ISSN PRINT 2319 1775 Online 2320 7876
, **UGC CARE Listed ( Group -I) Journal Volume 09, Iss 04, April 2020**

# ECONOMIC SHIFT OF INDIAN ECONOMY: WHAT INDIA CAN BORROW FROM 1991 REFORMS POST COVID-19 PANDEMIC AND BASKET CHANGES

**Naseer Ahmad Bhat**
Doctoral Candidate, Lovely Professional University, Phagwara Punjab, 144411

## Abstract

India has been a fully developed planned economy since 1951. In order to establish the manufacturing and industrial sector as the foundation of the Indian economy, the first several plans concentrated on expansion and strengthening it. Planning also focused on social development, employment creation, poverty reduction, and agriculture. etc. India faced its worst economic and currency crisis ever in 1991, but the country's economy recovered effectively after implementing economic reforms and the LPG (liberalization, privatization, and globalization) strategy. The Indian economy was then disrupted and going through another chaotic period in 2008 as a result of the global financial crisis. This paper analysis Indian economy from 1991-2013.

**Key words:** Nutrition, Indian Economy, Covid-19, Bakset.

## Introduction

India's economy ranks third globally in terms of purchasing power parity (PPP) and tenth globally in terms of nominal GDP. The nation is a member of BRICS and one of the major economies of the G-20 (Basu, 2004). According to the IMF, India was ranked 129th by GDP (PPP) and 140th by nominal GDP in 2011 on the basis of per capita income. India was dealing with its worst economic and currency crisis ever in 1991. The government was then forced to implement certain difficult reforms because it had few other choices. Many limitations and hurdles were removed. The terms globalization, privatization, and liberalization defined the new economic strategy of 1991. What came after these drastic adjustments is now in the past (Anand, 2014).

It has been twenty years since then. The specters of 1991 have returned to haunt us. Consider the twin deficits for each of these time periods. In 1991–1992, the budget deficit was 5.39 percent of GDP. It stood at 6.9% in 2011–12. Likewise, in 1991, the current account deficit reached 3% of GDP. In March 2012, the same was a solid 4.3% (Agarwal et al, 2017). In 1991, short-term external debt was 10% of GDP; today, it accounts for 22%. India's economy underwent significant changes in the 1990s and 2000s as a result of economic liberalization. This revival occurred during the balance-of-payment emergency. The Indian government permitted private investments in the Indian market, which made it easier for FDI and FII to infuse money. According to the Of course, it would be an overstatement to liken the current scenario to the

1991 catastrophe. The Indian economy has indeed come a long way since then. India's foreign exchange reserves in 1991 were insufficient to cover more than two weeks. With over US$ 290 billion in current reserves, the economy can cover its import needs for almost seven months. During this time, India's domestic savings rate increased from 20% of GDP to 31.6%. Even Indian businesses now have far better financial standing than they did in 1991. However, there are a number of new difficulties that have arisen since then.

One very big distinction is the state of the world economy. Back in 1991, the overall economic environment in the global arena was good.
We are very much a part of the global economy now. Our susceptibility to external shocks has significantly risen as a result.
In the 1950s, many prospective low-income nations looked to India, a young democracy, as an example of how to implement planned development. India trailed behind other nations as they advanced rapidly in the process of development. This is demonstrated by the fact that India's real per capita GDP did not double until 1990-91, a period of 40 long years, from 1950-51 (Mohan, 2002).

**Build up to 1991 Reforms**

With the start of economic reforms in the 1990s, India was able to progressively escape the low growth trap, which was euphemistically referred to as the "Hindu growth rate" of 3.5% annually. In the 1990s, real GDP growth averaged 5.7% year; in the 2000s, this pace increased even more to 7.3% annually. A
One aspect of the period's growth acceleration was that, whereas industry and services grew at a faster rate, agriculture's growth rate decreased. This was due to the lack of significant technological advancement following the "green revolution" of the mid-1960s, which witnessed a substantial rise in cereal output yields, especially in northern India. The "green revolution" had lost steam by the 1990s. As a result, even in the 1990s, yield increases were significantly greater than those in the 2000s. With a 5-year average GDP growth of almost 9% from 2004 to 2008, the 2000s included the turning point in the growth trajectory. All of the economy's subsectors, including agriculture, saw faster growth during this time. However, the global financial crisis halted this growing trend.
The average growth then decreased to 7.8% in 2009–11, with a discernible slowdown in both industry and agriculture. High interest rates, inflation, and a sharp decline in industrial production are the primary causes of FY12's GDP growth deceleration (Rao et al , 2006).

With agriculture's proportion dropping from 28.4% in the 1990s to roughly 15% in 2009–11, the growth dynamics changed the composition of the Indian economy. During the same time span, the proportion of services, including construction, increased proportionately from 52% to 65%. The fact that industry's percentage of GDP has stayed constant at about 20% is concerning, though. This implies that the services sector has dominated India's rapid acceleration over the past 20 years.

**1991: A Moment of Crises and Opportunity**

Over the time, manufacturing saw a notable structural transition, even though the industry's percentage of the GDP stayed constant. As a result of restructuring, employment decreased by 1.5% annually between 1995 and 2003, even while the gross value added in organized manufacturing rose by 8% annually at current prices. Significantly, employment also expanded by 7.5% annually from 2004-09, but gross value added growth accelerated to 20% annually at current prices (Kohli, 2006).

With a 39.2% work participation rate, India employed 400 million people in 2009–10, with 53% working in agriculture and the remaining 47% in non-agricultural activities. Although agriculture still accounts for the majority of employment, the employment structure is notable for the fact that, for the first time in the latter half of the 2000s, the absolute number of workers in agriculture decreased. Additionally, the economy's overall unemployment rate decreased from 8.3% in 2004–05 to 6.6% in 2009–10.

The significant growth in FDI inflows to India, which increased steadily year over year, indicates how appealing India is as a preferred investment destination (Figure 2). The influence of the economy's liberalization from the early 1990s and the capital account's gradual opening up was reflected in the notable rise in foreign direct investment inflows to India. FDI was progressively permitted in practically every industry as part of the capital account liberalization, with the exception of a few due to their strategic significance, provided that sector-specific laws and regulations were followed. FDI reached its peak in FY 2007–2008 and only slightly decreased throughout the subsequent economic downturns.

From a sectorial standpoint, manufacturing accounted for about 23% of foreign direct investment (FDI) in India, while services accounted for 41% on average over the previous five years. But with time, the proportion of services fell from over 57% in 2006–07 to roughly 30% in 2010–11, while the proportions of manufacturing and other sectors that primarily involved the production of electricity and other forms of power rose during the same time frame.

**Covid-19 and Crises in Indian Economy**

The geographical spread of source countries for FDI in India is heavily skewed by tax rules. Mauritius has the highest share in total FDI inflows in India because of the Double Taxation Avoidance Treaty (DTAA) between the two countries. Apart from Mauritius, Singapore, and Cyprus have comparable tax status, and therefore figure prominently on the list of source nations. FDI predominantly channeled through Mauritius (with an average share of 43 per cent in the past five years) followed by Singapore (approximately 11 per cent). The biggest drops in foreign direct investment (FDI) came from Singapore and Mauritius in 2010, when inflows decreased by 27% and 37% from 2009, respectively.

After rising from 3.04 percent of GDP in 1970–71 to a peak of 8.37 percent in 1986–87, the gross fiscal deficit as a percentage of GDP fell to 4.84 percent in 1996–97. It was approximately 7% of GDP from 1987–1988 to 1990–1991. The average budget deficit as a percentage of GDP throughout the 1990s was 5.67 percent. Nevertheless, following 2003–04, central governments

ISSN PRINT 2319 1775 Online 2320 7876
 UGC CARE Listed ( Group -I) Journal Volume 09, Iss 04, April 2020

reduced the fiscal deficit from 4.48 percent of GDP to its lowest level ever, 2.54 percent, in 2007–08 (Mukherjee, 1992).

Following that, it rose to 6.48 percent in 2009–10 before falling to 5.89 percent. The fiscal deficit excluding interest payments, or the primary deficit, also grew from 1.74 percent in 1970–71 to a peak of 5.43 percent in 1986–87 before falling to 0.53 percent of GDP in 1996–97. Except for 2005–06, the primary deficit was eliminated from 2003–04 to 2007–08. The percentage was 2.78 percent in 2011–12.

Due to increased interest payments and, to some extent, a fall in the fiscal deficit, the primary deficit has significantly decreased from 1991–1992. There was a revenue shortfall in 1971–72 and 1972–73 (Ahluwalia, 2002).

**Turning crises into Opportunity**

In 1979–1980, it was 0.57 percent; in 1990–1991 it rose to 3.26 percent. In 2009–10, it peaked at 5.25 percent of GDP.

In the 1980s, 1990s, and 2000s, the revenue shortfall as a proportion of GDP averaged 1.72 percent, 3.02 percent, and 3.40 percent, respectively. In 2011–12, it accounted for 4.46 percent of GDP.

**Conclusion**

It is generally accepted that the tertiary sector's quicker growth during the 1990s was the primary reason for India's economic expansion, which was increased in response to the traditional economic reforms implemented in 1991. Additionally, there is growing agreement that (i) poverty was decreased by improved growth after 1980–81 and (ii) the reforms of the 1990s enhanced the growth rate even more without slowing the trend of poverty reduction. The purpose of this investigation is to confirm these claims (Nagraj, 2000). Additionally, it looks at some aspects of income distribution, which has been neglected recently, to determine whether the changes over the past 20 years have caused the economy to become more polarized or to grow more slowly.

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