

Economic development and liberalization in India

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What is Economic Development?:

Economic development is the institutional changes made to promote economic betterment. It is the social organizational changes made to promote growth in an economy. It is also the process of improving the quality of human life through increasing per capita income, reducing poverty and enhancing individual economic opportunities. In other words, the process of improving the quality of human life through increasing per capita income, reducing poverty, and enhancing individual economic opportunities called economic development.

What is liberalization in India?:

Economic liberalization of India means the process of opening of the Indian economy to trade and investment with the rest of the world. Till 1991 India had a import protection policy wherein trade with the rest of the world was limited to exports. Foreign investment was very difficult due to bureaucratic framework. After the start of the economic liberalization, India started getting huge capital inflows and it has emerged as the 2nd fastest growing country in the world.

Economic liberalisation in India :

The economic liberalisation in India refers to ongoing reforms in India that started in 1991. After independence in 1947, India adhered to socialist policies. In the 1980s, Prime Minister Rajive Gandhi initiated some reforms. In 1991, after the International Monetary Fund (IMF) had bailed out the bankrupt state, the government of P.V. Narasimha Rao and his finance minister Manmohan Singh started break through reforms. The new policies included opening for international trade and investment, deregulation, initiation of privatization, tax reforms and inflation -controlling measures. The overall direction of liberalisation since then has remained the same, irrespective of the ruling party, although no party has yet tried to

take on powerful lobbies such as the trade unions and farmers, or contentious issues such as reforming labor laws and reducing agricultural subsidies.

As of 2009, about 300 million people-equivalent to the entire population of the United States-have escaped extreme poverty. The fruits of liberalisation reached their peak in 2007, with India recording its highest GDP growth rate of 9%. With this, India became the second fastest growing major economy in the world, next only to China. An Organisation for Economic Co-operation and Development (OECD) report states that the average growth rate 7.5% will double the average income in a decade, and more reforms would speed up the pace. Indian government coalitions have been advised to continue liberalisation. India grows at slower pace than China, which had liberalised economy in 1978. McKinsey states that removing main obstacles "would free India's economy to grow as fast as China's, at 10 per cent a year".

Reforms:

The Government of India headed by Narasimha Rao decided in several reforms that are collectively termed as liberalisation in the Indian media. Narasimha Rao appointed Manmohan Singh as a special economical advisor to implement liberalisation.

The reforms progressed furthest in the areas of opening up to foreign investment, reforming capital markets, deregulating domestic business, and reforming the trade regime. Liberalisation has done away with the Licence Raj (investment, industrial and import licensing) and ended many public allowing automatic approval of foreign direct investment in many sectors. Rao's government's goals were reducing the fiscal deficit, privatization of the public sector, and increasing investment in infrastructure. Trade reforms and changes in the regulation of foreign direct investment were introduced to open India to foreign trade

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