

New Economic Policy: A tool for transforming India

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Abstract

India's smashing performance in the years to come will have eloquent implications for its international economic and strategic weight. By 2035, the global economy is expected to be increasingly inclined towards Asia as India, China and ASEAN economies would enthrall the slower growing advanced economies. Thus, this paper attempts to put forth an insight about government initiatives for betterment and enhancement of India's position at International front in upcoming decades. This paper will further sketch out a roadmap of India's path for the near future as to how our economy would be converted into an attractive sight for global investors to steep their resources in our economy.

Keywords: Economy, ASEAN, Roadmap, Global Investors.

Objective of the study

- * To develop a roadmap for new economic policy in India.
- * To study the impact of various policy initiatives taken by government on Indian economy.
- * To gain an insight of untapped potential of Indian economy.
- * To understand the current scenario of Indian economy for the purpose of exploring the scope of improvement in Indian market.
- * To discuss the India's preparedness for future to attain the goal of sustainable development.

Introduction

The presence of Indian economy at global level is increasing day by day. Amid the trade war between USA and China, the whole world is looking forward at India and India is also very much concerned about the current economic situation of Global economy. India wants

to reap the benefits from it. As a matter of fact, Government of India is continuously working on it to create a favourable image of Indian economy at world level. Here are some traces of government's efforts and initiatives: -

* The introduction of GST which has given a new shape to Indian tax regime. The various commodities are classified into different tax slabs of 5%, 12%, 18% and 28%. Only few items, which are luxurious in nature, have been kept under the higher Tax slab. This has simplified the Indian taxation system which was termed as Complex before introduction of GST in 2017. It has also eased up inter-state trade in India.

* The insolvency and bankruptcy code 2016 has consolidated all the formal legislation related to insolvency into a single law. Prior to this, the bankruptcy code in India was very much inferior in comparison to that of developed Nations, which was creating a negative image of Indian economy in the terms of its credibility. But now we have some standards in bankruptcy code which are at par with other developed Nations. The process of restructuring has now become easy with this. The role of National Company Law Tribunal (NCLT) has increased fourfold. NCLT has received more than 2100 insolvency applications by January 2018 only. The introduction of insolvency and bankruptcy code has also helped India to improve its ranking on Ease of doing business index.

* The replacement of National Planning Commission by Niti-Aayog as think-tank for government of India is cited as biggest institutional change for India. It has lead down the roadmap for institutional reforms in India by setting-up initiatives like "15-year road map", "7-year vision, strategy and action plan" under its top down approach with inclusive participation of all state governments. Smart City, Swachh Bharat Abhiyan, AMRUT Yojana, Start-up India, Digital India, Market Committee reforms, Task Force for agriculture, Ayushman Bharat, re-building of Institutes like Medical Council of India, setting up of National Testing Agency and restructuring of UGC and AICTE etc. are the perfect examples of steps taken by the government with regard to institutional reforms for upliftment of India.

* With the boost in infrastructure devepoltment, government wants to gain the attention of global companies. Recent push in infrastructure projects like Bharatmala Pariyojna to build 34800 km of road, development of 48877 km through NHAI, introduction of Sagarmala program to enhance its connectivity by sea (which also include the development of new ports and modernization of existing ports), increasing the capacity of renewable energy with presence of creating wind power and solar power etc. are some clear examples of government's seriousness towards reshaping the economic paradigm of India.

Historical Background

In 90's, India was featured as an economy with political and economical instability. The economic environment was not good and favourable for business and industry. The issues like instability of government at centre, increasing government expenditure, rising fiscal deficit and problems due to Gulf crisis were weakening the Indian economy. The forex reserve was all time low and it was drowning like a sinking ship. Government of India was forced to pledge its gold for international transactions and India's economic credibility was at risk. It was the PV Narsimha Rao (newly appointed Prime Minister of India in 1991) who got the task of reviving the Indian economy by giving command in the hands of Dr. Manmohan Singh as Finance Minister of India. Government of India decided to open its economy so as to get rid of its current economic crisis, thus they came up with the policy of LPG; the so called liberalisation, privatization and globalisation.

Government liberalised its economy and started inviting private and foreign players for investment where they were restricted to participate earlier.

Highlights of Indian Economy in 1990's

- * Restrictions for private Enterprises to participate in many important industries.
- * MRTP act, which was a big blow for industries in the growth of their existing business.
- * Licensing system was acting as a hurdle for industry making investment above specified exemption limit.
- * Import Policy was restrictive in nature as only few commodities were allowed to be imported.
- * Foreign players were struggling as their scope was limited in terms of capital and Technology.

For this, government made certain changes in the name of policy making reforms in 1990 which were classified into 4 broader categories named as trade policy, fiscal policy, industrial policy and financial sector reforms. So, that is how Government of India envisioned the developing India by laying new economic policy into a play.

The implementation of economic policy has opened the doors of Indian economy for the world. And with the entrance of many multinational companies, consistent changes in the policies, creation of a favourable investment environment, India has become a hot destination for many of the foreign companies. Soon India gained the status of second most developing Nation (after China) in the world by consistently showing the GDP growth rate of above 9% for three consecutive years till 2007. Various measures like allowing 100%

FDI in single brand retail, 49% FDI in multi brand retail in 2011, allowing 100% FDI in telecom sector in 2013 etc. were taken in the same direction. Ultimately, enhancement of the various limits under the automatic sector and approval route (FIPB) has triggered the significance of Indian economy at world level.

Indian Economy at Glance

* India became the fifth largest economy in the world by nominal GDP, which shows the potential of Indian economy at global level. Still a huge potential of Indian economy is untapped. Having a population of more than 1.3 billion, which is more than one sixth of the world's population, India is producing only 7% of world's output, which provide a clear picture of the untapped opportunities in India.

* India has been tagged with status of world's fastest growing economy from the period 2014 to 2018. According to the data, India has enjoyed the average growth rate of GDP from 6 % to 8% in last decade, which is quite promising as world's biggest economies have failed to do so.

* India has highest proportion of young population in the world. According to the report of Government of India, India's 55% population is of less than of 35 years of age, which is quite promising. According to various experts, this will remain as X-Factor for India's road map for future growth. This also makes India as second largest labour force in the world.

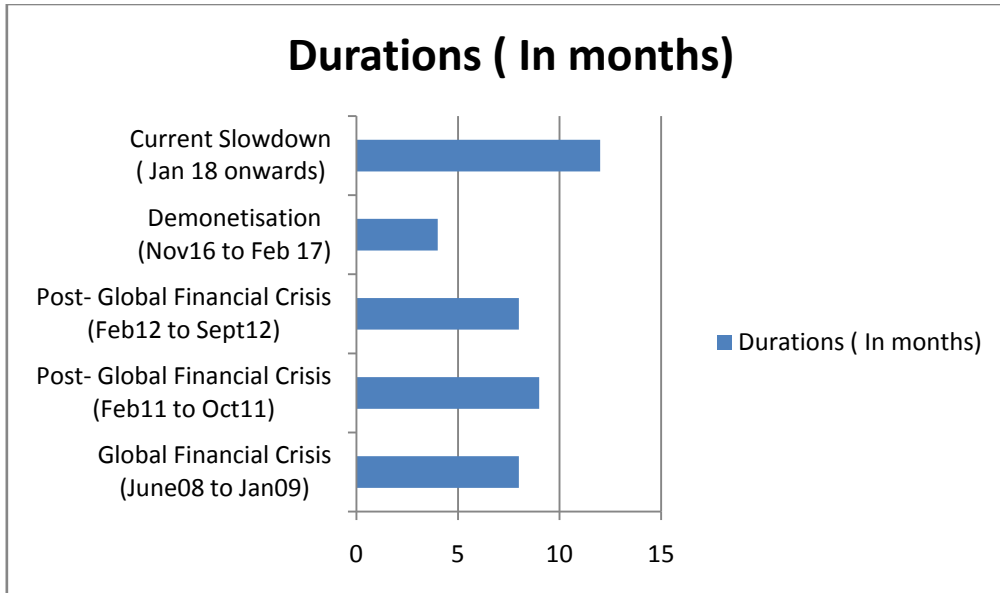
* India has recently been termed as sixth largest consumer market in the world. India has become an attractive destination in terms of investment by just looking at its potential market in terms of consumption and production. Various companies are shifting their base in India due to rise in technical know how of Indian organised workforce.

* India's long term growth is being considered positive due to favourable factors viz. young population, higher rate of capital formation, ease of doing business, higher consumption pattern etc. These factors showcase India as vital player in global development.

* Despite of all positive weights, India has still confronted good amount of challenge in recent times, due to ever dynamic environment operating at both the levels i.e internally as well as externally. The growth rate of Indian economy had slowed down in 2018. One of the prominent reasons has been the impact of demonetisation in 2016 and implementation of long pending Goods and Service Tax (GST) in 2017. The uncertainty of Brexit, volatility of European market and struggling US economy have also made deep impacts on Indian economy. These factors have really taken off the pace of growth of Indian economy.

Recently, India has slipped to the seventh largest economy in the world from its earlier position of 6th largest economy, according to the World Bank ranking of GDP.

A long slowdown



(Source: Goldman Sachs)

Outlook for the Indian economy to 2035

India's economic reform agenda is targeted towards the long-term growth of our economy. As discussed earlier, Niti Aayog initiative "15 -year road map" for Indian economy is a futuristic aspect. It also shows Central Government approach of revitalizing India for years to come and challenges being coupled with. India is preparing an Outlook for 2035. With the stable macro environment, India needs to understand its own terms along with uncertain external environment. Despite ditching China in terms of GDP growth for 3 years, it still has to march to its own tune with growing complexity in political stability, diversified market, pattern less consumption, expanding consumer class, urbanisation etc. India needs to get ready for answering these issues. With positive macro outlook, India is on a strong path of growth. Assuming the continuity of average annual GDP growth rate of 6% to 7%, India is setting a platform to overtake few developed nations in terms of its GDP value. By 2035, India has a chance to become the third largest economy of world after USA and China but to attain this, India is required to follow some stick policy making and implementation. The channelization of most young population of world in desired manner, adoption of new technological advancement, creation of enough employment

opportunities, developing cordial international relations are few measures which is going to provide a positive Outlook for Indian economy towards India 2035.

Findings and Suggestions

Having the tag of one of the most developing nation of the World, India still has to address certain challenges and issues which might hurt India's dream to become world power. The major challenges before India are: the problems of agriculture sector, the fiscal deficit, management of government finance, rising level of unemployment, International pressure for pursuing sustainable development etc. For addressing these challenges and issues government should opt for new economic policy and should adopt few measures like capital infusion in public sector bank as the NPAs of PSU banks are getting higher. So government should infuse fresh capital to enhance the financial credibility of banks as it will create a positive image in the minds of depositors that their money is safe. For this purpose, government should also adopt a policy of banking-mergers. Indian industry needs a new industrial policy with clear agenda and priority sector for development. Government needs to draw clear action plan for industries. Government also needs to reduce its expenditure as it is creating a pressure of Fiscal deficit. Government should come up with more disinvestment strategies in case of the underperforming public units.

In the era of Technology, it becomes an absolute necessity to support and promote the innovation and technological development. The issues like data localisation should be addressed carefully as it should not hurt the sentiments of companies and the interest of users can also be protected at the same time.

Conclusion

So far India's demographic advantage has favoured India in creating a requisite amount of demand for its economic activities. Government's initiatives and policy decisions have-created an environment of positive outlook for future. But India's economic growth is not going to be linear. The challenges and issues are creating hurdles which need to be addressed by structural shifts which Government of India is going to take in coming future.

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