Chapter 2

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Singh (1964) long back had expressed extreme discontent towards the performance of external sector and condemned import substitution policy followed by India. The policy of import substitution turned out to be biased against promotion of sports and restricted India's entry in the global market. He suggested variety of forms in the export sector but unfortunately its implementation came much later er India experienced historic economic crisis in 1991.
For Bhagwati and Srinivasan (1975) the industrialization policies pursued by India in pre-reform period protected domestic industries from foreign competition but led to excessive or inappropriate state intervention in the market resulting in high cost and low growth in Indian economy.

According to Jalan (1991) the year 1990-1991 was the cruellest year in Indian history and the export performance of Indian economy since independence was despondent when compared with other developing countries.

Ahluwalia (1994) while rejecting the arguments of the critics of economic reforms considered India’s efforts of liberalising its economy since 1991 as an ‘economic revolution’. He however, suggested a cautious approach towards opening up of route to foreign capital since it brings in the elements of volatility.

Bhagwati and Srinivasan (1993) argued that the crisis of 1991 was not governed by external factors rather was only an outcome of internal causes of weak policy regimes of 1980’s.

In an in-depth analysis of India’s economic reform package Patnaik and Chandrasekhar (1995) considered the crisis of 1991 purely ‘speculative in nature’ caused by speculative outflows from Indian economy that continued the pressure on balance of payments despite reduction in trade deficit. A very vital, daring and worrisome feature of India’s economic reform according to them was that, there was no urgent need of bringing about structural changes in 1991 since the condition could have come under control by low conditionality of IMF loans. It was the ‘liberalisation lobby’ that consisted of Fund, Bank, government elements and Indian business class that made use of this unprecedented economic crisis by introducing ‘liberalisation’.
They suggested combination of three measures to control financial flows volatility in India namely direct regulations, an overall sound balance of payments and above all, a development strategy which ensured economic advancement with social stability.

Bhattacharya, Mukhopadhyay and Panda (1996) examined the position of Indian trade sector in post 1991 period through Net Export Specialization Indices and intra-industry trade. The study found a marginal change in the position of trade sector in post 1991 period and a rise in intra-industry trade calling for further liberalization of foreign trade of India.

Prasad (1997) examined the impact of economic reforms on exports of India and came to the conclusion that during 1990-1991 to 1994-1995, India experienced a high growth compared to growth rates of world exports. The study also revealed that the growth in the values of exports from India was mainly due to growth in quantity of exports and not due to real increase in unit values. This showed that Indian exports were becoming more competitive in terms of prices.

Ramaswamy (1999) discussed issue of India’s external sector and attributed its neglect to the limited international linkages of industrial firms and production. Accordingly a significant way of gaining entry into global market was through incorporation of Indian firms into international networks of trade and production.

To enhance the competitiveness of India’s export sector following routes were suggested by the author to be used by the Indian industry to compete in world/ global economy:

1) Export processing assembly.
2) Component supply subcontracting.
3) Original Equipment Manufacturing (OEM)
4) Original Brandname Manufacturing (OBM).

He also suggested measures which can make India an attractive base for international outsourcing. These included:

1. Foreign Direct Investment,
2. Infrastructure,
3. Special Economic Zones, and

Nayyer (2000) studied the impact of external sector reforms in India on capital account liberalisation. Mexican Crisis of 1994 was considered by the author as an important reason for discouraging India for moving ahead with capital account liberalisation in post reform period.

Panagriya (2001) commended the impact of economic reforms on India’s external sector but called for further reforms particularly in trade sector.

Virmani (2001) viewed external sector reforms in India since 1991 as the most successful reforms. It had disclaimed the fear of ballooning of imports in post reform period, while the performance of current account and capital account, had improved significantly.

Srinivasan and Tendulkar (2003) called attention towards limited capital account liberalization in India in post reform period and listed the fear against the reliability of private debt flows and the pressure of Indian industrialists who found themselves not competitive enough to face foreign industries as the main reason for it.
They suggested for corrections in India’s financial sector and recommended greater involvements of the private sector (particularly foreign based firms) in banking.

Bhasin (2005) argued that economic reforms strengthened the external sector in India but the export potentials were not fully utilized due to reservation of small scale industries, high transaction cost and low level of factor productivity. India has liberalized its FDI regime but the inflow has been limited due to wrong government policies and their regulatory framework. The reduction in tariff in India when compared to pre-reform period has been significant in the post-reform period but when compared to other developing countries it remains high.

Mathur (2005) expressed concern over the utilization of potentials of international trade in India. As compared to other East Asian countries, India’s share in world trade remained low.

Basu and Maertens (2007) hailed the surge in exports particularly of Software and IT and, felt that in order to fully analyse the benefits of an open economy India should try to overcome some of the constraints: infrastructure, rampant corruption, labour and bankruptcy regulation

Tendulkar and Bhavani (2007) have suggested exchange rate adjustment as a better option than import controls to manage balance of payments deficits. It does not lead to any type of distortion in resource allocation nor does it require any complex administrative mechanism to implement. Yet exchange rate adjustment was never used as an instrument to manage the repeated balance of payment crisis under the presumed non-responsiveness of exports to prices. The exchange rate therefore, remained overvalued for most part of pre-reform period. An overvalued rupee made
imports cheaper and exports unprofitable and further contributed to current account imbalances.

Taking a holistic perspective of economic reforms and their impacts on the solutions of our economic problems, Patil (2010) was critical of the measures/models adopted by our reformers. He asserted that India needs different sets of solutions. All those who talk of totally free markets do not recognize that we need broad-based industrialization and infrastructure development to tackle poverty in the country. Patil insisted that “any reforms that we intend to bring about should not be guided by the policy of reforms for their own sake but by the impact such reforms have on the rest of the economy and in particular the real sector”. Patil asserted that we must not ignore the basic proposition that finance is a facilitator and not an end in itself. The financial sector is one of the components of the services sector which should generate its income by providing efficiency enhancing services to other sectors and not by appropriating their wealth/income as happened in the USA. An artificially bloated and lopsided growth of the financial sector, cannot be sustained for too long and it would eventually fall by its own weight. The failure of financial sector is likely to damage the rest of the economy very badly as happened by the worldwide slump of economic activity in 2008 leading to very high unemployment levels in many developed countries. Hence, as suggested by Patil, markets alone are not going to be the solution to all our problems. In a country like India which is abounds with poverty and inequalities, a broad based industrialization and infrastructure development in all the states/regions is a prerequisite to pull the masses of the population above the poverty line and the financial sector should clearly, serve as an instrument to achieve these objectives.
Thus, various studies have been undertaken by the different researchers to assess the impact of economic reforms on India's external sector. But the time period covered in these studies has not been sufficient enough for analyzing the impact of reform measures. Further within the external sector emphasis has been given either on foreign trade or foreign direct investment inflows or external debt only. The present study is different in the sense that it covers the time period of nearly two decades which is sufficient for evaluating the success of reform measures. Besides we delineate the major policy changes in the three major fields of India's external sector namely: foreign trade, foreign investment and external debt and assess whether their impact has been up to the initial expectations and euphoria. The study is significant in view of growing importance of the external sector in driving Indian economy.
Reference:


