Chapter 1
A market may be thought to be an institution where agents get together to buy and sell goods and services and more generally, to negotiate courses of action. In the perfect competitive version of it, there are atomistic economic agents who, as consumers maximize their utilities, while producers, acting as price takers, are engaged in maximizing profits. It is well known that under certain conditions governing preferences and technology of production, a competitive equilibrium of the system exists, which means that there exists a balancing price vector at which the demand and the supply of each commodity is matched. Any exogenous change from this position of equilibrium brings about the needed comparative static changes all of, which operate through the market system. If, for example, there is an excess demand for some commodity at a given price, then its price moves up, or if there is an excess supply of loanable funds at a particular rate of interest then the interest rate falls. Both these operate as part of the inexorable laws that govern the market system. It is also known that a perfectly competitive market system ensures efficiency in the sense of parrot. It also answers the questions as to what ought to be produced in how much quantity and in what manner and for whom.

It would not be incorrect to say that the overwhelming bulk of the market system paradigm is anchored in the private ownership economy. In such an economy, the initial distribution of resources is treated as given and is virtually regarded as sacrosanct. Any tampering with the initial distribution of resources is looked upon as a violation of a certain basic right, viz., the right to private property. Now, if the initial distribution of resources is iniquitous, in terms of certain ethical criteria, there is no presumption that the operation of the
market system, left to itself, may bring about equity. Indeed, in a system with unequal bargaining power amongst agents, the operation of market forces may bring about an accentuation of iniquity.

If it were the case that the only difficulty, though, this is a serious one, with the market system is its insensitivity to income distribution issues, but that on the other hand its invariably ensures efficiency then the latter would be a major point in its favour. However, as it turns out, and is well known, the market system's efficiency properly break down in the presence of monopoly elements, incomplete or asymmetric information, externalities and public goods, or when we are confronted with decreasing cost industries. Given the pervasiveness of the above features, surely the incidence of market failure and consequent break down of efficiency must be equally pervasive.

Since in the market system of economy, the main goal is profit maximization, the factors are exploited on a large scale. Thus, in the presence of public goods or externalities and more exploitation of factors, it is clear that it would be necessary to have governmental intervention in order to ensure efficiency of resource use. However, Government is also thought to be failure on the ground that the most Government activities that have to do with regulatory, legislative or administrative functions end up with 'rent seeking' behaviour on the part of Government functionaries. Such behaviour reduces the impact of the intended policy intervention and sometime may even eliminate it altogether.

The real question, therefore, is one of finding the right balance in trying to avoid the twin evils of market failure and Government failure. There are several instances of economies where Government action has not been
beneficial, but by the same token there are several cases where the reverse is the case.

Thinking on development has shifted repeatedly during the past forty years. Progress has not moved along a straight line from darkness to light. Instead, there has been success and failures, and a gradual accumulation of knowledge and insight on some matters, a fairly clear understanding has emerged, but many questions still remain contentious and unanswered.

Climate, culture and natural resources were once thought to be the keys to economic development. Rapid industrialization, using explicit and implicit taxes on agriculture to fund industrial investment, was for many years a much-favoured strategy. After the 'Great Depression' and through the 1960s, most policy makers favoured import substitution combined with fostering infant industries. In its day, this view was endorsed, and the strategy supported by external aid and finance agencies.

These views have not stood the test of time. Now, there is clear evidence, from both developing and industrial countries, that it is better not to ask Governments to manage development in detail. Discriminatory taxes on agriculture have almost always turned out to be taxes on growth. Economic isolation behind trade barriers has proved costly. Retarding competition and interfering with prices, deliberately or accidentally.

As the importance of openness and competition has been realized, the conviction has grown that they are insufficient by themselves. Investing in people, if done right, provides the firmest foundation for lasting development. And the proper economic role of Government is larger than merely standing for
markets if they fail to work well. In defining and protecting property rights, providing effective legal, judicial, and regulatory systems, improving the efficiency of the civil services, and protecting environment, the state forms the very core of development. Political and civil liberties are not, contrary to a once-popular view, inconsistent with economic growth.

A range of evidence suggests what can be gained by reducing interventions in the market. For instance, various degrees of reforms in Chile, China, Ghana, Indonesia, the Republic of Korea, Mexico, Morocco and Turkey during the 1980s were generally followed by improvements in economic performance.

In several respects, Government intervention is essential for development. What then are the conditions under which Government intervention is likely to help, rather than hinder? Economic theory and practical experience suggest that interventions are likely to help provided they are market-friendly. The market-friendly shows the extent/degree of Government intervention. In market-friendly approach, Government must allow the markets to function well and should concentrate their intervention on areas in which markets prove inadequate. The approach to development that seems to have worked most reliably and which seems to offer most promise, suggests a reappraisal of the respective roles for the market and the state. Put simply, Governments need to do less in those areas where market work, or can be made to work, reasonably well. In many countries, it would help to privatize many of the state-owned enterprises. Governments need to let domestic and international competition flourish. At the same time Governments need to do more in those areas where markets alone can not be relied upon. Above all, this means investing in education, health, nutrition, family planning, and poverty
alleviation, building social, physical, administrative, regulatory, and legal infrastructure of better quality; mobilizing the resources to finance public expenditure; and providing a stable macro-economic foundation, without which little can be achieved. Government intervention to protect the environment is also necessary for sustainable development. The experience of many countries suggests that market reform can also help to protect the environment.

The reform must look at institutions. The establishment of a well functioning legal system and judiciary, and of secure property rights, is an essential complement to economic reforms. The reforms of the public sector are a priority in many countries. That includes civil service reform, rationalizing public expenditures, reforming state owned enterprises, and privatization. Related economic reforms include better delivery of public goods, supervision of banks, and legislation for financial development. Strengthening these institutions will increase the quality of governance and the capacity of the state to implement development policy and enable society to establish checks and balances.

The priorities and constraints, however, vary widely across countries at different stages of development. Yet the opportunity for rapid development is greater today than at anytime in history. International links, in the form of trade and flows of information, investment and technology, are stronger now than forty years ago. Medicine, Science and Engineering have all made great strides, the benefits are available worldwide. And policy makers have a better understanding than before of the options for development.

To seize this opportunity, industrial countries, developing countries and external aid and lending agencies need to do act. The industrial countries need
to roll back restriction on trade, reform macroeconomic policy, increase financial support to developing countries, support policy reform of developing countries and encourage sustainable growth while the developing need to invest in people, improve the climate for enterprise, open economies to international trade and investment, get macroeconomic policy right. In each of these areas, the challenge to policy makers is to exploit the complementarities between state and market. However, it would be wrong to think in terms of applying the same policy package to all countries. The appropriate prescription undoubtedly has to be based on the history, institutions and ideology prevalent in a country. The main challenge of development today is to improve the quality of life. Structural adjustments and economic reforms are, therefore, being undertaken to achieve this goal.

The structural adjustment programme is an integral part of IMF-World Bank conditionality which are market-friendly. Conditionality in general terms means the terms and conditions imposed by the international financial institutions (particularly IMF) while granting short-term or long-term loans to the borrowing countries. The conditions which are being imposed by the IMF while granting a loan can be distinguished in the following two ways: (a) conditions on the utilization of the loan, viz., utilization and promptness in the execution of projects; and (b) the conditions for the change in the macroeconomic policies of the Government, i.e., introduction of supply management measures and structural reforms.

One of the major functions of the IMF is to provide its member countries with financial aid to cover short-term gaps in their balance of payments. The chief means by which it has provided assistance in the past is stand-by arrangements. A member country requiring an IMF loan more than 50 per cent
of its quota (use of Upper Credit Tranches) has to agree to a stabilization programme with the IMF and sign a stand-by arrangement. Thus, the Government of the country concerned commits itself to undertake wide ranging changes in the policies which the IMF believes will restore a healthy balance of payments. In 1974, the IMF created the Extended Fund Facility (EFF) to advance (2-3 years) medium-term loans (up to 140 per cent of the quota) to a member country facing chronic balance of payments problems. To get EFF funds, a member country has to conclude an extended arrangement with the IMF which imposes many stringent conditions on the country's economic policies designed to remedy the 'structural' problems of balance of payments deficits.

As for the World Bank, it has never made unconditional loans. Even when virtually all of its loans were for development projects, these loans carried conditions to which the borrower had to agree and some of these conditions required policy changes. Since March 1990, the World Bank in close co-operation with the IMF has been advancing loans to finance structural adjustment programmes in the countries facing serious balance of payment deficits. These structural adjustment loans (SALs) last from three to five years while the IMF stabilization programmes designed to produce 'structural change' last for three years. The majority of the World Bank terms do not differ much from those of the IMF.

The conditionality has been a major point of contention in the activities of the IMF/World Bank. There can be identified four layers of conditionality:
(a) Demand conditionality which focuses on cutting the Government spending, currency devaluation, raising interest rates and trade
liberalization. This demand conditionality has been "pioneered by the IMF through their monetary approach to the balance of payments".

(b) Supply conditionality, pioneered by the World Bank. Initially the World Bank conditionality focussed on project formulation and implementation. With the introduction of SALs, it has been extended to the whole economy. Its centre of attention "is the investment programme, system of incentives, pricing, financial liberalisation and trade liberalisation."

(c) 'Growth' conditionality focused on giving a free hand and incentives to the private sector of the economy, including privatization of Government-owned enterprises as much as possible, promotion of foreign direct investment and also trade liberalization.

(d) 'Cross conditionality' can be said to exist where acceptance by the borrowing country of the conditionality of one financial agency is made a pre-condition for financial support by the others. Informal cross-conditionality exists between the two Bretton Woods institutions. It is the convention that for a country to obtain the World Bank SAL, it must have undertaken the high conditionalities of the IMF upper credit tranche loans. In many cases, the negotiations for a SAL from the World Bank have collapsed as a result of the country's failure to reach agreement with the IMF. The cross-conditionality also exists between the Bretton Woods twins and other funding agencies.

According to the IMF, the basic reason behind the balance of payments deficit of a country is a high rate of inflation. So the IMF stabilisation policy aim at fighting inflation. Excessive public expenditure not covered by revenue (budget deficit) is taken as the major cause of inflation. So a reduction in the budget deficit is one of the stabilization objectives in 86 out of 94 IMF supported programmes during 1980-81. To achieve this, the IMF often calls
for reducing (or eliminating) food subsidies and expenditures on different social welfare schemes. To reduce the budgetary burden of the Government, state enterprises are expected to cover their costs by raising the prices of their goods and services. Public utility services are not exempted from this conditionality.

Besides all these, the IMF asks for limiting domestic credit expansion and raising interest rates to curb the demand for credit. Thus, domestic money supply and demand are sought to be controlled by reduction of budget deficit and domestic credit. Another instrument of controlling demand is strict limitation of wage increase by curbing the power of trade unions. This is also expected to improve competitive efficiency of domestic firms and also to encourage foreign investment.

Substantial devaluation of national currency is as a rule one of the central demands of the IMF as the high rate of inflation leads to an over-valued real exchange rate which in turn encourages imports and discourages exports. During 1980-84, about 55 per cent of IMF conditionality included devaluation in the name of "liberalisation and reform of exchange rate arrangement". Devaluation often goes hand-in-hand with abolition of exchange controls and restrictions on profit transfers. These are designed to create favourable conditions for foreign investment in order to restore confidence among foreign capital investors and to guarantee a long-term inflow of capital.

For growth of the economy suffering from balance of payments deficits, the IMF believes in the efficiency of the market and relies on growth of the private sector. So the IMF insists on privatisation of the state sector and
suggests different measures for the private sector to flourish liberal entry of foreign capital is also in the menu of IMF growth policies.

As noted earlier, the majority of the World Bank terms do not differ greatly from that of the IMF. Like the IMF, the World Bank also insists on trade liberalisation, devaluation for export expansion, price increase for public goods and services. Both the IMF and the World Bank call for privatization and reduction of state intervention.

Debtor nations that believe on funds, financial assistance have to agree to IMF adjustment conditionality and adopt economic reforms programme in an attempt to prevent a balance of payments crisis. India, like many other countries, approached IMF-World Bank to avail this facility of loans on the condition of adopting the Structural Adjustment Programme in the wake of severe economic crisis of 1990-91 when foreign exchange reserves dwindled to $1.1 billion and default on debt servicing appeared imminent. Though the year 1990-91 has been among the cruelest in India's post independence economic history, the roots of the crisis are traceable to the early 1980s when serious macroeconomic imbalances began rearing their head resulting in ever increasing fiscal deficit and a strident rise in Government of India's indebtedness – internal as well as external. A new Government took over in December 1989, at a time when the fiscal deficit was high and the foreign exchange reserves were low (covering only about six weeks of imports). The budget introduced in March 1990, made an attempt to reduce the fiscal deficit and begin the process of correction in the balance of payments position. For a while the economic situation seemed to show some improvement. The fiscal deficit was, by the end of August 1990, significantly lower than in the previous year, and foreign exchange reserves were slightly higher (in contrast to a sharp
decline in the reserves in the corresponding period of the previous year). However, there was a dramatic reversal of this situation in the next few months consequent upon the annexation of Kuwait by Iraq on 2 August, 1990, crude oil prices rose sharply within a period of six weeks, these prices doubled. Even though the Gulf war did not last long. India's fragile economy was badly shaken.

The direct economic impact of the conflict in the Gulf was exacerbated by domestic social and political developments. The series of events during that period, in tandem with the conflict in the Gulf, was sufficient to shake international confidence in India's economic viability. The country found it more and more difficult to borrow internationally, and there was also an adverse impact on the inflow of funds from non-resident Indians. In short, the crisis manifested in 1990-91, were as follows:

- domestic inflation reached the peak level of 17 per cent in 1991.
- foreign exchange reserves plummeted to $1.2 billion, barely sufficient to pay for two weeks.
- the central Government's fiscal deficit as a per cent of GDP touched the all time high of 8.4 per cent; and
- the current account deficit widened to almost 8 billion US dollars (2.6 per cent of the GDP).

The country came perilously close to defaulting on interest and repayment obligation on foreign debt. India's credit rating in foreign money markets had become so low that it was practically impossible to secure short-term commercial borrowing. Thus, to overcome the balance of payments difficulties and increase credit worthiness, it became necessary for India to approach IMF and World Bank to get loans under structural adjustment loans.
facility. India, therefore, started series of economic reforms using market-friendly approach to fulfil the conditions laid down by IMF/World Bank. The proposed IMF-World Bank reforms in the context of structural adjustment policy in India fall in the following categories:

(i) Further opening of the Indian economy to international competition by reducing custom duties and by attracting multinational companies and foreign investors by offering them various incentives at concessional terms.

(ii) Restructuring public sector which will involve closing down of loss making units, putting a stop to its further expansion and introduction of some degree of privatisation in profit earning units.

(iii) Reducing role of planning and changing priorities.

(iv) Introducing fiscal reforms by broadening the tax base, raising the excise duty as well as introduction of value added principles, further reduction in subsidies on food, fertilizer and export.

(iv) Reduction in defence expenditure

Though the process of economic reforms in India started during eighties under the leadership of late Rajiv Gandhi, the real thrust were given in 1991 under the pressure of IMF and World Bank. The new 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 stabilisation and structural adjustments which came accompanied by the 'Catch-Words' of liberalisation and globalisation. Stabilisation measures represent demand-side adjustments and aim at reducing the level of aggregate demand while the structural adjustment programme (SAP) represents supply-side adjustments so that institutional and market-impediments in the way of fast output growth are
neutralised. They have short-term time horizon and medium run time horizon respectively. It is possible to postpone structural reforms during stabilisation, but the converse is rarely true. Structural reforms are unlikely to succeed unless they are proceeded or accompanied by stabilization. Similarly, stabilization is unlikely to be sustainable without structural reforms.

The Indian economy has been undergoing much change especially since 1991. These changes have affected almost all sectors of the economy. An economy which has been highly regulated since 1951 is 'fast' dismantling the various controls and is on the road to become a full-fledged market economy in the very near future. The Government has gone about to implement a broad package of reform measures to give the right signals to the IMF and initiate a process of liberalising and globalising the Indian economy. On July 1 and 3, the rupee was devalued by about 20 per cent in two discrete steps. This was followed by major reforms in trade policy so that Indian trade and industry may "soar in the high skies of trade", and the rupee may become fully convertible in three to five years. Twenty days later the industrial policy was drastically liberalised as the asset limit for NRTP firms and industrial licensing for most projects were abolished and the limit of foreign equity increased to 51 per cent in several 'high priority' areas. The industrial policy was announced the same day as the union budget was presented in the parliament. The budget itself incorporated several pointers of change in economic thinking.

The Government set up different committees to review the policy and make recommendations for further reforms. Some of these important committees are as under:

- For the financial sector reforms, the Government of India set up a high level committee with Mr. M. Narasimham as chairman to examine all
aspects relating to the structure, organisations, functions, and procedures of the financial system. The committee submitted its first report in November 1991 and second in 1998 with some important recommendations.

- RBI constituted a committee under the chairmanship of Sri M.N. Goiporia in September 1990 on making recommendations for consumer service improvements in banks. The committee submitted its report on December 5, 1991.

- The Central Government set up a high powered committee on tax reforms in 1991, under the chairmanship of Prof. Raja J. Chelliah to make recommendations on a comprehensive reform of the system of central taxes. An interim report was submitted by the committee in December 1991 and the final report (part I and II) by June 1993.

- The Government of India constituted a committee for recommending improvements in insurance sector under the chairmanship of Dr. R.N. Malhotra in April 1993. On January 7, 1994, the committee submitted its recommendations to the Finance Minister.

- In order to examine the bottlenecks in industrial and corporate restructuring and to suggest suitable measures for early closure of unviable units and quick revival of viable units, the Government appointed a committee on industrial sickness and corporate restructuring in May 1993 under the chairmanship of Onkar Goswami. The committee submitted its report in July 1993.

- For correcting balance of payments, Dr. C. Rangarajan headed the high level committee on balance of payments and submitted its report on June 4, 1993.

- In October 1994, a committee under the chairmanship of Sri Rakesh Mohan was constituted by the Government for the recommendations on
infrastructure. The committee handed over its report to the Finance Ministry on June 22, 1996 with some important recommendations.

- The Disinvestment Commission was set up in August 1996 for suggesting the modalities for undertaking disinvestment of equities of select PSUs under the chairmanship of Mr. G.V. Ramkrishna. Disinvestment in Public Sector enterprises is one of the major policies adopted by the Government under the economic reforms.

- SEBI constituted a committee under the chairmanship of Mr. Chandrashekhar for improving the process of share transfer. The committee submitted its report in April 1997.

- The Government constituted a committee on February 8, 1997, under the chairmanship of Mr. S.S. Tarapore for providing suggestions to make Indian rupee fully convertible on capital account.

- A working group was constituted in December 1997, under the chairmanship of Dr. Y.B. Reddy to suggest major changes in money stock measures ($M_1$, $M_2$, $M_3$, etc.). The working group submitted its report with some recommendations to RBI on June 23, 1998.

The said committees made important recommendations pertaining to different sectors of the economy and many of these recommendations were accepted and implemented by the Government. The usefulness of these recommendations and their impact on the economy is a matter of unending debate in which large number of economists participated and are likely to participate in future, as we will see many more steps towards reforming the economy in years to come.
Review of Literature

A large number of studies have been carried in India regarding the impact of economic reforms. The usual difference of opinion among the researchers can easily be noticed as one go through these studies. However, very few researchers have tried to cover all aspects of the reforms. Most of researchers have tried to study the impact of economic reforms on some sectors of the economy. Anyhow the literature available on different aspects of economic reforms in India is immense and it is not possible to review all the studies.

Moreover, the results of many studies are same or similar we, therefore, would like to review some important studies which cover main aspects of economic reforms in India.

Bhagavati and Srinivasan\textsuperscript{22} (1993) expected good performance of economic reforms in India. They advocated structural adjustment programmes for higher economic growth.

Kumar\textsuperscript{23} (1993) is of the view that the picture is indeed complex. The facade of success of NEP hides the problem facing the economy with opening up, the economy has become far more unstable than earlier and the impact of this will fall on the already marginalised in society.

Patibandla\textsuperscript{24} (1994) ascertained that a market economy is viable only when there are certain minimum efficiently functioning social, economic and legal institutions. Most of the less developed countries including India do not satisfy the condition.
Sau\textsuperscript{25} (1994) argued that equilibrium is most likely to be stable if the interest elasticity of foreign direct investment is high and that of foreign portfolio investment is low. The experience of India indicates the reverse situation which implied the possibility of instability.

Bajpai\textsuperscript{26} (1995) argued that structural reform programme accompanying stabilisation measures may neither help to achieve macro-stability nor the restoration of sustainable growth. He argued that the assumption of reforms are guided by rules of thumb and underlying general equilibrium model for the economy for which these standard rules apply is an unrealistic portrayal of most of the developing countries. The model holds good only under very restrictive assumptions, perhaps only for small economies. Besides, while it is important to attain and maintain fiscal discipline, the IMF's approach has prolonged the process and invariably fail to yield the desired results.

Datt\textsuperscript{27} (1995) argued that new economic reforms have not succeeded so far in achieving the objectives laid down in the 1991 industrial policy statement. They have opened the international window too wide and have permitted multinationals in all areas, irrespective of the prioritization of hitech area. Secondly multinationals have started the process of swallowing Indian concerns and there is a strong fears that the multinationals will subvert Indian capital and establish their supremacy in the corporate sector. In this context, instead of enabling the Indian industries to improve their efficiency and productivity, the multinationals will displace Indian industries. This runs counter to our goal of self-reliance.
Bhatt (1996) observed that during the post economic reforms (1991-95), India has made some significant achievement in economic growth, industrial production especially capital goods industries, export sector, foreign investment, reduction in fiscal deficit, etc. But there are adverse effects such as increase of poverty ratio, increase of unemployment in urban informal sector, rural sector, fall in domestic savings and capital formation, fall in investment in agriculture and increase in inflation.

Pande (1996) argue that Indian economy had a cherished longing for being self-reliant and in new circumstances of liberalisation, it has to allow imports free for Indian domestic market. There seems to be no danger of sudden foreign capture of domestic market in India because the labour costs as well as handling margins are any way greater in west. Foreign goods at open competition with domestic goods and services are likely to improve quality of Indian goods and create a healthy atmosphere of consumer orientation.

Prakash (1996) found that the globalisation and liberalisation of the Indian economy has deepened the inflationary pressures and the prices of manufactures have increased more rapidly than all other prices under the impact of new economic policy. However, the globalisation and liberalisation of the trade regime had led to an improvement in gross, net and income terms of trade of India inspite of double devaluation in 1991.

Sinha (1996) found that recently adopted policy of opening up the economy by reducing trade barriers is contributing to economic growth.

Zaidi (1996) argued that FDI is the most desirable form of external capital inflows in India as it is in other developing countries while so many Asian countries have been successful in bringing structural changes in capital
inflows depending upon FDI up to the extent of 40 per cent of capital inflows, in India the contribution has hardly reached 8.8 per cent in 1994-95. Further, economies may not grow mainly on the strength of FDI only. Despite large inflows of external capital, there is no substitute to high level of domestic savings to maintain high level of growth. This factor, apart from larger FDI flows, has mainly contributed in the fast growing economies like China, South Korea and Malaysia, etc.

Datt (1997) argued that with weighty evidence of the adverse consequences of the reform process, is it not a cruel joke on the people of India to assert that the economy is in good shape, more so when the UF Government is adopting growth with social justice as its goal?

Mehta (1997) analysed that the liberalisation process during 1991-92 to 1995-96 has enhanced the importance of international trade in our domestic economy. An analysis of India's trade by commodities' classification show that there has been no significant change in India's export basket during the last five years. The trade statistics for 1990-91 to 1995-96 reveal that the direction of India's export has shown a significant departure. There has been substantial increase in India's exports to Asian markets. In fact, his result show that most of the increase in India's exports is due to a shift in our markets and also show that there is insignificant effort of other variables like, price, exchange rate, trade policy changes, etc., on our exports.

Mohanty (1997) ascertained that the macroeconomic reform process during the past five years has achieved a great deal of integration between the domestic and international financial markets and strengthened the role of price mechanism, viz. interest rate and exchange rate in the determination of trade
flows and balance of payments. In this evolving system, fiscal deficit assumes a
great deal of importance as a policy instrument of maintaining the viability of
external sector.

Kumar, Mr. Rajat\(^{36}\) (1998) argued that many empirical studies have
shown that the benefits of FDI have not been commensurate with the
experience. In this era of growing globalisation, economic rationality suggests
that FDI must be encouraged not only for the capital but also for the knowledge
it brings. In addition, they bring in competition which is essential for the
healthy growth of the economy.

Kumar, Nagesh\(^{37}\) (1998) found that while the magnitudes of inflows
have recorded impressive growth, they are still at a small level as compared to
the country's potential. The policy reforms have enabled the country to widen
the sectoral as well as the source country composition of FDI.

Shome\(^{38}\) (1998) analysed that India's economic reforms of the 1990s
while having achieved a distinct beginning, have not demonstrated
sustainability. In economic terms, industrial activity slumped, export growth
deteriorated significantly, expenditure of general Government as a proportion
of GDP remained intact, the tax revenue to GDP ratio worsened in the face of
insufficient policy and administrative measures, financial sector reform was
suspended by short-term responses, and the foreign exchange market witnessed
periodic volatility leading, in turn, to uncertainty and postponement of decision
making by industry.
Objectives of the Study

Our review of the literature shows that there is large volume of work on the theme of Privatization, Liberalization and Globalization. But there are very few studies trying to capture the whole gamut of the debate about privatization, liberalization and globalization and none on the exact topic that we intend to study. Most of the said studies pertains to specific sectors of the economy. Moreover, large number of these studies were conducted in the early part of the nineties when the current economic reforms in India were in their infancy. The process of economic reforms is not yet complete but now a decade has gone since the current economic reforms were started in India and therefore, we are in a better position to study the issue as the impact of the new economic policy on various sectors of the economy is more visible and the trends may be examined in a more meaningful way. Our study is being conducted at a time when we are at an intermediate stage. Such studies are very useful as they may provide guidelines for future reforms.

In our study an attempt has been made to capture the whole gamut of the debate about privatization, liberalization, stabilization and globalization. More specifically, as to how far the current economic reforms in India are market-friendly that is whether India is using a true market-friendly model in carrying out her current economic reforms. Further, an attempt has also been made to assess the impact of the economic reforms in India so as to be able to say something about the success of the market-friendly model in India.

Economic reforms are unavoidable. At the same time, they do not or need not follow the same pattern. Economic reform is rightly categories not as
an event but a process, constantly evolving some variation in its mode and at times even the content is to be expected. With all these, an attempt has also been made in the present study to examine the pace and timings of economic reforms in India.

Plan of the Study

The present work entitled, "Relevance of Market-Friendly Economy Model for India", has been divided into six chapters. Chapter first concerns mainly with the Introduction of the present study; chapter second deals with the Macroeconomic Foundation; chapter third examines the Climate For Enterprise; chapter fourth dwells upon the Integration With The Global Economy; the fifth chapter gives an analysis of Investing In People; and the final one, sixth chapter, as usual, gives Summary And Findings of the work.
References


