



# REFORMS AND ECONOMIC DEVELOPMENT IN INDIA

- 1950s : Import substitution development strategy-mixed economy.
- Late 1970s : Growing consensus to modify economic policy and deregulate
- 1980s : Initial attempts at liberalization; Reduction in tariff barriers – Loosening in industrial regulation
- 1991onwards : Far reaching economic reform programme covering trade, investment , industrial, and exchange rate policy.



# **ECONOMIC REFORMS : 1991 AND THEREAFTER**

*Major liberalization of policy covering :*

## **TRADE**

- 1) Progressive reduction in custom tariff rates
- 2) Dismantling of licensing system and phasing out of QRs on imports.

## **INDUSTRIAL POLICY**

- 1) Dismantling of industrial licensing in the new industrial policy.
- 2) Opening new sectors to private investment, including foreign direct investment.

(Mining, Banking, Insurance, Telecommunications,  
Ports, Highways , Airlines)

# CAPITAL MARKETS

Control of Capital Issues Act repealed, Security Exchange Board Of India (SEBI ) given statutory basis and authority to focus on regulatory reforms of capital market.

Capital market reforms:

- Deepening of capital markets
- Development of debt markets (primary & secondary)
- Dematerialisation of stocks

## EXCHANGE RATE

- Exchange rate reform : Dual exchange rate (1992) followed by unified exchange rate (1993)

# CONTINUED LIBERALISATION OF POLICIES

- FDI up to 100% foreign ownership permitted in most manufacturing sectors.
- Full convertibility of Indian Rupee on the current account in 1994.
- Policy governing ODI was liberalized and automatic approval for ODI proposals up to 100% of the net worth of the Company.
- Opening up of sectors :
  - Telecom
  - Insurance
  - Civil Aviation
- Privatization / Disinvestment in PSUs

# RESULTS ARE SHOWING

	1992-93	1996-97	2003-04
GDP Growth Rate	5.1	7.8	8.1
Exports (US bn.\$)	18.5	33.5	63.5
Imports (US bn.\$)	21.9	39.1	77.1
FX reserves(US bn \$)	5.6	22.4	107.5

Average GDP growth during last 10 years (1993-94 to 2003-04) is 6%.

# INDIA'S APPROACH TOWARDS REGIONAL ECONOMIC COOPERATION

- A strong commitment to multilateralism in trade policy.
- An equally keen interest in regional economic cooperation, particularly in Asia.
- Founding member of Bangkok Agreement (1975)- one of the first PTAs in Asia.
- Talks about a possible PTA/FTA are on with Gulf Cooperation Council , MERCOSUR and the South African Customs Union.



# REGIONAL ECONOMIC COOPERATION : SOUTH ASIA

- Free trade and transit treaty with Nepal and Bhutan.
- Bilateral Free Trade Agreement with Sri Lanka in 1998.
- Prime mover in the Framework Agreement on SAFTA



## **REGIONAL ECONOMIC COOPERATION: 'LOOK EAST' INITIATIVE**

- **Closer economic integration and engagement with South East and North East Asia**
- **Shift of Diplomatic and Economic Focus**
- **The idea of the Asian Millennium – and an Asian Economic Engine**

## **Regional Economic Cooperation: 'look East' Initiative**

- **Signed a Framework Bilateral with Thailand in 2004- Early Harvest plan in place from September 2004**
- **As a dialogue partner with ASEAN , signed a Framework Agreement on comprehensive economic cooperation in 2004 moving forward with talks on preferential trading arrangements.**
- **An active participant of the Bay of Bengal Initiative for Multi- Sectoral Technical and Economic Cooperation( BIMSTEC) combining 7 South and South East Asian nations.**
- **Negotiating Comprehensive Economic Cooperation Agreement(CECA) with Singapore**

# NEW INITIATIVES IN REGIONAL ECONOMIC COOPERATION : JOINT STUDY GROUPS

- Joint Study Group (JSG) already constituted to explore possibility of Free Trade Agreement (FTA) / Regional Trade and Investment Area (RTIA) : China, Korea and Mauritius
- Joint Study Group proposed to be constituted to explore the possibility of CECA / FTA / RTIA : Japan
- JSGs recommend measures for comprehensive development of trade, investment and other economic exchanges.

# INDIA'S BILATERAL TRADE

( million US \$ )

	1997-98	2003-04	2004-05 (projected)
China	1837	7007	12000
Korea	1470	3216	5000
Japan	4043	4356	5000
Singapore	1478	4146	6000
Thailand	578	1436	2500
Malaysia	1669	2934	4000

# GOLDMAN SACHS BRIC STUDY

- ★ BRIC( Brazil, Russia, India, and China)
- ★ BRIC economies to be larger than the G-6 economies in less than 40 years.
- ★ China overtakes US economy in size in less than 30 years
- ★ New demand from BRIC economies would rival that of current G-6 economies in less than a decade.
- ★ India and China's rapid industrialization will push the world economic growth rate to 4%
- ★ BRIC's share of the world economy will rise from less than 10% (at present) to over 20% in two decades.
- ★ By 2050, only US and Japan will remain in the top six economies of the world.

# A LOT HAPPENS IN 25 YEAR

CHINA	1979 (Start of reform) - 2004
JAPAN	1955 (Attained pre-war levels of output) -1980
SINGAPORE	1965 (Independence) - 1990
KOREA	Mid 1960s (Start of industrialization) -1990s
MALAYSIA	1980 (New Government) - 2004



# Advantages of Economic Reforms in a Democratic Process.

- More enduring even though it takes more time to arrive at a consensus.
- Essentially robust
- Commitment to reform does not waver with the change in Government
- (As successfully demonstrated in India)



# THE NEW GOVERNMENT :LOOKING FORWARD

- Agenda: Faster Growth, Sustainable Development and Equitable Progress.
- Focus Sectors: Agriculture, Education, Employment, Health and Infrastructure.
- Commitment to reforms

# THE NEW GOVERNMENT :LOOKING FORWARD

Examples:

- Competition Commission
- Board for Restructuring of Public Sector Enterprises
- Investment Commission: To push FDI and Domestic Investment

# FDI INFLOW- INDIA

- Three pronged strategy to step up FDI inflow into India.
- An attractive FDI policy framework supported by simplified procedures for investors.
- Investment marketing efforts eg. Destination India events, seminars/conferences with apex chambers of countries and CII/FICCI.
- Investment facilitation services
  - Interactive web site- where chat facility is available.
  - FIIA (Foreign Investment Implementation Agency) has been established- post entry facilitation.
- Bilateral Investment Protection Agreement.

# CHANGE IN APPROACH

- From positive list approach to negative list approach- Latter only for strategic consideration
- Most activities, including services, on automatic route with no restriction on the extent of foreign ownership.

# ADVANTAGE INDIA

- Huge domestic market
- Low labor cost : 1/10 of most developed countries
- Young population
- High-skilled labor
- Politically stable democracy
- English speaking people
- Entrepreneurship : Vibrant private sector

# WRAP UP :

- World has changed
- So has India
- Region around us has also changed
- There is a need to realign to emerging global and regional realities