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R-9/139/6-A-1,
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LIC Colony,
Pragati Nagar, Latur
Dist. Latur - 413531.
(Maharashtra), India.

Contact : 02382 - 241913
09423346913,09637935252,
09503814000,07276301000

Website
www.irasg.com

E-mail :
interlinkresearch@rediffmail.com
visiongroup1994@gmail.com
mbkamble2010@gmail.com
drkamblebg@rediffmail.com

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CHALLENGES AND OPPORTUNITIES OF ECONOMIC REFORMS

Dr. Sujata N. Chavan
Dept. of Commerce,
G.K.Joshi (Night) Commerce
College, Latur

12 Research Paper - Commerce

ABSTRACT

India has become one of the fastest growing economies of the world. The growth of the economy has been very fast after the introduction of economic reforms in 1991. These economic reforms have provided various lessons for current economic policy makers as they look ahead to future challenges that face the country. Reforms in various fields have accelerated this process, but these reforms could not contribute to the equal distribution of economical development in the society. The operational structure of Indian economy has become more open for global perspective. In this paper an attempt is been made to study the challenges and opportunities of economic reforms and its impact on Indian economy and the segments of Indian society.

Keywords:

Economic reform, Liberalization, Globalization, Infrastructure, Industrial Sector.

INTRODUCTION:

India represents as the world's fourth largest economy. Economic reforms in India refer to the neo-liberal policies introduced by the government in 1991 and in the later years. The last 25 years since India began embarking on economic reforms provide various lessons for current economic policy-makers as they look ahead to future challenges that face the country and seek to combat such difficulties. The central point of the reform was liberalization of the economy, simplifying regulations, giving more roles to the private sector and opening up of the economy to competition .The industrial policy of 1991 is the root and heart of the new economic reforms. To enhance competition based upon more market orientation was the philosophy of the new economic policy. The economic reforms have produced significant impact on the economy-mostly positive during the last 25 years.

WHAT TYPE OF ECONOMY IS INDIA?

India has a mixed economy. A quarter of century has since passed and the economy has witnessed various generations of reforms in different spheres of economic endeavour.Some succeed while other did not. Half of the India's workers rely on agriculture, the signature of a traditional economy. One third of its workers are employed by the services industry, which contributes two-third of India's output. The productivity of this segment is made possible by India's shift towards a market economy. The emergence of Information and Communication Technology (ICT) has revolutionized the global economy order and had played a major role in the advent of India in the global political economy scenario. There has been revolution in domains as varied as finance and banking, infrastructure, trade, education and social services. However various threats to economic growth also emerged, including environmental issues. Yet the Indian economy has shown resilience especially in the face of regional or global crises.

Following are the main features of New Economic Reforms:-

1) Dereservation of the industrial sector: -

The industrial sector of the economy has been opened up to private sector after the new industrial policy of 1991.Previously the public sector has given reservation especially in the capital goods and key industries. Other operator's private sector and foreign investors were not allowed in these critical industries. Deregulation of the industrial sector allowed private sector operation in most of these sectors except in eight selected areas including atomic energy, mining and railways.

2) Industrial delicensing policy:-

The most important part of the new industrial policy was the end of the industrial licensing or the license raj. The previous industrial licensing policies have created long delays in the startup of industries. The new industrial policy has almost abandoned the industrial licensing system.

3) Opening up of the economy to foreign competition:-

Another major feature of the economic reform measure was that it has welcome the foreign investment and foreign technology. Opening up of the economy to foreign competition started a new era in India's economic policy.

4) Liberalization of trade and investment: -

The economic reforms introduced extensive liberalization of foreign trade and foreign investment. The import substitution and import restriction policies were abandoned and instead import liberalization and export promotion policies were introduced. On the investment front, the economic reforms marked the era of capital mobility in the country. Foreign capital in the form of FDI and FPI(Foreign Portfolio Investment) were entered into our country.

5) Financial sector reforms: -

On the financial sector the government is introducing numerous measures for the deregulations as well as liberalization of the sector. Different banking sector reforms including removal of control on interest rate and branch licensing policy liberalization were launched.

6) Reforms related to the public sector enterprises: -

Reforms in the public sector were aimed at enhancing efficiency and competitiveness of the sector. The public sector will be concentrating in key and strategic sectors. Government has adopted disinvestment policy for restructuring of the public sector in the country along with several other policies.

7) Abolition of the MRTP Act: -

The new industrial policy has abolished the monopoly and restricted trade practices act. In 2010, the Competition Commission has emerged as the watchdog in monitoring competitive practices in the economy.

CHALLENGES OF ECONOMIC REFORMS

The biggest challenge for India's government will be to pull the economy out of its deepest slump in decades. On the surface, India's economy has been strong for the first half of 2019, with the BSE30 returning over 7% since January 1. Economic growth of approximately 7.5% is expected for 2018 and 2019.

1) Agriculture reforms:-

Half of the population of India is dependent on agriculture that contributes less than 18% to GDP. It has been a policy puzzle that has remained unresolved since independence. The problems of agriculture are happens to be a problem of serial market failures. The first failure is the states inability to deliver livelihood to small and marginal farmers. The second failure is the encouragement of inefficient asset protection.

2) Infrastructure reforms: -

India has struggled to improve its deteriorating infrastructure in business, education, and healthcare. India's power grid is over stressed, and power failures have been daily occurrence in the most developed areas. The need for generators to provide power and air conditioning during power failures results its additional costs that businesses must subsume. Public transportation and roadways have not kept pace with population growth and the education infrastructure is balanced with a literacy rate of 72%. India's healthcare infrastructure is in need of reform.

3) Land reforms:-

The foundations of all infrastructure creation and manufacturing is land. Poorly conceived and unfair snatching of properties of the poor has killed the credibility of land acquisition. About 25 million hectares of land has been acquired for various purposes. This has displaced 60 million people. Land reforms need to keep a 21st century India in mind. They need to be driven by the need to build infrastructure and smart manufacturing that creates job and bring prosperity to the people.

4) Labor reforms: -

Inflexible labor laws, which employers say tie their hands if they want to reduce the size of their workforce, need and over haul if India is to create the tens of millions of new job it needs to become a low-cost manufacturing center. Companies are hiring more contract workers to circumvent these stringent laws, leading to pay disparities and a lack of job security for the unorganized workforce.

5) GST2.0:-

The new government needs to simplify the goods and services tax (GST) system. Bringing politics and economics together over three decades, making the GST one of the longest reforms in Independent India, the law brings eight central taxes and nine state taxes under a single tax. GST 2.0 needs to deliver outcomes in the forms of greater tax collections. There are two major changes needed. First, the Govt. needs to bring real estate, electricity, fuel and alcohol for human consumption under its fold. All these are revenue generators for states that will fight back.

6) Direct taxes reforms:-

The government felt the need for legislative proposals for direct taxes reforms. In a country where just 46.7 million individuals and 1.1 million firms paid income tax in 2017-2018, leaving a huge chunk outside, this needs a policy rethink and legislative and intervention. The current tax infrastructure comprising laws, rules, regulations and the army of officials executing it – needs reorganization. With successive government trying to wider the tax base, what heartening is that a clean-up has begun. There is a much needed policy intervention that has five goals. To make taxation more predictable than it is , to reduce the cost of compliance and administration, to minimize exemptions that serve a particular constituency and create a base for their expansion, t reduce the ambiguity that facilitates tax avoidance, to check tax evasion. Above all, the approach to taxing citizens needs to be more respectful to the honest mass.

7) Financial sector reforms: -

As a consumer of financial services, we don't think in regulatory silos, created to gift sinecures to retired bureaucrats. For instance, if we want o create long term wealth we don't ask whether we are buying a mutual fund, an insurance policy or a pension plan- all three deliver the same product, packaged differently, with different costs, and varying levels of transparency and disclosures. For each of these we have a separate regulator, established by law, writing rules and regulations. On the other hand it is essential for the government to attract capital into the economy through financial products, converting savings into investments and drive India towards a $10 trillion economic powerhouse. The financiatisation of the economy stands on the shoulders of financial products, from banking and funds to insurance pensions and securities. The government needs to bring these together into new and elegant financial architectures.

OPPORTUNITIES OF ECONOMIC REFORMS:

The recent economic reforms announced in India have assured global investors that the Modi government is very seized with managing the economy and bringing India back into a more robust growth scenario. The challenges that India is facing could be seen as opportunities.

Foreign direct investment in Indian companies could be very profitable. The Indian middle class is almost 250 million people bigger than the U.S middle class. It will continue to drive India's consumer spending and economic growth. In addition to FDI, India has seen more than 100initail public offerings in the last 18 months. Private equity funding grew in 2012 and 2013, a trend that is expected to continue. Energy, healthcare industry and materials have been the top four sectors. While inbound mergers and acquisitions deals have declined in the last year, outbound deals have increased substantially in the emerging markets in the Middle East, Asia, Africa and South America. These deals are driven by depressed valuation s due to the recent recessions. India needs to project a strong and consistent policy direction that will guide it over the next five years. It needs to create policy and regulatory coherence. Government reforms should be implemented with great coherence to ensure separate policies are not clashing with each other. Policy stability and coherence will reassure investors and attract for investment.

Conclusion:

The 25 years from Narsimha Rao to Narendra Modi have moved India from low-income to middle-income status. India is set to make strides in 2019 with the injection of funds in to the failing infrastructure. Investment combined with the application of new technologies and job creation will boost GDP and economic growth. It is a fact that the reform process will not be able to achieve its socio economic objectives because of excessive private participation in the economy and the private sector is solely guided by the objective of profit maximization.

This calls for a review of the reform process and taking corrective measures.

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