Chapter-6
CONCLUSION

The market-friendly economy is the market-oriented economy. The market-friendly shows the extent/degree of Government intervention. In market-friendly approach, the Governments allow the markets to function well and concentrate their intervention on areas in which markets prove inadequate. Put simply, the Governments need to do less in those areas where market work, or can be made to work, reasonably well. This approach to development that seems to have worked most reliably and which seems to offer most promise, suggests a re-appraisal of the respective roles for the market and the state.

In the wake of severe economic crisis of 1990-91, it became necessary for India to approach IMF and World Bank to get loans under structural adjustment loans facility to overcome the balance of Payments difficulties and increase credit worthiness on the condition of adopting the structural adjustment programme. India, therefore, started series of economic reforms using market-friendly approach to fulfil the conditions laid down by IMF/World Bank. The Congress (I) Government headed by P.V. Narsimha Rao and then Finance Minister, Manmohan Singh, undertook a package of Policy reforms for the Indian economy with the declared objectives of bringing about Macro-economic Stabilisation and Structural Adjustments which came accompanied by the ‘catch-words’ of liberalisation and Globalisation.

These reforms in various sectors of the economy have made its impact during the years of 1990s. First, as a macro-economic stabilisation programme, India started Fiscal Policy reforms. Fiscal sector reform has been carried out in
two major interrelated areas. The first consisted of the restoration of fiscal imbalance meaning thereby a drastic reduction in the fiscal deficits, elimination of the revenue deficit within a short period and limiting the monetized deficit. All this required a reduction in the growth of Government expenditure, especially subsidies, interest payments and defence expenditure and steps to raise the growth of revenues.

The Government has been successful in checking the mounting pressure of deteriorating fiscal situation in 1990-91 which was the result of the past Government’s cavalier management of expenditure more than the revenue during eighties. All the indicators of fiscal imbalances namely fiscal deficit, primary deficit, revenue deficit and budgetary deficit have shown a declining trend during 1990s. Decisive action to limit the fiscal deficit reduced the central Government’s fiscal deficit from 8.3 per cent of GDP in 1990-91 to 5.1 per cent in 1998-99. Primary deficit was reduced from 4.4 per cent of GDP in 1990-91 to 0.9 per cent in 1998-99. Whereas, revenue deficit was reduced to 2.7 per cent in 1998-99 from 3.5 per cent in 1990-91. The budget deficit also came down to 0.1 per cent in 1997-98 from 2.1 per cent of GDP in 1990-91. The substantial reduction in the monetization of the deficits of the central Government has also been made. The monetized deficit which was 2.6 per cent of GDP in 1980-81 rose to 2.8 per cent in 1990-91. It came down to 0.8 per cent in 1997-98. All these have been made possible by controlling the growth of total expenditure. The total expenditure, which increased by 4.1 times from 1980-81 to 1990-91, increased by 2.6 times from 1990-91 to 1998-99. The expenditure as percentage of GDP rose from 17.1 per cent to 20.2 per cent from 1980-81 to 1990-91, but it declined to 15.6 per cent in 1998-99. The interest payment, subsidies and defence expenditure has been the major cause of rise in expenditure during 1980s. However, interest payment is still having major
share in total expenditure. Though both revenue and capital expenditure were responsible for checking the growth of total expenditure during nineties, but the contribution of capital expenditure had been more than revenue expenditure whose share in total expenditure had been rising.

On the other hand, the revenue receipts of the central Government could not improve. The revenue receipts of the central Government registered a declining trend during nineties. It was 11.2 per cent of GDP in 1991-92, which declined to 9.6 per cent of GDP in 1998-99. The decline in total receipt was due to the tax revenue, which declined from a level of 8.1 per cent of GDP in 1991-92 to 6.6 per cent of GDP in 1998-99. The tax revenue declined due to the fall in revenue from customs and excise duties.

The capital account receipts has also been fluctuating during nineties. But one marked change was found that the Government relied more on internal market borrowing than external sources. From 1991-92, the Government started disinvestment of public sector undertakings, which yielded non-debt receipts on capital account. But it has not been very helpful in reducing the debt burden.

The Government started the process of disinvestment from 1991-92 and realized the total amount of Rs 11,440 crore till March 1998. It is still going on. But, the pace of disinvestment has been very slow due to unfavourable market conditions and the shares of PSUs could be sold of only limited profit making enterprises. Frequently, the Government has been criticized for underutilization of the value of the shares disinvested due to selling the shares not at proper time. Most of the time, the Government has failed to achieve the disinvestment target. Moreover, the Government is criticized for disinvesting the shares of
only top level profit making enterprises and using their proceeds for the fiscal requirements. The Government must try to disinvest even the shares of loss making enterprises making them profitable by using some part of disinvestment proceeds and remaining amount may be used for retiring the old debt of the Government.

The Government has also taken several steps to reform the public sectors. During 1990s, it yielded good results. Our analysis regarding the performance of public sector enterprises from 1980-81 to 1997-98, measured in terms of broad financial parameters, reveals that overall returns from PSUs was negative during 1980s. In the decade of 1990s, there has been improvement in terms of the percentage of net profit to capital employed. The percentage of gross profit to capital employed improved from 10.87 per cent in 1990-91 to 16.2 per cent in 1997-98 and the percentage of net profit to capital employed from 2.23 per cent to 6.15 per cent during the same period. The percentage of loss making enterprises, which was 42.65 per cent in 1985-86 and 47.03 per cent in 1990-91, came down to 42.37 per cent in 1997-98. The reduction in overall loss making enterprises was mainly due to improvement in service sector enterprises where they went down from 40.84 per cent in 1990-91 to 29.33 per cent in 1997-98. The reduction in the percentage of loss making units in manufacturing sectors was also responsible for the said improvement, but not as much as that in service sectors. In 1990-91, out of 13 broad group of manufacturing sectors, only 4 were earning net profit. Their number became 7 in 1997-98. In the service sectors, only 4 out of 18 broad group of industries were earning net profit in 1990-91. But in 1997-98, there was only one group earning losses. So, there has been remarkable improvement in the financial performance of public sector during 1990s.
The overall performance of industrial sector during nineties was not as good as during eighties. The average annual growth rate of general industries during eighties (1981-82 to 1990-91), was 7.8 per cent which declined to 6.0 per cent during 1990s (1991-92 to 1997-98). During the same period, manufacturing declined from 7.6 per cent to 6.2 per cent, mining from 8.2 per cent to 3.6 per cent and electricity from 8.5 per cent to 6.9 per cent.

As a use-based classification, only intermediate goods showed improvement during 1990s as compared to 1980s. Its average annual growth rate during 1981-82 to 1990-91 was 5.9 per cent. It became 6.7 per cent during 1990-91 to 1997-98. However, the average annual growth of capital goods industries fell down from 11.5 per cent during eighties to 4.6 per cent during nineties.

The overall industrial growth rate during the first three years of the post policy period from 1991-92 to 1993-94, remained moderate. But in 1995-96, it attained peak growth rate of 12.1 per cent, the highest growth rate ever recorded since 1980-81. During the same year the manufacturing sector also recorded first ever increase of 13.6 per cent growth rate since 1981-82. However, from 1996-97, the overall industrial growth rate again started declining and fell down to 7.1 per cent in 1996-97 and 4.2 per cent in 1997-98. The fall in industrial growth was because of manufacturing, mining and electricity, which have shown decline in growth rate.

Thus, after going through a period of transition and restructuring Indian industry has responded to the economic reforms with vigour and registered a robust growth in 1995-96. However, the decline in growth rate in 1991-92, 1992-93 and 1994-95 were considered to be transitory phase. Although the
industrial growth rate has decelerated in 1996-97 and 1997-98, it is expected that under the new policy of promoting market, private sector and foreign direct investment, the industrial output would not only pick up its earlier high growth, but may remain much above it in future.

The main emphasis on the financial sector reform has been on the banking system, which constitute a very valuable segment of the financial sector. There has been considerable progress in the financial sector in India from 1991-92 to 1997-98. The positive trends that have emerged in the process are reflected in the financial results of the banks. The banking sector in general and public sector banks in particular are showing improvement as a result of the wide ranging reform measures. This is evident from their relatively clean balance sheets, reduction in non-performing assets, improvement in operating profit and considerable progress in attaining capital adequacy ratio and other prudential norms.

The operating profit of all scheduled commercial banks increased from Rs.3, 840 crore in 1990-91 to Rs 13,992 crore (264.4 per cent) in 1998-99. During the same period, the profit rose to Rs 4,660 crore from Rs 743 crore (500.3 per cent). In case of public sector banks, the operating profit increased from Rs 13.161 crore to Rs. 10,577.50 crore (234.6 per cent) and net profit from Rs 476 crore to Rs. 3,258.09 crore (584.5 per cent) from 1990-91 to 1998-99.

Apart from the magnitude of profit, the level of non-performing assets (NPAs) have also shown improvement. The most critical area in the improvement of profit is reduction in non-performing assets (NPAs). The NPAs of all public sector banks aggregated Rs 39,253 crore in 1992-93 when
new norms were implemented for the first time and they constituted 23.2 per cent of the total loan assets. It declined to 14.6 per cent in 1998-99. Gross NPAs as percentage to total assets also declined from 11.8 per cent to 6.2 per cent from 1992-93 to 1998-99. The net NPAs as percentage of total net advances declined from 10.7 per cent in 1994-95 to 7.5 per cent in 1998-99, while the net NPAs as percentage of total assets declined to 2.9 per cent in 1998-99 from 4.0 per cent in 1994-95.

Out of the 27 public sector banks only one had net NPAs of more than 20 per cent of its net advances in 1997-98 as compared to 1993-94, when there were 18 such banks. Similarly, there was only one bank having 10 per cent net NPAs of its total assets in 1993-94. But in 1997-98, there were 17 such banks.

Almost all the banks have achieved the capital adequacy norm of 8 per cent. In short, reforms have assuredly paved the way for building a banking system capable of meeting the requirements of a more open and competitive economy. These achievements are laudable especially in the backdrop of the happenings in the South-East Asian economies.

The results of the reforms made in the external sectors have also been impressive. India’s share in the total world trade was 0.57 per cent in 1980, which came down to 0.53 per cent in 1991. However, from 1992, it started picking up and became 0.60 per cent in 1995. The share of exports in the total world export was 0.42 per cent in 1980, it increased to 0.50 per cent in 1991 and remained 0.60 per cent from 1994 to 1997. The improvement in Indian exports’ share came up with the rise in the value of export, especially after 1991 following the liberal policy of export boosting through a number of export promotion schemes.
The average annual trade deficit during 1980s (from 1980-81 to 1989-90) was $5827 million. This much average annual trade deficit was due to large gap between average annual exports and imports, which were $10695 million and $16522 million respectively. The year 1990-91 saw a trade deficit of $5927 million as import rose by 13.4 per cent against a rise of 9.2 per cent registered by exports. Three years (1993-94 to 1995-96) saw a strong resurgence in export earnings. The rate of growth of exports was as high as 20.0 per cent in 1993-94, 18.4 per cent in 1994-95 and 20.8 per cent in 1995-96. As against, the imports due to liberal policy also increased from 6.5 per cent in 1993-94 to 22.9 per cent in 1994-95 and 28.0 per cent in 1995-96. The trade deficit during these three years was of order $1068 million in 1993-94, $2324 million in 1994-95 and $4880 million in 1995-96. The trade deficit in the year 1997-98 and 1998-99 was far greater than the year of crisis, 1990-91.

However, when we compare the average annual trade deficit during 1980s (from 1980-81 to 1989-90), the trade deficit is lower during 1990s. During 1990s, the average annual trade deficit was $4381 million as against $5827 million during 1980s, a 25 per cent decline. This improvement was mainly because of increase in an annual exports from $10695 million during 1980s to $26338 million during 1990s, 146.3 per cent growth. As against, the average annual imports registered only 85.9 per cent growth from $16522 million during 1980s to $3072 million during 1990s.

The change in the structure of India's imports during nineties are reflective of the influences of three factors:

1. Movement of international prices
2. Change in the trade policy
3. Pattern of domestic demand.

Among these three factors the contribution of the second factor does not seem to be major and significant as we do not see any major change in the composition of imports during nineties.

India has gradually transformed itself from a predominantly, primary products' exporting country into an exporter of manufactured goods. There were significant compositional shifts within the major manufactured product groups such as engineering goods, chemicals and allied products, etc, as between eighties and nineties.

India’s manufacturing exports are showing tendencies of shifting away from traditional exports towards relatively new manufactured products. Another important point about the compositional change in the manufactured exports is that, by and large, those manufactured groups performed relatively poorly on the export front whose internal composition remained unchanged whereas those groups whose internal composition changed (like chemicals and allied products, engineering goods) performed better. This indicates the existence of a close link between export performance and structural change in the case of India’s manufactured exports.

Since 1980-81, large deficit in trade balance were experienced year after year. During the Sixth Plan (1980-81 to 1984-85), the deficit in the balance of trade was around $6898 million per annum. During the same period, current account deficit was $3004.6 million per annum. As a percentage of GDP, the average trade deficit during the Sixth Plan was −3.4 per cent. The current account deficit remained only −1.3 per cent of GDP as a result of 2.1 per cent net invisibles to GDP ratio. During the whole Seventh Plan period (1985-86 to
1989-90), the current account deficit was $5823.4 million, trade deficit was $7827 million and net earnings from invisibles was $2003.6 million per annum. Both the trade and current account deficit per annum during the Seventh Plan were higher than that of Sixth Plan. The current account deficits acquired a structural character. A large trade deficit occurred year after year despite a robust growth in export. An important setback during the Seventh Plan was large decline in the net invisible earnings. During the year 1990-91, the current account deficit became $9680 million which was higher than the Sixth and Seventh Plan current account deficit per annum. Due to the efforts of Government, the trade deficit came down to $2798 million in 1991-92. The current account deficit also fell down to $1178 million. In terms of GDP, the current account deficit was only 0.3 per cent in 1991-92 as compared to 3.3 per cent in 1990-91. The foreign exchange reserves were sufficient to meet more than five months imports. The condition in 1992-93 again deteriorated. The trade deficit went up to -2.2 per cent of GDP ($5447 million). The current account deficit increased from -0.3 per cent of GDP to -1.7 per cent and the foreign exchange reserves fell down to 4.9 months import cover. The current account deficit in 1992-93 was higher than the safe limit of 1 per cent presented by Bimal Jalan. The condition after 1992-93 became distinctly different till 1996-97. The trade deficit, the current accounts deficit and foreign exchange reserves improved. When we consider the period of Eight Plan (1992-97) as a whole, the current account deficit was $3689 million per annum which was much lower than that of during the Seventh Plan. However, the trade deficit was around $8945 million per annum which was much higher than that of during the Seventh Plan.

The condition of balance of payments again deteriorated during 1997-98. However, the situation improved during 1998-99. When current account deficit
came down to 1.0 per cent of GDP. Also, the number of month’s imports covered by foreign exchange reserves improved substantially from 6.9 months to 8.2 months.

A noteworthy feature in the country’s balance of payments in recent years has been the improvement in the invisible account. Invisible surplus has been a durable Source of support to the balance of payments.

On the basis of the criteria given by C Rangarajan, that is, the current account deficit should stay at around 2 per cent of GDP and there should be no further drop in the foreign exchange reserves from the level reached at the beginning of current financial year (1996-97) i.e., $ 17 billion, there has been healthy trend of foreign exchange and current account deficit management in external sector during 1997-98 and 1998-99.

Until recently, the capital account did not receive much attention because of the limited avenues of financing. Until almost the beginning of the 1980s, nearly 80 per cent of the financing requirement was met through external assistance, a concessional method of financing. In the late 1980s external assistance, commercial borrowing and non-resident deposits had almost an equal share in the financing requirement. The structure of capital account in India has changed considerably over time. The Eighties were marked by a reduction in inflows of concessional assistance to India, principally from the World Bank Group. The large current account deficit, particularly after 1984-85, was financed by substantial inflows of capital by way of commercial borrowings and deposits by non-resident Indians. The decade of 1990s has been marked by structural changes relating to financing the deficits in the balance of payments. The dependence on external
commercial borrowing has come down markedly. The role of external assistance has been steadily declining in its importance because of subdued disbursements and the large repayments of loan contracted in the Previous year. The net inflow under commercial borrowings is also coming down because of the large repayments.

One healthy development is that a strong effort has been made in recent years to attract non-debt-creating funds either in the form of Foreign Direct Investment (FDI) or Portfolio Investment. Portfolio Investments are, by their very nature, more volatile than foreign direct investment. However, they contributed in a significant way to the availability of funds.

Foreign capital, mostly from the developed countries, has entered the country in various forms, both on Government account and Private account. It has given rise to number of problems, the most serious being that of debt servicing. Till the early 1980s external debt has not been a major Problem. These, however, increased in the second half of the 1980s and the Balance of Payment Crisis that the country faced in 1990-91 was to some extent due to an external debt problem. India's external debt rose from $ 83.80 billion in 1991 to $ 97.67 billion in 1999. It has increased by about 1.2 times in dollar terms and by 2.5 times in rupee terms from 1991 to 1999.

However, during 1990s the external debt as a percentage of GDP at current market prices has declined steadily from 1991-92 to 1998-99. The debt service ratio, which peaked at 35.3 per cent in 1990-91 declined to 18 per cent in 1998-99. Similarly other indicators of external debt has also shown significant improvements. The debt service payments as per cent of GDP at market prices, short-term debt and the current account deficit as a percentage
of GDP (i.e. CAD/GDP ratio) have shown significant reduction during 1990s. Thus, India has been successful to some extent to control the growing burden of external debt during post liberalization period. However, despite improvements in recent years and other redeeming features, India's external debt may still be considered to be relatively high by international standards.

In recent years, the role of foreign direct investment (FDI) in stimulating growth process has increasingly been emphasized. India has sought to increase inflows of foreign direct investment with a much liberal policy since 1991 after four decades of cautious, if not always restrictive attitude to it. Since July 1991, as a part of the New Economic Policy, the Government of India has embarked on a Policy of attracting more and more foreign investment in the country to augment the resource availability in infrastructural and other critical areas of the economy.

A striking aspect of India's recent experience has been a remarkable surge in foreign investment. There has been impressive increase in number of foreign collaborations. The number of approvals in the decade of 1980s (1981-90) were 7435, it increased to 15163 in the decade of 1990s (1991-99). Out of the total number of foreign collaborations cases involving financial investment shot up to 9077 during the decade of 1990s from 1852 during the decade of 1980s. USA has been the top investor during both the decades. There has been wide gap between amount approved and actual inflow in 1992. The ratio has improved from 17.4 per cent in 1992 to 51.8 per cent in 1999. One importance fact is that out of the total foreign investment, portfolio investment has occupied 53.71 percent share during 1991-92 to 1998-99. This clearly shows that preference of foreign flows was more in favour of portfolio investment. Even the net contribution of foreign firms on direct investment was merely 34.7
per cent in total foreign investment flows during the same period. However, out of the total foreign collaborations, 59.9 per cent involved financial collaborations. This is commendable achievement of ‘Post-Policy Period’. This is what the policy aspired for. Another appreciable improvement is that nearly 75 per cent of the FDI approvals were made in priority sectors. However, when we compare India with other developing countries, we find that India could not attract much foreign direct investment. Thus, India has not been able to benefit much from foreign direct investment flows in the world despite the red carpet spread by it for the foreign investors.

Reforms have also influenced the Human Resource Development, specially Health and Education Sectors. The immediate fall out of the new policies on the health sector was a cut in budgetary support. The cuts were severe in the first and third years of reform process, followed by some restoration in the later years. A notable feature of the expenditure on health is that the expenditure on health as percentage of total plan investment remained same (1.7 per cent) during the VII Plan (1985-90) and VIII Plan (1992-97)

The Government has been successful to accelerate the improvement in all the health indicators in the post-reform period. The two most widely used indicators of health, life expectancy at birth and infant mortality has improved. Life expectancy at birth increased from 59.4 years in 1991 to 62.4 in 1996 and the infant mortality rate declined from 80 per thousand to 72 during the same period. However, both the life expectancy and infant mortality are below the targets to be achieved by 2000. India could achieve only the target of crude death rate of 9 per thousand populations before the year 2000. When we compare the life expectancy at birth and infant mortality rate in 1997 with other Asian countries, the improvements are not impressive.
The health services, as of today, still suffer from a lot of inadequacies. There are disparities in urban-rural health infrastructures, backlogs in provision of buildings for Primary Health Centres (PHCs) and Sub-Centres, inappropriate location/inadequate maintenance of existing buildings, non-availability of essential drugs, Secondary Health Care Centres (Hospitals) discharging the function of PHCs as well and over crowding of tertiary health care facilities in urban areas.

Similarly, the main impact of structural adjustment on education is in the form of restructuring the financing of education. In the initial year of reforms, total expenditure fell down. But in the later years, it improved. However, in 1996-97, it remained lower than that of 1991-92. The major change was found in financing pattern of various sections of education. It is interesting to look at the share of primary education in the total expenditure on education. The percentage allocation of total budget for primary education increased from 46.3 per cent in 1990-91 to 50.1 in 1996-97. This shows remarkable shift towards market-friendly goals.

As interesting fact is that the enrolment of all children (Boys and Girls) increased in absolute numbers since 1990-91, though the percentage increase in enrolment is not very impressive. Another important fact is that girls enrolment in both lower primary and upper primary schools have increased at faster rate than that of boys.

Further, although the enrolment rate in primary schools has increased, the drop out rate are still quite high in India. In other words, there is a large gap between children who enroll in school, or who have ever attended and the number who actually complete schooling. In 1990-91, the average drop out rate
of girls was more than boys. The good sign is that this drop out rate has been declining. The decline in the drop out rate has been more in case of girls as compared to boys.

The process of reforms has yet not been completed. It is still going on and we will see more of it in the years to come. We agree that eight or nine years are not sufficient to judge the impact of reforms as some of the impacts take time to be clearly visible, yet it can give us some idea as to the direction in which we are moving. Our study gives such an idea. The results of our study show that we are moving in the right direction. Though the pace of reform has been very slow in India, yet we have made good progress. It is this that lead us to believe that market-friendly model is highly relevant and useful for a democratic country like India. The reforms have brought on surface the hidden potential of India. We are now in a good position to make full use of our skilled labour. The Government has now more time and energy to build social and economic infrastructure, which is checking our growth. The fundamentals of the economy are now very strong and we are in a good position to start second generation reforms.