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# Impact of Economic Reforms on FDI and GDP after 1991 in the Case of India

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**Abstract:** *The aim of the present study was to examine the impact of new economic reforms after 1991 on the Indian economy in general, GDP<sup>1</sup> growth rate and FDI<sup>2</sup> inflow. The Economic and political policy intervention were reflected on the economic development of the countries with respect to improving considerable growth rate in GDP and FDI. Specifically in the Indian context, the economic decisions have been a considerable influence on the inclusive growth rate of the nation as well as standard of living. It is evidence that India started the economic reform in 1991, after the crisis of balance of payment<sup>3</sup> (BOP). After that the government initiated economic reforms basically to provide an environment of sustainable growth rate and stability. During the reform period, a considerable number of policies were introduced. After that the government of India has introduced three key policies which are liberalization, privatization, globalization (LPG). This study, with the help of secondary data, shows that after the reforms, the economy's growth rate started increasing positively and stable.*

**Keywords:** Economic reforms, Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Economic growth, Growth rate of India, India after 1991, etc.

- 1) Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period. GDP is often used as a metric for international comparisons as well as a broad measure of economic progress.
- 2) A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to a new region.
- 3) The balance of payments (BOP) is an accounting of a country's international transactions for a particular time period. Any transaction that causes money to flow into a country is a credit to its BOP account, and any transaction that causes money to flow out is a debit.

## I. INTRODUCTION

In 1991, India met with an economic crisis relating to its external debt — the government was not able to make repayments on its borrowings from abroad; foreign exchange reserves, which we generally maintain to import petroleum and other important items, dropped to levels that were not sufficient for even a fortnight. The crisis was further compounded by rising prices of essential goods. All these led the government to introduce a new set of policy measures which changed the direction of our developmental strategies. In 1991 India embarked on major reforms to liberalize its economy after three decades of socialism and a quarter of liberalization creeping in. 25 years later, the result has been tremendous economic success. India went from a poor, slow-growing country to a leading economy with the fastest growth in the world in 2016. The World Economic Outlook for 2016 states that the United States and India are the two pillars of strength today and the world's economy. Once an object of pity, India has become an object of envy among developing countries; it is often referred to as a potential superpower and is supported by the United States for a seat on the United Nations Security Council<sup>1</sup>. However, these successes have been accompanied by significant failures and weaknesses in policies and institutions.

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<sup>1</sup> The United Nations Security Council is one of the six principal organs of the United Nations, charged with ensuring international peace and security, recommending the admission of new UN members to the General Assembly, and approving any changes to the UN Charter.

The last 25 years of liberalization have been largely a story of private sector success and government failure and the success of economic reforms characterized by institutional erosion. Although the old controls have been removed, new ones have been created, so that what left-wing critics call the era of neoliberalism can more accurately be called neo-liberalism<sup>2</sup>. The quality of public services remains poor and social indicators improve too slowly. The provision of public goods (police, judiciary, public administration, health and basic education, and basic infrastructure) lags far behind improving economic performance. Political appointments and government interference erode the independence and quality of institutions ranging from courts and universities to health and cultural organizations. India's economic reforms have been very successful in moving the country from low-income to middle-income status, despite slight improvements in institutions and the quality of public goods. To sustain rapid growth and become a high-income country, India will need major reforms to deepen liberalization and build high-quality institutions.

## II. LITERATURE REVIEW

The in-depth literature coping with empirical findings and theoretical concerns tends to indicate that foreign direct investment during this age of globalisation is critical for the property economic growth and development of any economy and also impacts on Gross Domestic product.

The previous study conducted by Aamir Jamal, Waseem Hassan Khan and Binish Qadri (2019) on the subject of Impact of Economic Reforms, FDI and Imports on GDP: Trends and Regression Analysis<sup>6</sup>. The aim of his study was to examine the effects of the new economic reforms of 1991 on the Indian economy in general and the rate of GDP growth in particular. The trend analysis of GDP and its most important determinants showed that all variables performed very well in the post-reform period in contrast to the pre-reform period. The regression analysis confirmed that GDP growth in India is heavily influenced by imports and surprisingly, the inflows of foreign direct investment were found to be insignificant. A dummy variable included as a proxy variable for the 1991 economic reforms turned out to be positive and significant, claiming that the economic reforms had a positive impact on India's GDP growth. In order to increase GDP growth, imports should be increased further; the composition of imports should be geared towards capital goods rather than consumer goods imports. The distribution of FDI should be organized in a systematic and coherent manner and should not be aimed solely at the white goods industry, which meets the needs of the rich population. Some of the FDI inflows should be channelled into smaller projects (unregistered manufacturing) that will raise employment levels in countries like India, thereby increasing production and productivity. Finally, in order to stimulate GDP growth in India, it is argued that the important components of GDP should be further promoted systematically through liberal policies.

The Montek S. Ahluwalia (2002) in his study of Economic Reforms in India Since 1991: Has Gradualism Worked?<sup>7</sup> According to his study India lagged behind economic reforms and did not begin in earnest until 1991 after an exceptionally severe balance of payments crisis. The need for political change had become apparent much earlier, as many East Asian countries achieved high growth and poverty reduction through policies that emphasized greater export orientation and private sector support. India took some steps in this direction in the 1980s, but it wasn't until 1991 that the government signalled a systemic shift towards a more open economy with more reliance on market forces, a greater role for the private sector including foreign investment, and a restructuring of the role of government. India's post-reform economic performance has many positive characteristics. The average growth rate in the ten-year period 1992-1993 to 2001-2002 was around 6.0%, making India one of the fastest growing developing countries in the 1990s. This record growth is only marginally better than the annual average of 5.7% in the 1980s, but it can be argued that growth was unsustainable in the 1980s, fuelled by a build-up in external debt that culminated in the 1991 crisis. The 1990s was accompanied by remarkable external stability despite the East Asian crisis. Poverty also fell significantly in the post-reform period, faster than in the 1980s.

Ms. Sapna Hooda (2011) in his study "a study of FDI and Indian economy"<sup>3</sup> One of the maximum putting tendencies over the last a long time is the impressive boom of FDI within the worldwide financial landscape. This exceptional boom of world FDI in 1990 round the arena make FDI an critical and important aspect of improvement approach in each advanced and growing international locations and rules are designed with the intention to stimulate inward flows. In fact, FDI presents a win-win state of affairs to the host and the house international locations. Both international locations are without delay inquisitive about inviting FDI, due to the fact they gain loads from such kind of investment.

<sup>2</sup> Neoliberalism is contemporarily used to refer to market-oriented reform policies such as "eliminating price controls, deregulating capital markets, lowering trade barriers" and reducing, especially through privatization and austerity, state influence in the economy.

<sup>3</sup> A study of FDI and Indian economy- Ms. Sapna hooda [Crossref](#).



The 'home' international locations need to take the gain of the great markets opened through commercial boom. On the opposite hand the 'host' international locations need to accumulate technological and managerial abilities and complement home financial savings and overseas exchange. Moreover, the paucity of all styles of sources viz. economic, capital, entrepreneurship, technological know-how, abilities and practices, get right of entry to markets abroad of their financial improvement, growing international locations regular FDI as a sole seen panacea for all their scarcities. Further, the combination of world economic markets paves the manner to this explosive boom of FDI across the globe.

Mafruz Sultana, Vidushi Kagdiyal, Vishal M Goyal, Sai Pratyush Chakkala, Rajeshri Parmar (2019) in his study of "Impact of FDI on Indian economy"<sup>4</sup> there study's purpose is to examine the impact of FDI on not only Indian growth variables but also on other factors which are human development index and population as well. We wanted to know how much FDI is responsible for the changes of their individual variance used a model in which clubbed the FDI factors (foreign exchange reserves, exchange rate, import and export) into one and from it we saw the impact it making on Indian economic variables. In this study they included GDP, Human Development Index (HDI), population, inflation and Sensex index as economic variables. They used a regression model for the data analysis. There is a considerable impact of FDI on HDI, population and Sensex index. Though there is an impact on import export also but not to that much extent. The conclusion of this was the policy makers as to how much of the total FDI should be invested in which area, where the optimum use of the investments is not happening.

Chandana Chakraborty & Peter Nunnenkamp (2006) in his study "Economic Reforms, FDI, and Economic Growth in India: A Sector Level Analysis"<sup>5</sup> According to his thought, booming overseas direct investment (FDI) in post-reform India is widely believed to sell monetary increase. They examine the proposition with the aid of using subjecting industry-unique FDI and out-positioned information to Granger causality assessments inside a panel cointegration framework. It seems that the increased results of FDI range extensively throughout sectors. FDI shares and output are together reinforcing withinside the production region, while any casual dating is absent withinside the number one region. Most strikingly, we discover best transitory results of FDI on output withinside the offerings region. However, FDI in the offering's region seems to have promoted increase withinside the production region through cross-region spills overs.

The Gulshan Akhtar says in his paper "Inflows of FDI in India: Pre and Post Reform Period"<sup>6</sup> (2013) The FDI have played a significant role in the growth and development of the Indian economy. Our GDP has quadrupled since 1991. FDI play a multidimensional role in the overall development. It can bring benefits by bringing in non-debt-generating foreign capital resources, technological upgrading, skills upgrading, new employment, spill overs, and allocative efficiency effects. Thus, foreign direct investment acts as a catalyst for domestic industrial development and is seen as an important vehicle for economic development. During the pre-liberalization period, FDI increased at a Compound Annual Growth Rate (CAGR) of 19.05%, while in the post-liberalization period it increased by 24.28%. This suggests that liberalization has had a positive impact on the inflow of FDI into India. Since 1991, the inflow of FDI into India has increased roughly 165-fold.

The Dr. Minti Sinha (2020) express his study on "A Study on Trend of FDI in India and its impact on Indian GDP"<sup>7</sup>. According to his thought, Foreign direct investment helps fuel the growth of the Indian economy. India has seen an increase in the flow of foreign direct investment since the introduction of India's liberalization policies in 1991 and other political reforms in India. The aim of this study is to analyse the trend of FDI in India and to analyse the impact of FDI on Indian GDP over the period 2014-15 to 2018-19. In his study, secondary data was used to analyse the trend of FDI in India and to analyse the impact of FDI on Indian GDP. FDI has increased in India following the launch of 'Make in India'. FDI inflow was \$ 45.1 billion in 2014 -15 and rose to \$64.3 billion in 2018 -19. This increased FDI inflows by 42.57%. It thus shows the increasing positive trend from 2014 to 2019. It shows that the FDI as a percentage of GDP was highest in 2014 at -15, i.e., 3.062%, and lowest in 2018 at 1.116%.

This shows that after 2014 -15 the FDI as a percentage of GDP decreased.

Dr. Srinivasa Rao Gangadharan (2012) has put his study in the paper called "Impact of the Economic Reform Programme on the quality of human life in India - a study on the Health Indicators"<sup>8</sup>. He examines the impact of the economic reform program on improving the quality of life of the people of India.

<sup>4</sup> Impact of FDI on Indian economy - Mafruz Sultana, Vidushi Kagdiyal, Vishal M Goyal, Sai Pratyush Chakkala, Rajeshri Parmar (2019)

<sup>5</sup> Economic Reforms, FDI, and Economic Growth in India: A Sector Level Analysis - Chandana Chakraborty & Peter Nunnenkamp [Crossref](#).

<sup>6</sup> Inflows of FDI in India: Pre and Post Reform Period Gulshan Akhtar [Crossref](#)

<sup>7</sup> A Study on Trend of FDI in India and its impact on Indian GDP - Dr. Minti Sinha

<sup>8</sup> Impact of the Economic Reform Programme on the Quality of Human Life in India: A Study on the Health Indicators - Dr. Srinivasa Rao Gangadharan, C. A. Yoonus [Crossref](#).

The methodology used is to examine the existence of structural changes between the three key health indicators – Life Expectancy at Birth (LEB), Child Mortality Rates (CMR), Infant Mortality Rates (IMR) - before and after the implementation of the reform program. He was also focuses on the extent to which the Government of India's health spending and the number of RMPs available for medical treatment have impacted the three health indicators.

They used Chow's test for examine the existence of structural changes and regression analysis to find out the extent of the influence of the independent variables.

The analysis showed that the reform program brought about structural changes in CMR and IMR and not in LEB. The regression analysis shows that the Government of India's health spending had no impact, while the number of RMPs available for medical treatment had some impact on improving the three health indicators. The paper concludes that India's reform program has not had a significant impact on improving people's quality of life, it is more about fiscal, structural and trade adjustment than about the development of the social sector.

Rashmi Banga's (2003) study on the "Impact of Government Policies and Investment Agreements on FDI Inflows."<sup>9</sup> According to his though, In the past two decades, FDI inflows into developing countries have increased sharply. This went hand in hand with increased competition between developing countries for FDI, increasing the incentives for host governments to invest and removing restrictions on foreign companies to operate in their countries.

This has also resulted in an ever-increasing number of Bilateral Investment Treaty (BITs) and regional agreements on investment. In this scenario, the question addressed by the study is; How effective are these selective government policies and investment agreements in attracting FDI flows to developing countries, and do FDI from developed and developing countries react similarly to developing country policies?

To answer this, the study examines the effects of fiscal incentives, the lifting of restrictions, and the signing of bilateral and regional investment agreements with developed and developing countries on the inflow of FDI into developing countries after controlling the effects of the host countries' economic fundamentals.

The analysis is initially carried out for the aggregated FDI inflows into fifteen developing countries in South, East and Southeast Asia for the period 1980-81 to 1999-2000. Separate analyses are then carried out for foreign direct investments from industrialized and developing countries.

The results, based on the random effects model, show that fiscal incentives do not have a significant impact on the aggregated FDI, but the lifting of the restrictions attracts aggregated FDI. However, foreign direct investment from developed and developing countries is attracted to different selective measures.

While lowering restrictions will attract FDI from developed countries, tax incentives and lower tariffs will attract FDI from developing countries. Interestingly, BITs that emphasize the non-discriminatory treatment of FDI have a significant impact on the aggregated FDI. But it is more BITs with developed countries than with developing countries that have a significant impact on the inflow of FDI into developing countries.

### III. OBJECTIVES OF THE STUDY

The study covers the following objectives:

1. To evaluate the impact of FDI on the Economy.
2. To study the economic reforms after 1991.
3. To study the impacts of economic reforms on the GDP.

### IV. METHODOLOGY

#### A. Data and Information

As the study is related to quantitative as well as qualitative study complete research is depended on the secondary data where the data is collected from various articles, open Government data sources, books, newsletters and online sources such as World bank, Handbook of Statistics on Indian Economy, Department for Promotion of Industry and Internal Trade, etc. The study examines that the how Economic reforms impacts on the FDI & GDP by describing various factors of FDI inflows and growth factors like GDP.

<sup>9</sup> Impact of government policies and investment agreements on FDI inflows Rashmi banga [Crossref](#).

**Box 1: Pre-1991 economic scenario in India:**

- Indian economic policy after independence was influenced by the colonial experience (which was seen by Indian leaders as exploitative in nature) and by those leaders exposure to Fabian socialism.
- Nehru, and other leaders of independent India, sought an alternative to the extreme variations of capitalism and socialism.
- In this system, India would be a socialist society with a strong public sector but also with private property and democracy.
- As part of it, India adopted a centralised planning approach.
- Policy tended towards protectionism, with a strong emphasis on import substitution, industrialisation under state monitoring, state intervention at the micro level in all businesses especially in labour and financial markets, a large public sector, business regulation.

**Drawbacks of Pre-1991 economic policy:**

1. Licence raj: The "Licence Raj" or "Permit Raj"<sup>10</sup> was the elaborate system of licences, regulations and accompanying red tape that were required to set up and run businesses in India between 1947 and 1990.
2. Import substitution: Import substitution industrialization<sup>11</sup> (ISI) is a trade and economic policy which advocates replacing foreign imports with domestic production. ISI is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products and was intended to promote self reliance. But this meant the monopoly of Indian industries and lack of incentive for them to improve the quality of products which hampered consumer interests.

-BBC on the Pre-1991 economic policy

**V. 1991 ECONOMIC CRISIS**

- 1) By 1985, India had started having balance of payments problems. This is due to more expenditure by the government whereas the income generated was less. In addition, there were huge disparities between income and expenditure.
- 2) India faced a major balance of payments crisis and was grappling with a situation where the country's foreign exchange reserves had dropped to less than a billion dollars, barely enough to import essential goods for 3 weeks
- 3) Dr. Manmohan Singh stressed that extensive budgetary adjustment is needed, but that the poor should be protected from the burden of adjustment.
- 4) By the end of 1990, it was in a serious economic crisis. The government was close to default, its central bank had refused new credit
- 5) In 1991, India met with an economic crisis - relating to external debt. The government was not able to make repayments on its borrowings from abroad.
- 6) The foreign exchange reserves, which we maintain to import petroleum and other important items, dropped to levels that were not sufficient to last even a fortnight.
- 7) The crisis was further compounded by rising prices of essential goods.

**VI. ADVENT OF IMF AND WORLD BANK**

- 1) India approached the International Bank for Reconstruction and Development<sup>17</sup> (IBRD), commonly known as World Bank and the International Monetary Fund (IMF) for help.
- 2) India received 7 billion dollars as loan from these agencies to solve the crisis.
- 3) It had to pledge 20 tonnes of gold to the Union Bank of Switzerland<sup>18</sup> and 47 tonnes to the Bank of England as part of the deal with the IMF.
- 4) In addition, as part of the bailout, the IMF expected India to liberalise and open up the economy and remove trade restrictions between India and other countries.

<sup>10</sup> The Licence Raj or Permit Raj (raj, meaning "rule" in Hindi) was the system of licences, regulations, and accompanying red tape, that hindered the set up and running of businesses in India between 1947 and 1990.

[Crossref.](#)

<sup>11</sup> Import substitution industrialization (ISI) is a theory of economics typically adhered to by developing countries or emerging market nations that seek to decrease their dependence on developed countries. Under ISI theory, the process makes local economies, and their nations, self-sufficient. [Crossref.](#)

**Box 2: - The Political History of Liberalization**

Much of the popular debates commemorating the 1991 reforms revolved around the balance of payments crisis that sparked them, the economic reforms that followed, and the people who carried out them. What is usually lost is the political context that made the reforms possible and supported economic development over the next few decades. The 1980s were politically unstable.

Ethnic violence erupted in Assam. Sikh militancy in Punjab had boiled over and claimed the life of Prime Minister Indira Gandhi in October 1984. Thousands of innocent Sikhs lost their lives after the attack, particularly in Delhi. Rajiv Gandhi succeeded Indira Gandhi as leader of the Congress Party and a government with a massive electoral mandate. The hope he initially raised was lost when Congress lost the parliamentary elections in 1989. There was a political interregnum between 1989 and 1991 when the government was not led by the Congress Party. As the decade came to an end, the country was sharply divided into caste and religion. In order to keep the economy growing in the 1980s, the country borrowed a lot internally and externally. 1991 saw the first Gulf War and a sharp rise in oil prices. In 1991 India was on the verge of insolvency. In the midst of the economic crisis, parliamentary elections were scheduled for the summer of 1991, just two years after the last. During the election campaign Rajiv Gandhi, the face of the Congress Party was murdered by Tamil militants from Sri Lanka. Although Congress emerged as the largest party, it failed to achieve a simple majority in parliament. In the 1990s, only a handful of people realized the importance of the economic liberalization that had occurred between 1991 and 1993. Then Congress lost the 1996 general election. The party not only rejected P.V. Narasimha Rao but also tried to distance himself from the legacy of economic liberalization in 1991. But times have changed. Opening up to the world is out, and national independence is the new motto, even in countries that have benefited greatly from globalization. A new approach, new institutional mechanisms and broader integrated initiatives are therefore needed to maintain the momentum of the immense trade reform that India has achieved since 1991.

**Box 3: -Future of the Liberalization-**

Many of the most advanced economies today practice a distorted form of capitalism characterized by constant incentives and bailouts, a form of socialism for wealthy individuals and businesses. Competent but grumpy technocrats like Dr. Manmohan Singh are again in the shadows, colourful populists like Narendra Modi are in the spotlight. The zeitgeist is no longer pushing India towards a more competitive form of capitalism. India is likely to benefit from the digital revolution, which in many ways are spreading faster than developing in emerging economies like India. China, where the digital economy now accounts for 40% of GDP, has shown how technology can lead economic development. India needs to remember that its economy is still relatively unfree and should therefore more than ever resist the global trend of more regulation and bigger government. As Singh said in his 1991 speech. "Less Government means more growth".

*"There is no time to lose. Neither the Government nor the economy can live beyond its means year after year. The room for manoeuvre, to live on borrowed money or time, does not exist anymore.... We need to expand the scope and the area for the operation of market forces."*

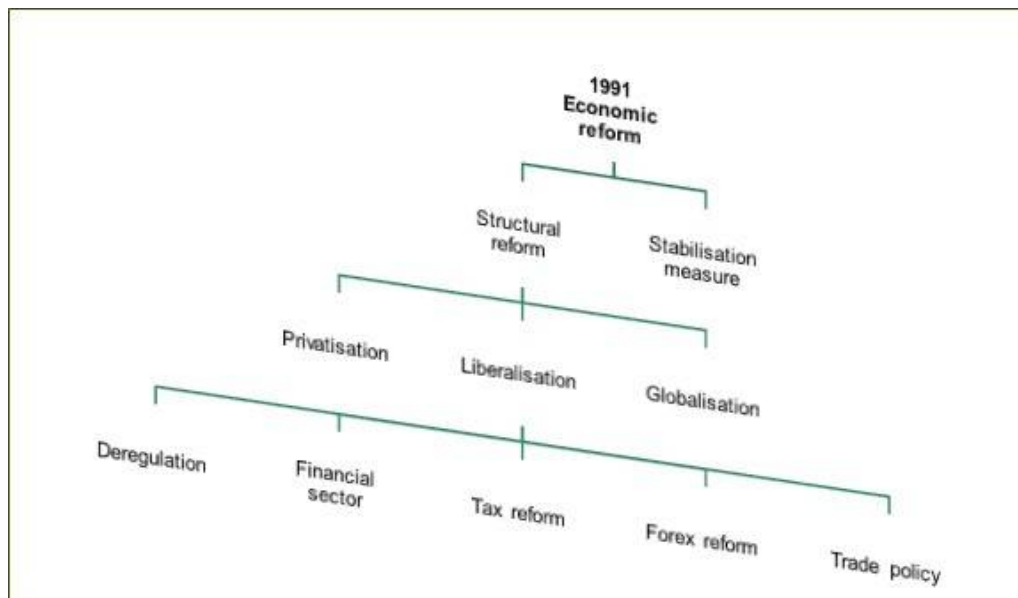
— Dr. Manmohan Singh. Budget Speech, July 24, 1991.

*(Before proposing the reforms)*

## VII. 1991 ECONOMIC REFORM

Economic policy: It refers to the actions that governments take in the economic field. It covers the systems for setting levels of taxation, government budgets, the money supply and interest rates as well as the labour market<sup>19</sup>, national ownership<sup>20</sup>, and many other areas of government interventions into the economy.

Chart 1: 1991 Economic reform



Source: New economic policy of India. VAM group

### A. Stabilisation Measures

- ✦ These are short-term measures aimed at solving the immediate cause - the 1991 economic crisis.
- ✦ These included correcting the weakness that led to the balance of payments crisis and taking steps to bring inflation under control.

### B. Structural Measures

- These are long-term measures aimed at improving the efficiency of the economy and increasing its international competitiveness by removing the rigidity in different segments of the Indian economy.
- These reforms fall under three main themes:

- 1) Liberalization
- 2) Privatization
- 3) Globalization

- a) **Liberalization:** Liberalized investment policy: FDI policy has been gradually liberalized since 1991. Today the FDI policy in India is widely considered to be one of the most liberal in the emerging countries and FDI up to 100% are allowed on the automatic way in most sectors and activities. Recently, FDI has been allowed up to 100% on automated routes in the civil aviation, automotive, telecommunications, energy and road transport sectors. In addition, a 10-year tax exemption is also offered in some sectors as an incentive for FDI.

Liberalization has been carried out in different sectors as follows:

- **Deregulation of Industrial Reforms**
- ✦ The industrial license has been abolished for all but the product categories - alcohol, cigarettes, dangerous chemicals, drugs, explosives, etc.
- ✦ The public sector is now withdrawn. Only railways, armaments and nuclear power generation are reserved for the public sector.
- ✦ The market is allowed to determine the prices.



- *Financial Sector Reforms*

- ✦ Reduce the role of the RBI from being a regulator to an intermediary for the financial sector.
- ✦ These reforms led to the creation of private banks.
- ✦ Direct investment in banks was increased to 50%.
- ✦ However, certain management aspects have been retained at RBI in order to protect the interests of the account holders.

- *Tax Reforms*

- ✦ The corporate income tax, which used to be very high, has been successively reduced.
- ✦ Tax procedures have been simplified and rates have also been reduced. 1973-74 - Eleven control blocks with rates ranging from 10 to 85 percent. 1990-91 - In five budgets between 1991-96, Dr. Manmohan Singh reduced the IT slabs in three steps (20, 30 and 40 percent).

- *Foreign Exchange Reforms*

- ✦ The rupee was devalued against foreign currencies, which led to an increase in the inflow of foreign currencies.
- ✦ The market is allowed to determine the exchange rates.

- *Trade and Investment Policy Reforms*

- ✦ Removal of quantitative import restrictions. ■ Reduction of customs duties (import taxes).
- ✦ Abolition of the authorization procedures for imports except for dangerous and environmentally sensitive products.
- ✦ The quantitative import restriction was later completely lowered.
- ✦ Export duties were abolished to encourage exports.

b) *Privatisation*

- Privatization means the transfer of assets from the public sector to the private sector.
- Privatization helps improve financial discipline and make modernization easier.
- It contributes to a strong inflow of FDIs.
- Investment: The privatization of public sector companies by selling some of the equity of PSEs to the public is known as divestment.
- Criticism:
  - PSU's (Producer Support Estimate) assets have been undervalued.
  - The Money from divestments has been diverted to meet the scarcity of government revenues rather than creating new assets.

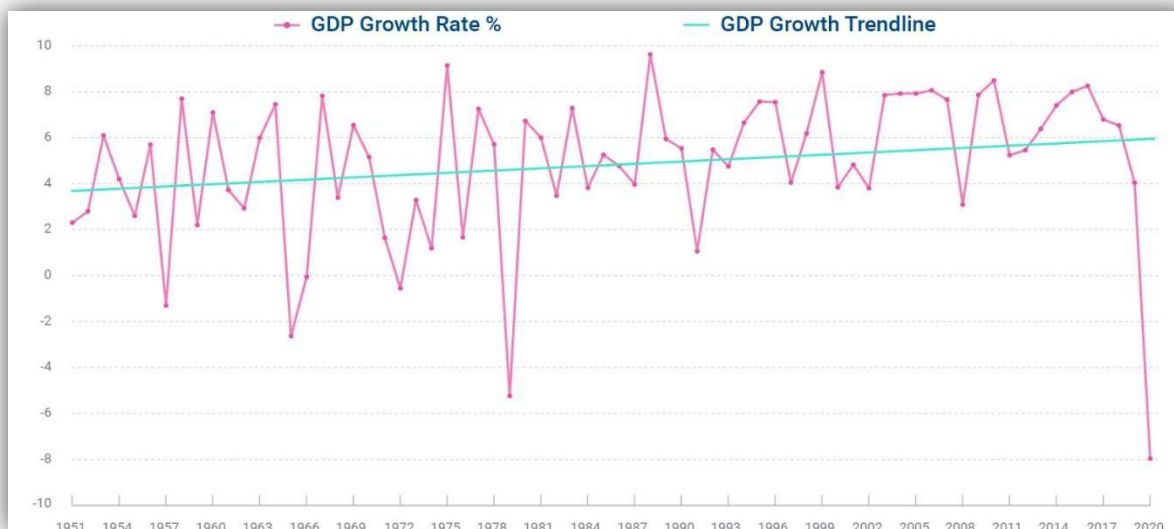
c) *Globalisation*

- Globalization is the process of international integration that arises from the exchange of worldviews, products, ideas and mutual exchange as well as other aspects of culture. It's a result of globalization. Thanks to the new economic policies.
- India has become a major source of job outsourcing. Eg: Business Process Outsourcing<sup>21</sup> (BPO), banking services etc, World Trade Organization (WTO): The WTO was created to administer all multilateral trade agreements by providing equal opportunities for trade purposes to all countries in the international market.
- India is an active member of the WTO, which aims to expand trade between countries.

## VIII. ANALYSING THE TRENDS IN GDP

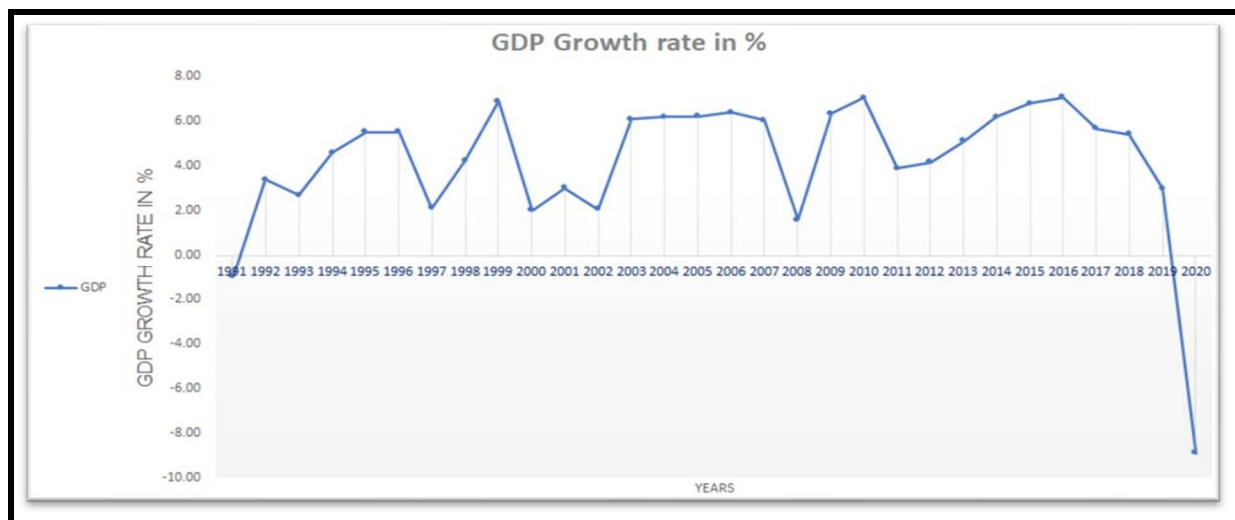
Economists use many abbreviations. One of the most common is GDP, which stands for gross domestic product. According to Wikipedia, GDP measures the monetary value of final goods and services, that is, those that are bought by the final user produced in a country in a given period of time (say a quarter or a year). It counts all of the output generated within the borders of a country. So, we take just an overview of the GDP growth rate from 1951 to 2020. As we see in the graph 1.a (GDP Growth rate %) 1957, 1964, 1972, 1979, 1990 and 2020 had a very high decline in the value of GDP growth rate, which are negative values. And the growth rate in 1975, 1988 and 1999 was significantly high. After studying the graph of the GDP growth rate, we can see that the continuous growth and shape of the graph has been increasing since 1991. The GDP trendline is moving towards growth.

Graph 1. a: GDP Growth Rate %



Source: World Bank (Macrotrends LLC)

Graph 2.b: GDP Growth rate in %



Source: World Bank GDP per capita growth (annual %) \*Represents annual average growth rates

It is observed from Graph 2.b (GDP Growth rate of India in %) that GDP has been continuously increasing and stable from 1991 onwards. With the introduction of new economic reforms of 1991, the GDP growth picked up pace again from 2.71% in 1993 to 6.90% in 1999. During this phase India was counted as one of the fastest growing economies of the world. A major trading partner, its GDP growth rate was also reduced to 4.46% in 2008.

While India's growth performance improved after the reform, it is also true that it fell short of expectations. This is because the first post-reforms phase of faster development resulted in more aggressive growth targets. Following the attainment of 6.7% growth between 1992 and 1996, the government set a goal of 7% growth for the next five years, which was boosted to 8% for 2002-07. These growth rates, however, were not met. Disappointment on this issue is reasonable, but it must be separated from anti-globalization pessimism, which claims that reforms in poor nations have had negative consequences, including a drop in growth. This may have happened in some developing countries, but it was clearly not the case in India. The only reason India's growth performance was disappointing was that the objectives set were greater than in the previous.

## IX. FDI INFLOW AFTER ECONOMIC REFORM AND ITS IMPACTS

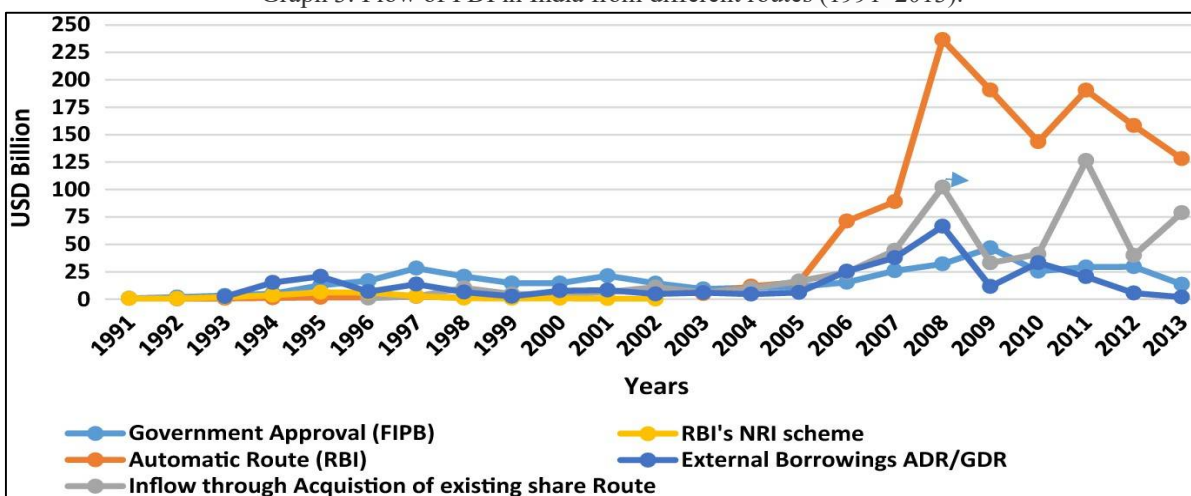
The influx of FDI into India after the decision to liberalize the Indian economy in 1991, the overall picture of the country compared to other world economies has changed. India is currently the fourth largest and the second fastest growing economy in the world. The general goal of liberalizing the economy had remained the same since 1991, and changes in political parties brought improvements through the transition from a closed economy to a market economy. The old system of closed economy was full of corruption, severe restrictions, protectionism and slow growth between independence and 1990. The changes in economic reforms each year put India 9th in industrial production and 3rd in science and technology.

FDI flow in India is welcomed in different ways and broken down into five different areas, such as -

- 1) Government Foreign Investment Promotion Board<sup>22</sup> (FIPB), Approval Route (SIA),
- 2) Automatic Route by RBI,
- 3) Inflow from the acquisition of existing shares,
- 4) RBIs Non-Resident Indian (NRI) programs and External borrowing American Depositary Receipt (ADR)/ Global Depositary Receipts (GDR).

The table and figure show the trend and patterns of FDI from various FDI routes and the comparison between these routes from 1991-2013.

Graph 3: Flow of FDI in India from different routes (1991–2013).



Source: compiled from various issues of SIA newsletters, DIPP, [www.dipp.nic.in](http://www.dipp.nic.in)

Graph 3 (Flow of FDI in India from different routes (1991–2013)) - describes the different routes of FDI inflows into India. The government permit Foreign Investment Promotion Board (FIPB), which includes the huge projects where FDI flows in large amounts and requires government approval to be implemented, the automatic route (RBI) and the inflow by acquiring existing shares represent the FDI inflow of small projects, which has not required government approval since 1995. The FIPB's FDI flow has shown slow growth compared to the automatic route and acquisition of shares. The automatic route through the RBI has shown upward trends since 1995 with slight fluctuations between 1998 and 1999. The inflow of FDI from automatic routes was \$7.2 billion in 2001 and peaked in 2008 at \$236.51 billion, but falls to \$128.06 billion in 2013. The average annual growth in FDI from automatic approval between 2001 and 2008 was 54.73%. The FDI flow from acquiring the existing stock route fluctuates unevenly every year due to changes in market share. It was \$0.88 billion in 1996 and reached \$10.28 billion in 2002, \$102.34 billion in 2008 and \$126.36 billion in 2011 and again fell to \$78.87 billion in 2013. The average annual growth rate of the automatic direct flow of direct investment from 1991 to 2013 was 34.79%, and the inflow from the existing equity route was 28.37%. From the discussion we can therefore conclude that India has the highest FDI flow of 371 billion or indirectly boosted the confidence of foreign investors. The annual growth in 2008 compared to 2007 was 122.05%. The inflow of foreign loans was \$2.40 billion, increasing to \$66.45 billion in 2008, but decreased to \$1.87 billion in 2013. Due to the annual growth in economic growth, India stopped borrowing from external sources for the inflow of FDI in 2013. Unlike other emerging economies such as China, Brazil and Russia, the pace of FDI flow in India has been competitively low during these years.

## X. REFORM FOR NEW INDIA IN THE 21<sup>ST</sup> CENTURY IN CONTEXT OF FDI & GDP (2014)

### A. Introduction

The government has implemented a clear, predictable, and investor-friendly FDI policy, under which FDI is approved in most sectors via an automatic path. India continues to open up its sector to global investors by raising FDI and inviting high tech solutions, in addition to developing infrastructure, improving the business environment and international relations.

India's commitment to fiscal discipline, sound external position, strong FDI inflows, compressive structure reform, efficient delivery of service through the India stack and benefits and enhanced emphasis on social protection and financial inclusion have provided a strong framework for sustaining strong and inclusive growth going forward. India's performance in the ease of doing business index<sup>23</sup>, global competitiveness index<sup>24</sup>, logistics performance index<sup>25</sup> and global innovation index<sup>26</sup> are all positive and encouraging.

India today is one of the most attractive FDI destinations in the world. Now we are dealing with FDI reform since 2014 and its impact across various sectors.

### B. Need for Reform

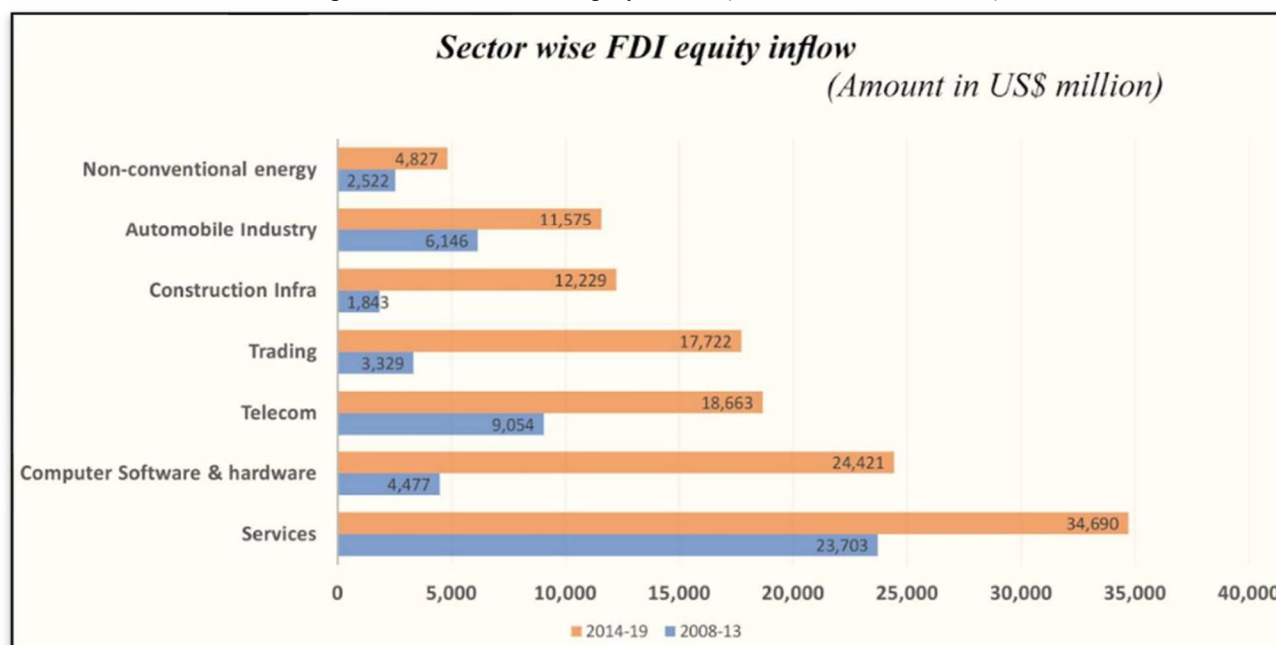
In the years prior to 2014, India was unsuccessful in attracting FDI commensurate with India's capital requirements. Policy paralysis, presence of multiple sectors under the government approval route, low FDI caps across sectors as well as onerous FDI linked performance conditions across sectors did not enthruse foreign investors. India's FDI problems were compounded by the fact that other nations were engaging in competition liberalization and offering highly attractive FDI policies to foreign investors.

In 2014 – 2015, FDI inflow in India stood at a mere \$45.15 billion as compared to the highest ever annual FDI inflow of \$74.39 billion (provisional figure) during the last financial year 2019 – 20. The low FDI inflow in the year prior to 2014 was reflective of an unimaginative and rigid approach toward policy making.

There was a growing need for bottlenecks, augment domestic capital through increased inflow of FDI, promote industrial development, bring international best practices and latest technologies to India and generate employment across sectors.

The current Central Government recognizes FDI as one of the critical drivers of economic growth, and a major source of capital for the economic development of India. Since 2014, the Central Government has pushed through FDI reform, with several radical and transformative measures, in a number of sectors with the objective of making India a more attractive investment destination.

Graph 4: Sector wise FDI equity inflow (Amounts in US\$ million).



Source: Foreign Direct Investment Reforms in India, Department for Promotion of Industry and Internal Trade, January 2021.



### C. 10.3 The 2014's Reforms Sectors

A brief overview of the key FDI reforms introduced by the Government of India since 2014 which have resulted in India attracting records levels of FDI are as follows:

- 1) *Defence Sector*: In 2014, the FDI limits for the defence sector were raised from 26% to 49%, under the Government approval route. To realize the vision of an Atma Nirbhar Bharat<sup>12</sup>, FDI in defence sector has now been allowed up to 74% through automatic route for companies seeking new industrial licenses. FDI beyond 74% and up to 100% will be permitted under Government route for existing FDI approved holders/ defence licenses, infusion of fresh foreign investment up to 49% resulting in change in equity/ shareholding pattern can be done by making declaration within 30 days (earlier government approval was required).
- 2) *Pharmaceuticals*: With the objective of making the pharmaceuticals sector more attractive to foreign investors, FDI up to 74%, under the automatic route, has been permitted in brownfield pharmaceutical projects. FDI beyond the threshold of 74% is allowed through the government approval route.
- 3) *Medical Devices*: 100% FDI, under the automatic route, has been allowed in manufacturing of medical devices with the intent of encouraging FDI inflows in the medical devices industry.
- 4) *Insurance Intermediaries*: 100% FDI has now been permitted in insurance intermediaries including insurance brokers, reinsurance brokers, insurance consultants, corporate agents and third-party administrators, surveyors and loss assessors.
- 5) *Coal Mining*: 100% FDI under the automatic route has been permitted for sale of coal and for coal mining activities (including associated assessing infrastructure). This reform will attract global investors and benefit the sector with more technology adoption and improve the operational efficiency of the sector.
- 6) *Single Brand Retail Trading*<sup>13</sup> (SBRT): FDI up-to 100%, under the automatic route, has been permitted in the single brand retail trading sector. Government has further eased the local sourcing conditions of SBRT.
- 7) *Railways*: 100% FDI under automatic route has been permitted in the construction, operation and maintenance of specified rail infrastructure projects. These reforms will help promote industrial development and bring international best practices and latest technologies to the sector.
- 8) *Construction Development*: FDI reforms have also been undertaken in the Construction Development sector wherein minimum area requirement for serviced plots have been removed, minimum capitalization have been reduced and foreign investors have been permitted to exit on completion of the project or development of truck infrastructure, etc.
- 9) *Civil Aviation Sector*: Foreign equity cap in non-scheduled air transport services has been increased from 74% to 100% under the automatic route. Additionally, 100% FDI under the automatic route has been allowed in brownfield airport projects.
- 10) *Satellites Establishment and Operation*: The FDI caps for the sector have been changed from 74% under the Government approval to 100% under the government approval route.
- 11) *Broadcasting*: 100% FDI under the automatic route has been permitted in Teleport, Direct to Home<sup>14</sup> (DTH), Mobile TV, Headend-in-the sky<sup>15</sup> (HITS).

## XI. CONCLUSION

The Indian economy has become one of the fastest growing economies in the world today. In India's manufacturing sector, which is comparatively less robust compared to the service sector, this dynamic has not been observed recently. India's manufacturing sector is still faring behind some developed and developing countries. Despite the unsatisfactory development, the industry remains of crucial importance for structural change in India. It is easy to conclude from the results that the Indian economy performed very well in the post-reform period. The main determinants of GDP, imports and FDI inflows were found to have increased significantly in the post-reform period, as opposed to pre-reform periods. This paper examines the impact of Indian economic reforms since 1991 on the performance of the Indian economy using indicators such as GDP and FDI and their inflow. It shows that the reforms have achieved a significant acceleration in growth and stability.

<sup>12</sup> [Crossref](#).

<sup>13</sup> Single Brand Retail Trading means where the goods are sold under a single brand name domestically and internationally. It refers to a business or entity, or franchisee where goods are sold to individual customers and not to other businesses.

<sup>14</sup> Direct-to-home (DTH) Broadcasting Service refers to the distribution of multi-channel TV programs by using a satellite system. The TV programs is encoded into a digital stream of "0" & "1" in binary data and provides TV signals direct to subscribers' premises.

<sup>15</sup> Headend-in-the-Sky (HITS) Broadcasting Service, refers to the multichannel and distribution of television programme in C-Band or Ku Band, wherein all the pay channels are downlinked at a central facility (Hub/ Teleport) and again uplinked to a satellite after encryption of channels.

The paper summarises the 1991 reform and its policy changes and its main aspect was privatization & its impacts on Indian economy. We also discussed the various bottlenecks that the pre-1991 economic scenario in India, Drawbacks of Pre-1991 economic policy and, Political history of liberalization and future of the it.

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