# Poverty alleviation policies in India

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## Introduction

India, currently, are the world's fastest growing economies. As being a largest country plays an increasingly important roles in the world economy, it's expansion has a noticeable impact on global growth and poverty reduction through a number of channels, agricultural reforms, industrial development, trade, foreign direct investment (FDI) and infrastructure development being, arguably, the strongest and most direct. Despite several features of a developing countries, over the past two decades, India have manage to maintain on the average over 9% annual gross domestic product (GDP) and able to reduced the poverty among its huge poor population segments.

India since 1991 have introduced economic reforms and liberalized their markets and focused largely on the private sector to drive it economic reforms. whereas the service sector has become the leading driver behind India's economic growth, contributing to more than half of the total economic growth since 1990s.

## Economic Performance and Poverty Reduction in India

Global Monitoring Report 2011, issued by the World Bank and International Monetary Fund, suggested that due to the rapid economic growth in China and India developing countries are on track to meet or get close to Millennium Development Goal (MDGs) key targets for tackling extreme poverty and hunger by 2015. The report highlighted India as major contributors to world poverty eradication, predicted that the two countries will be able to achieve their targets to halve their country's population suffering in extreme poverty even sooner than their original 2015 goal. This outstanding economic performance in India present us several key lessons that can be applied in other countries, which are lagging behind in their aggregate poverty reduction goals, to achieve the MDG One. Under MDG-1 globally it is aimed to reduce the amount of people that live on less than US$1.25 per day to 838 million, from 2005's 1.4 billion (United Nations, 2010).

| | India |
|---|---|
| | 5% of world GDP (PPP)<br>18% of world population<br>Nominal GDP per capita:<br>USD 1,265 |

*Source: Word Bank Indicators, 2010*

The India's 12th FYP is expected to be one that encourages the development of India's agriculture, education, health and social welfare through government spending. It is also expected to create employment through developing India's manufacturing sector and move the nation higher up the value chain (Planning Commission Indian, 2011).

For India, the 1978 per capita GDP of US$1,255 (in PPP terms) increased toUS$2,732 in 2003 and US$3,452 in 2005 (World Bank 2007). The experience of India proves that the most powerful force for the reduction of poverty and improvements in living standards is sustained economic growth.

Different theories would provide different insights into growth strategies of these two large economies and impact of these economic reforms on poverty reduction; however it is certain that India's growth patterns differ substantially. It will be interesting to see what factors contributed to success of both economies and what lessons can be drawn from the growth patterns and poverty reduction in India. The present term paper will focus only those determinants that led to significant poverty reduction in India which recently acknowledge by WB and IMF's Global Monitoring Report 2011.

**The Indian Experience**

The Indian institutional change and reform policies started much later than China that led to a significant delay in the integration into the global economy. Some reforms, for instance the partial liberalization of imports especially of intermediate and investment goods that began in 1976 with the ''open general licensing'' (i.e., a list of products that could be imported without any license) were introduced in the 1980s and followed by progressive privatizations, but it was only after 1992 that the institutional change and reform policies gradually accelerated, including reforms of the fiscal system and ''special economic zones''. However, in addition to persisting rigidities and weaknesses in the labor market, the bureaucratic system, the infrastructure, the still high weight of the public sector and small firms, the integration of India into the world economy is much less intense than that of China. It should also be recalled that India, in contrast to China, had a large private sector even before transition began, although the market functioning was conditioned by rigid state controls (Ashoke and Fan, 2007).

**The economic liberalization program**

Prior to 1991, a complex regime of import licensing requirements, along with other barriers to trade, kept the Indian economy fairly insulated from international market competition. The 1991economic crisis forced India to open up its economy to the world and adopt the policy of liberalization, privatization and globalization. The new government that came to power in 1991 had to restructure the economy, but the greater need of the time was to stabilize the economy—reduce inflation and reduce fiscal deficits (Joshi and Little, 1996).The fiscal deficits would have to be substituted by foreign borrowings. But the structural model of the International Monetary Fund (IMF) and World Bank involved India having to open up its economy and replace public

institutions and investments by market determined investment and production decisions (Sharma, 2009). Thus, the early attempts of Rajiv Gandhi to loosen state control over the economy finally found completion in the measures taken by the Narasimha Rao Government and the New Economic Policy (NEP) was adopted

The thrust of the NEP was to open India's closed economy to international market forces. However, following what is known as "attitudinal shift in government after 1991," concerted efforts have been made to encourage private investment and participation in the economy such as liberalizing access to foreign capital, cutting tariffs, deregulating the financial sector, and removing quantitative restrictions through industrial and trade liberalization. The NEP also committed to implementing policies conducive to privatization and foreign direct investment, including abolishing state monopoly in all core economic sectors and improving the supervisory and regulatory systems to promote transparency and genuine competition. Like China's "plan-market" system, the NEP also signaled a dramatically changed role for central planning. Although in the officially, the state and market forces were to work together as "partners in economic development," in practice, private initiative and enterprise was deemed central to economic growth, with the state remaining active only in areas in which the private sector was either unwilling or incapable of acting in the public interest. These included the government's "social justice programs" such as the various "uplift" or poverty alleviation programs, human resource development, and the provision of social services such as basic health care and education (Sharma, 2009).

**Macroeconomic reforms**

Macro economic reforms in India started in the early eighties, but a comprehensive liberalization and privatization process started in July 1991 in the backdrop of the balance of payment crisis and foreign exchange liquidity crisis faced by the economy. Since then, there have been attempts to integrate the Indian economy with the rest of the world in a variety of ways, i.e., the removal of quantitative restrictions, reducing tariffs and exchange rate flexibility. India launched its second-generation reforms in 2002, with a focus on reducing the fiscal deficit, improving infrastructure, reforming labor laws and energizing the states to participate actively in stepping up the pace of reforms. India raised its FDI limits in many important sectors including telecommunication, banking and insurance and civil aviation (Planning Commission India, 2007).

**Industrial policy reform**

Industrial licensing, irrespective of the level of investment, was abolished in July 1991 for all except 18 industries. In 1998-99, 12 of these have been removed from licensing requirements. The number of industries reserved for development exclusively by the public sector has been reduced from 17 in 1991-92 to 3 by 2000-01. These two are major reforms. The draconian Monopolies and Restrictive Trade Practices (MRTP) Act of 1969 was amended in 1991-92, removing the threshold limits of assets in respect of application of MRTP and of dominant undertakings. The Competition Bill incorporating a modern

competitive law was introduced in Parliament in 2001. These regulations led to the abolition of the industrial licensing system and other regulatory impediments. Industrial licensing was abolished for all but fifteen industries, and the MRTP amended to eliminate the need for prior approval for capacity diversification and expansion. Similarly, by the end of the 1990s, a number of sectors previously reserved for the public sector were opened to private investment, including power, mining, telecommunications, ports, transport, and banking. However, relatively little progress was made in reducing the number of industries reserved for small enterprises or "small-scale industries" - only 17 industries were removed from the list, leaving 821 areas still restricted (Ashoka and Fan, 2007).

**Reforming the FDI regime**

In the pre-reform era, restrictions on FDI were so strict that it was reduced to a trickle. This contributed to the almost complete marginalization of the Indian economy from the world economy. The restrictive Foreign Exchange Regulation Act (FERA) of 1973 imposed a ceiling of 40 percent on equity shareholding of foreign companies, required dilution to 40 percent in the existing companies that were not operating in the high-tech and strategic sectors, and imposed limitations on royalty payments. This led a number of major foreign companies to leave India and also severely undermined the economic growth.

Later on by 1992, foreign direct and portfolio investment were significantly relaxed. Along with the abolition of the industrial licensing requirements governing domestic investment, controls over foreign trade and investment were considerably relaxed, including the removal of ceilings on equity ownership by foreign firms. In September 1992, portfolio investment was allowed for registered foreign institutional investors such as pension funds, mutual funds, and investment trusts. Asset management companies were allowed unrestricted entry (in terms of volume), in both the primary and secondary markets for corporate securities. In addition, domestic firms with sound financial positions were permitted to raise capital from abroad with fewer restrictions such as by issuing equity in the form of global depository receipts (GDRs), foreign currency convertible bonds (FCCB), and other debt instruments.

Reducing these barriers to capital flows lowered the cost of capital and helped Indian businesses benefit from the transfer of skills and technology. The government also created the Foreign Investment Promotion Board (FIPB) as a one-stop "fast-track" shopping arena for foreign investors in obtaining all necessary approvals and to approve foreign direct investment proposals not covered under the automatic approval.

**Infrastructure Development**

India, along with, huge public investment in infrastructure, has been actively engaged in involving private sector to meet the growing demand. Since 1991, the demand for infrastructure investment due to wider economic development is growing. The container port traffic, which increased from less than a million in 1991 to about 5 million in 2005 with an annual growth rate of about 266 percent. In contrast, hardware

components, like railways, roadways and airways, witnessed little expansion in last one and half decades. In general, performances of these sectors (hardware) are nevertheless poor, when counted their densities in terms of country's surface area or population. Densities in terms of access or spread of rail and road length clearly indicate that road sector has been successful, compared to railways, in spreading the network asWhat follows is that software part of India's physical infrastructure (like telecom, air and port services) performed well, thus not only helped the country to maintain a faster growth but also integrated the economy with the world market at a faster pace. At the same time, the hardware component of the country's physical infrastructure (e.g. road, rail, power) comparatively grew slowly, thus obstructed the country's development process

**Conclusion**

The developmental successes of India are reshaping the economic landscape of not only Asia but also the world. The diverse and rich development experiences of these two countries emanate from the wide differences in their economic policies and systems, dissimilarities in their institutions, and their social diversities.

The outstanding economic performance of India is due to the large size of their domestic markets, demographic dividends, information technology revolution, and proliferation of global production networks in the manufacturing and services sectors. More so, however, it has been due to a cumulative impact of ongoing market oriented reform programs.

Economic growth in India has helped improve social welfare and quality of life on wide scale. Key indicators of health and education such as infant mortality and school enrolment have improved in the Indian economy over the past decade. This can be attributed to more enlightened policymaking, better advice from donors, etc. but also crucially to robust economic growth, which has given governments the resources to focus on poverty reduction.

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