993-94, rose to 7.21 percent in 1999-2000 as did the All-India (urban plus rural) rate of unemployment. If this disturbing trend is allowed to continue, it will breed social unrest and add to the ranks of terrorists and other anti-social elements in the country.

Last but not least, the reforms have led to growing disparities between richer and poorer states (more and less developed, especially in terms of infrastructure) within India. Although the all-India average annual growth rate in the reform era has been on the order of 5.8 percent, this masks wide

[35] Jean Dreze and Amartya Sen, *India : Economic Development and Social Opportunities*, (New Delhi : Oxford University Press, 1995).
[36] M S Ahluwalia, *op.cit.,* p.74.
[37] C Rangarajan, 'Focus on Revenue Deficit', *Business Line* (New Delhi), June 10, 2003, p.4

variations in inter-state growth rates, growth of per capita income, and social development.

Most state governments are not well prepared to meet the challenges posed by globalization. The farming sector and the innumerable small-scale industrial units are vulnerable to the impact of global competition. The government and economic players in the private sector need to work more closely as partners to evolve strategies to meet the challenges of global competition more effectively.

THE ECONOMY IN THE INTERNATIONAL ARENA

The Indian economy has been moving towards closer integration with the global economy and with the leading regional trading blocs. This can be seen using three indicators: (i) Trade in goods and services as a proportion of GDP; (ii) Gross Private Capital (In)flows; and (iii) Gross Foreign Direct Investment as a proportion of GDP. In all three areas, China has had the most outstanding performance and is clearly far ahead of India. However, within the constraints of democratic politics (which have forced India to adopt incremental and relatively 'softer' economic reforms), and despite being a late starter in the economic reform process, India can be seen to have done 'reasonably well' in globalizing its economy. The ratio of trade to GDP increased from 13.1 percent in 1990 to 20.3 percent in 2000. The proportion of Gross Capital Inflows to GDP during the same period increased from 0.8 percent to 3.0 percent. Gross Foreign Direct Investment as a percentage of GDP (which was zero in 1990) rose to 0.6 percent in 2000.

India's trading relations with major regional trading blocs in 1990 and 2000 can be seen in Table 2. For the year 2000, APEC countries were India's largest trading partners, accounting for 47.4 percent of India's global exports and 57.4 percent of global imports. India has, therefore, shown keen interest in joining this forum. Unfortunately, APEC has currently imposed a moratorium on new membership.

There is naturally a sharp contrast between India and East Asian countries in their relative rates of export growth due to sharp differences in their export strategies. The contrast is the sharpest when we compare India and China for the period 1950-2000. In 1950, both had roughly similar shares in world trade. China pursued a more aggressive export strategy in 1978 when it created export-oriented Special Economic Zones in Southern China. By 2000, China had captured around 4.0 percent of world trade. In contrast, India's share of world trade had stagnated at around 0.5 percent for the three decades 1960-90 due to its inward-looking policies.[38] By 2000, this share had moved up to 0.7 percent. India has formulated and is further strengthening its latest Medium-Term Export Strategy (MTES) (2002-07), coinciding with the period of the Tenth Five-Year Plan.

TABLE 2: TRENDS AND PROJECTIONS FOR INDIA'S EXTERNAL TRADE 2000-2025

Year	Exports to			Imports from		
	1990	2000	2020	1990	2000	2020
Actual/Projected	*A*	*P*	*p*	*A*	*P*	*P*
India's Global Exports and Imports (US $ Billion)	**18.2**	**37.1**	**63.6**	**23.3**	**41.3**	**61.2**
1. APEC-21	52.06	47.4	43.44	40.98	58.68	57.41
2. ASEAN-10	4.99	6.87	7.38	6.92	9.41	13.1
3. BIMSTEC-4	2.91	4.65	5.45	1.55	1.28	1.45
4. BISTEC-3	2.9	4.51	5.3	1.55	0.8	0.98
5. EU-15	27.6	24.76	25.14	36.62	25.72	23.79
6. GCC-6	5.21	7.17	7.71	8.7	21.05	32.57
7. IOR-ARC-18	13.55	19.26	22.22	13.4	20.93	30.76
8. NAFTA-3	17.13	19.65	16.08	11.2	10.14	11.01
9. SAARC-7	2.65	4.12	4.52	1.78	0.47	0.68

Note : A-Actual and P-Projected

APEC – 21: Asia Pacific Economic Cooperation

ASEAN-10: Association of South East Nations

BIMSTEC-4: Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation

BISTEC-3:Bangladesh-India-Sri Lanka-Thailand Economic Cooperation

EU-15: European Union

GCC-6: Gulf Cooperation Council

IOR-ARC-19: Indian Ocean Rim Association for Regional Cooperation

NAFTA-3: North America Free Trade Area

SAARC-7: South Asia Association for Regional Cooperation

Source : Charan D. Wadhva, "India's External Sector" Chapter - 12 in the Report of Research Project on *India-2025: A Study of the Social, Economic and Political Stability*, Centre for Policy Research, New Delhi, May, 2003.

[38] As per World Bank's annual *World Development Report*, various issues and other sources.

The MTES for 2002-07 envisages the achievement of India's target of one percent of global trade by 2007 and provides sector-wide targets for niche products and targets for selected niche markets.[39] The active participation of state governments is being sought in establishing and strengthening Special Economic Zones (SEZ) modeled on Chinese SEZs and setting up Agri-Economic Zones to provide a strong push to raise the country's export growth rate. The development of world-class infrastructure in the SEZs will take more time. A new labor policy regime allowing freedom for entrepreneurs in the SEZs to 'hire and fire' labor according to the needs of the market (as permitted in the highly successful Chinese SEZs) will have to be put in place to maximize gains from India's SEZs. As of May 2003, eight SEZs had been approved and have became operational. More such SEZs will be set up in India in the future.

India is trying its best to liberalize and to transform itself into a global player of consequence in the world economy by 2020. It has been ranked by the World Bank as the world's fourth-largest nation in terms of the size of GNP measures in terms of Purchasing Power Parity (PPP) in 2001. Ahead of India in 2001 on this front were only Japan, the US, and China. The World Bank has projected that by the year 2020, China will take the top spot, followed by India.

India's economy clearly is on the move and most certainly has the potential to emerge as a global economic power within next twenty to twenty-five years. However, this potential can be made a reality only if India mobilizes adequate political will and quickly commits itself to design and fully implement the next phase deeper 'second-generation reforms'.

The concept of 'second-generation' reforms has been in the making for some years. However, these are yet to take concrete shape. Considering that India currently has no social security system in place for nearly 90 percent of its labor force employed in the unorganized sectors, India needs to evolve a well-calibrated approach to its future economic reforms. This would also be necessary to meet the challenges posed by the further intensification of the process of globalization. However, clear prioritization of future economic reforms in India will have to be laid down during implementation of the most critically needed 'second-generation reforms'.

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[39] Government of India, *Export Import Policy 2002-07*, New Delhi : Ministry of Commerce 2002.

THE NEXT GENERATION OF REFORMS

The following are ten recommended areas of special focus in the second generation of economic reforms:

1. Political Reforms for Good Governance;
2. Re-engineering the Role of the government;
3. Administrative and Legal Reforms;
4. Strategic Management of the Economy with a focus on knowledge-based HRD Activities;
5. Fiscal Prudence;
6. Agricultural Sector Reforms;
7. Industrial Restructuring;
8. Labor Sector Reforms;
9. Foreign Trade and Outward Investment Policies;
10. Financial Sector Reforms.

Political Reforms for Good Governance

Political reforms are urgently required in concert with economic reforms.[40] Both are essential to ensure good governance. A paradigm shift is required in the prevailing system of governance. Serving the people and putting their interests above the interests of the ruling elite must be the prime motivating force driving the reformed system of governance. Good governance can be ensured through the provision of an adequate quantity of public services and by improving their quality. Indian politicians need to become fully aware of the costs and benefits of economic reforms. Ruling politicians with limited terms in office are often guided by narrow and short-term motivations while formulating policies in the national interest. The Indian public at large also needs to be thoroughly educated on the inevitable need to bear short-term pain in order to reap the somewhat uncertain longer-term gains from economic reforms.

Economic reforms in the future must be more people-centered. They must be given a human face so as to continuously enhance the social empowerments of the poorer and most vulnerable sections of the society. They must be gender-sensitive to improve the status of women and girls. The burden of adjustment to structural reforms must be more heavily borne by the richer sections of the society. Appropriate electoral reforms, including state

[40] For a discussion of the required political reforms in India, see Subhash C. Kashyap, *Political Reforms for Good Governance: A Policy Brief* (New Delhi: Shipra Publications, 2003).

funding of elections, will help to reduce the lobbying power of the entrenched vested interests.

Re-Engineering the Role of the Government

Reforms must be aimed at 'right-sizing' (often involving downsizing) the government. Governments must specialize in performing roles that they can perform better than free-market private enterprise. The government must expand its role in areas such as the provision of public goods, especially primary health, primary education and the creation of social infrastructures. The role of the Planning Commission must be changed to that of a strategic think tank. The mindset of the politicians and the administrators needs to be changed to accept the re-engineered role of government in the context of market-oriented economic reforms. The intensification of economic reforms at the state level needs to be given a higher priority in the future since most social services and infrastructural activities are primarily the responsibility of the state governments.

Administrative and Legal Reforms

No matter how good the design and intent of economic reforms, their success ultimately depends on efficient and speedy implementation through sensitive and responsive administrative and legal systems. Transparency and accountability must be guiding principles for the formulation and implementation of policies and procedures. Improved administrative systems should be devised to ensure that merit subsidies directly benefit the targeted (generally the underprivileged) sections of society. Legal support services should be made available with more public funding and must be strengthened to provide justice to genuinely aggrieved sections of society more quickly and affordably.[41] Second-generation economic reforms also must focus on changing the mindset of administrators (especially at the grass-roots level) and of the judiciary (especially at the lower level) to support administrative and legal reforms that synergize with economic reforms for maximizing social welfare.

Strategic Management of the Economy

Macroeconomic management must be dovetailed with a well-formulated strategic national vision for the economy for the year 2020 (and beyond). Clarity, transparency and accountability (through identifiable responsibility centers) with properly designed incentive (and disincentive) systems should be the guiding principles governing strategic management of the economy. An

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41 See Subhash C Kashyap (ed.), *The Citizen and Judicial Reforms under Indian Polity* (New Delhi : Universal Law Publishing Company, 2002).

appropriate code of conduct should be evolved and observed by economic actors under a new managerial system of governance. The strategic management of the Indian economy in the twenty-first century must focus on human resource development to promote knowledge-based and skill-intensive economic activities in line with India's dynamic competitive advantage.

Fiscal Prudence

The fiscal deficit (especially the revenue deficit) needs to be quickly reduced. India must sincerely implement the Fiscal Responsibility and Budget Management Act . Simultaneous action is required at both central and state levels to raise the tax-to-GDP ratio by expanding the tax base (for example, by taxing services and rich agriculturists) and improving tax administration (for example, through computerization). The revenue deficit must be brought to zero within five years.

Agricultural Sector Reforms

While some agricultural reforms have already been carried out, these are highly inadequate. Primacy must be given to the agriculture sector in all future reforms since many more jobs can be created in the agricultural sector, broadly defined, including activities related to rural industrialization and overall rural development. Both on-farm and off-farm employment potential must be fully exploited. This will raise incomes of farmers and rural labor on a sustainable basis and provide a much-needed boost to demand for industrial products and services, thus spurring all-around economic growth.

There is an urgent need to raise public investment in agriculture substantially. Areas needing investment include: irrigation; watershed development; rural infrastructure; drinking water; housing and sanitation. This will help raise the productivity of Indian agriculture to international levels and help in promoting rural (and interlinked urban) prosperity in India.

Second-generation reforms must reduce the perennial anti-agricultural bias by permitting free® exports of all primary products. This will provide a major boost to India's exports consistent with the rules set by the World Trade Organization. Simultaneously, India must improve its marketing infrastructure. Agricultural reform will unleash high growth rates in agriculture, on which nearly sixty percent of India's population is still dependent for employment. Agricultural prosperity will help to markedly reduce endemic rural poverty.

Industrial Restructuring

Industrial reforms must be geared to explicitly improve the productivity and international competitiveness of Indian industry by focusing on niche products and niche markets. Economic policy in this respect must facilitate mergers and acquisitions and the winding up of terminally ill enterprises in both the public and private sectors by restructuring bankruptcy laws. Massive restructuring is required of Public Sector Units. Most non-performing public sector units should be quickly sold through a privatization process that also safeguards the interests of workers through fair compensation for loss of jobs. Public sector enterprises should be governed by a commercial culture in which government holdings are no more than 26 percent of equity and are retained only to preserve strategic control. It is of the utmost importance that micro-level reforms must supplement macro-level reforms in the future to achieve synergy. The private sector in India needs to become more international in its outlook to become more competitive and to increase its overseas presence through outward FDI.

Labor Reforms

A properly formulated labor policy must form the core of second-generation reforms. This will require viable alternative social safety nets and effective retraining and re-employment opportunities. Once satisfactory safety nets are in place, more intensive competition should be injected into the labor market by allowing 'hire and fire' policies unambiguously linked to the productivity and profitability of micro-enterprises. The government should start by exempting units in the newly created Special Economic Zones from the rigors of labor laws. These measures would be of great help in redressing inefficiency of workers in public enterprises and public services (such as health care in rural areas).

Foreign Trade and Outward Investment Policies

No economic reforms can succeed in India without ensuring adequate growth of exports of goods and services to ensure longer-term viability of its balance of payments. While anti-dumping measures need to be strengthened to protect Indian industry from unfair import competition, the longer-term reforms must continue to lower import duties to levels comparable to those in leading Southeast Asian countries. Simultaneously, measures should be taken by the government to replace quantitative restrictions (wherever they still remain in place) through appropriately determined tariffs.

The second generation of economic reforms must facilitate the growth of India's own Multi-National Corporations (MNCs). The government must further liberalize outward foreign investment to allow potentially competitive Indian MNCs to establish production bases abroad and trade internationally.

Finally, industry and government must make cooperative efforts to prepare Indian industry to meet the new and ever-emerging challenges posed by the new world trade order and the new world investment order being evolved under the World Trade Organization.

Financial Sector Reforms

India must heed the lessons of the East Asian economic crisis and recovery, and attached the utmost urgency the next phase of financial-sector reforms. The high level of Non-Performing Assets plaguing long-term Development Financing Institutions and commercial banks must be dramatically reduced.

To summarize, greater competition in the financial sector with an appropriate exit policy to reduce overstaffing together, along with sound macro-economic policies, will help to lower the real rate of interest and spur investment and efficiency, thereby raising growth rates and benefiting consumers. Coupled with the current regime of falling interest rates, greater competition in the financial sector in general and among the commercial banks in particular will help to increase the rate of investment in the economy. Simultaneously, foreign insurance and pension funds should be allowed to operate with fewer restrictions to make more resources available to finance the modernizing of India's infrastructure. Further policy and procedural reforms (especially in the power sector) will help to attract substantially higher investment in India's infrastructural sectors.

Finally, credible policy measures that protect investors, especially individual investors with small savings must be adopted. These measures, if effectively implemented, will help to revive growth in India's capital and stock markets. It must be remembered at all times that the be-all and end-all of all economic activities is the consumer. Future economic reforms must aim to directly benefit Indian consumers through cost reductions, enhanced quality of goods and services, and by expanding customer choice through competition.

CONCLUSIONS

Within the constraints of democratic politics and the relatively 'soft' nature of the economic reforms implemented since 1991, the Indian economy has reaped several welcome rewards from its reforms. These have strengthened the conviction that the broad direction of the reforms is right and, in that sense, made the reform process irreversible. However, India needs to launch a 'second generation' of economic reforms, with a more human face, if it is to reap their full potential. Politicians and administrators need to display greater pragmatism while designing and implementing future economic reforms. The reforms must be based on the long-term vision of transforming India into a global economic power in the next twenty to twenty-five years.

It will be of the utmost importance that all sections of society are educated as to the long-term benefits of reform in order to mobilize public support. These reforms, therefore, will have to be drastically redesigned and politically ‘marketed’. Future economic reforms must be seen and experienced as not only good economics but also good politics.

Two paradigm shifts in the reforms, backed up by the effective fulfillment of the promises made, will help to garner the support of the Indian people.

First, these reforms must aim to raise the productivity of Indian labor and improve the work culture and, over time, provide significant rewards to the people of India by spurring growth, providing a higher level of real wages, and generating wider avenues for employment and re-employment. Growth with employment is the most effective strategy for eliminating poverty and improving the quality of life of the people.

Second, the reforms must aim to directly benefit Indian consumers. Over a reasonable time span, the reforms must reduce prices of goods and services (including public goods), improve their quality, and allow much more freedom of choice by maximizing the benefits of healthy competition. This will further expand the size of the market—both domestic and international—and provide incentives to entrepreneurs to raise their investment, output, and employment. A combination of more productive labor and pro-consumer economic reforms will be a win-win, proving to be both good economics and good politics. Visionary political statesmanship will be required for this. It should not be slogan-oriented but more result-oriented since it will likely be perceived and experienced as ‘pro-people’.