JGPG (2015) 4: 17-31
DOI 10.14666/2194-7759-4-1-002
PAPER

Looking at the Rise and Fall of the Indian Economy Through the Lenses of Economic Policy

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Abstract This paper investigates the rises and falls in the Indian economic performance in the backdrop of its belatedly launched macroeconomic economic reforms and liberalization program and changing macroeconomic policy framework. After decades of underperformance, partial and moderate reforms adopted in the first half of the 1980s had a clear growth-enhancing impact. The methodical market-oriented reforms and liberalization program that followed the 1991 balance-of-payments crisis was an important policy measure in this regard, although its implementation was tardy and inefficacious. This article demonstrates that in close relation to its reform endeavors, the growth trajectory of India changed several times.

Keywords Macroeconomic reforms - Deceleration - Growth trajectory Infrastructure

JEL Classification O1 - O4 - O5

1. Introduction

The objective of this paper is to examine the rises and falls in the Indian economic performance in the backdrop of its belatedly launched economic reform and liberalization program. This paper shows that the growth trajectory of the Indian economy

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transformed several times since the launching of the economic reform program. The angle of the growth trajectory had a bearing on the pace of implementation of reforms and other policy transformations.

Measured in terms of current dollars and exchange rates as well as purchasing power parity (PPP), India is the third largest Asian economy. With China it is widely regarded as one of the two emerging Asian giants. It is a member of James O'Neill's well-known BRIC (Brazil, Russia, India and China) categorization and the prestigious Group-of-Twenty (G-20) framework that was created to usher in an era of strong, sustainable and balanced global growth. India began to be regarded as a part of a small group of exceptional cases of catch-up. With that global economy entered a period of multi-polar growth, with a select group of large developing economies leading the way as new and dynamic growth poles (Lin and Rosenblatt, 2012). The economic trajectory of the Indian economy altered several times. After decades of severe underperformance, the Indian economy gradually picked up momentum in the 1980s and 1990s and turned in a stellar performance during the 2000s, but in 2011 its GDP growth rate slumped. It worsened in 2012 (Table 1).

1.1 Starting off on the Wrong Foot

Since its independence in 1947, the Indian economy underperformed for decades. The reasons included a socialistic growth model adopted under the tutelage of Fabian socialist Prime Minister Jawaharlal Nehru. Simplistic and poorly premised economic concepts like self-sufficiency, self-reliance, import-substitution and the cult of villages were prevalent during this era. Some of them were favourite ideas of the much-admired political leader and social reformer, Mahatma Gandhi. Indian policy makers strongly believed in Prebisch-Singer hypothesis and adopted an inward-oriented growth model. A planned, *dirigiste*, almost autarkic, inefficient, agrarian economy evolved and achieved a low-level equilibrium. Economic growth was stymied by low productivity. The country was, and continues to be, run by a huge cadre of government bureaucracy, which was and is well known for being corrupt, incompetent and self-serving. Red tape assumed Byzantine proportions. A venal and sclerotic government intervened excessively in economic life. Economic policy was essentially made by political leaders who had little knowledge, comprehension or insight into how an economy operates. These are some of the better-known facts about the economic past of India. For decades, India unabashedly perpetuated poverty.

Those with hands on the policy levers belatedly learned some economic lessons from a prolonged period of economic failure. One well-known fact about the evolution of the Indian economy is that in the early 1980s moderate and partial macroeconomic reform measures were taken and the policy framework began to change in diminutive stages and GDP growth took off (DeLong, 2004; Rodrik and Subramanian, 2005). Preliminary or partial trade reforms were undertaken in the mid-1980s. Consequently economic performance began to gradually improve.[1] This author has analysed these changes and challenges in Indian economic growth and other related intricate issues.[2] The reforms of the 1980s were modest, piecemeal and somewhat *ad hoc* in comparison to those undertaken later in the 1990s. However, their resulting productivity gains were substantial and distinct. Apparently this was a case of moderate reforms having a large impact in an economy because the erstwhile policy environment was highly distorted.

1.2 Dividing Line: The Two Periods

In this context, a look at the long-term growth statistics is revealing. It shows an obvious dichotomy in the growth performance of India between pre- and post-1980 periods. Long-term growth statistics give an impression of two kinds of economy in India. An unmistakable increase in quinquennial and decadal GDP and per capita GDP growth rates occurred during the latter period. During the Fifth Five Year Plan (FYP) (1974–79) average annual per capital income increase was 2.7 per cent. It jumped to 3.2 per cent in the Sixth FYP (1980–85) and 3.6 per cent in the Seventh FYP (1985–90).

Long-term averages confirm the same two-economy trend. The pre-1980 long-term average annual GDP growth was 3.5 per cent, with a standard deviation of 3.5 per cent. During this period per capita income increased at an average of 1.2 per cent per annum. In contrast, the 1980–2004 average GDP growth was 5.7 per cent, with standard deviation down to 1.9 per cent. During this phase, average per capital income increased at a rate of 4.0 per cent per annum (Kelkar, 2004; Ahmed and Varshney, 2008). Growth was broad-based in the latter phase; all three sectors, agriculture, industry and services, performed better. This was a clear and conspicuous transformation in the growth trajectory of the Indian economy from a low to somewhat higher GDP growth.

The declining standard deviation during the second period implied that the Indian economy was becoming less volatile and more resilient to shocks. For instance, the oil shocks of 1973 and 1979 had adversely affected Indian growth in the past, but in the post-1980 period this kind of vulnerability was obviously reduced and the Indian economy withstood external shocks relatively more successfully.

1 Many knowledgeable writings are available on India's growth story. Several analysts have drawn attention to the gradually improving economic performance of India from its initial low level. For academically oriented writings see Acharya, 2006; Bestley and Burgess, 2004; DeLong, 2004; Ghani, 2010; Kochhar et al., 2006; Kumar and Subramanian, 2011; Panagariya, 2008; Rodrik and Subramanian, 2005; Subramanian, 2008; WB, 2006.

2 See for instance Das, 1992, 2009a, 2009b, 2010a, 2010b, 2011.

Freeing up of prices or price flexibility is one important reason behind the reduced volatility in economic growth. The severe economic and balance of payments crisis of 1991, when foreign exchange reserves were reduced to around $1 billion, which was two weeks of current account payments. India was on the brink of defaulting on its loans. This dire situation called for a more methodical and comprehensive set of reforms than those of early 1980s. Much awaited economic restructuring and liberalization measures were instituted at this time. Price flexibility in Indian markets rose markedly since the 1991 reforms in areas like interest rates and the prices of steel, cement, etc. The ability to adjust prices improved the capacity of the economy to adjust to external shocks.

No doubt there were sub-period variations in the growth performance. For instance, during the pre-reform era, the weak GDP growth rate of the pre-1980 period plunged really low in the decade of the 1970s to 3 per cent per annum. Conversely, after adoption of the macroeconomic reforms began in the decades of the 1980s and 1990s, GDP growth rates picked up to 5.8 per cent and 5.7 per cent, respectively. Furthermore, owing to a benign global economic environment for a good part of the decade of 2000s and the cumulative effect of the post-1991 reforms, the 2000s proved to be even better for the Indian economy. The average annual GDP growth for the 2000–10 period was 7.46 per cent (Table 1). Per capita income during this period increased at the rate of 6.1 per cent. The 2000s also saw declines in the poverty rate and fertility rate as well as the average number of children per woman. Hopes that India would be able to emulate China's ebullient performance and achievements began to rise. However, on the negative side, one serious blemish that afflicted the economy after 2007 was high rates of inflation due to the erroneous, expansive and populist policies of the Federal government. They included subsidizing farmers by offering high procurement prices for food crops and even cash subsidies to those living below the poverty line. Wholesale prices of food suffered the worst inflationary trend. The retail food prices grew even faster.

Table 1 Indian Economy: Real GDP Growth Rate at Factor Cost (2000–2012)

Year	GDP Growth Rate
2000	4.35
2001	5.81
2002	3.84
2003	8.52
2004	7.60
2005	9.49

2006	9.62
2007	9.30
2008	6.70
2009	8.40
2010	8.39
2011	6.88
2012	5.0 (e)

Source: Government of India, Central Statistical Organization, New Delhi, India, March 2013.

Note: The fiscal year (FY) in India runs from 1 April to 31 March of the following year. The year here represents a fiscal year, that is, 2000 stands for 2000–2001. e stand for estimates.

1.3 A Dream Economy or an Aberration?

The decade of 2000s was noteworthy. Following the dot-com recession in 2001, the Indian economy picked up growth in 2003 (Table 1). This was the beginning of a dream decade and India turned into one of the fastest-growing emerging-market economies (EMEs). It enhanced the rate of growth of per capita income, domestic demand as well as integration with the regional and global economies. A high growth period from 2005 to 2007 followed. The economy posted 9+ per cent GDP growth for three consecutive years. This was an impressive performance by any measure.

At this juncture, it appeared that India was ready for a period of turbo-charged growth and the economy was ready to move up to yet another new growth trajectory. It was not irrational to believe that on the back of high productivity growth, there had been a structural increase in India's potential growth rate after 2003. Goldman Sachs published projections making India's GDP (in $ terms) higher than that of the US well before 2050. According to these projections, India was to become the second largest global economy (Poddar and Yi, 2007; O'Neill and Poddar, 2008). A striking fact was that the post-2003 acceleration in the GDP growth had occurred without a large surge in domestic capital accumulation or large foreign direct investment (FDI) inflows. In 2010, the Indian economy seemed to be doing a convincingly good job of catching up with the high-performers like China and advanced economies. Its per capita GDP at PPP increased from 7 per cent of the OECD average in 2000 to 10 per cent in 2010. Concomitantly, the Indian share of world GDP increased to over 6 per cent in PPP terms and the share in world trade more than doubled (OECD, 2011).

However, doubts were raised in some quarters regarding sustainability of 9+ per cent GDP growth and it was regarded as an aberration rather than a newly evolving trend (Das, 2010b). The Great Recession (2007–09) did not affect the Indian economy very much. It was able to withstand the first round of direct adverse effects because the banking sector was not exposed to the so-called toxic assets. Only one large private sector bank, the ICICI, was slightly exposed to them. However, the ICICI, like the other Indian banks, had a strong balance sheet. With timely help from the government, the Indian financial sector was able to see the global financial crisis (2007-09) period through without any serious problems.

Conversely, the second round effects did have an impact on the real economy. The Indian economy could not remain immune to the liquidity crunch in the global market. Foreign institutional investors began fast withdrawals from India and there was a large outflow of capital. Business firms shifted to the domestic banking sector to make up for the gap. Merchandise and services exports suffered serious declines during 2008 and 2009. In general, however, the economy remained resilient and was able to put up with the global slump of 2009 well. This was the global financial crisis year, when the advanced economies had contracted by 3.4 per cent and the global economy by 0.5 percent. This crisis was the severest in seven decades. That the Indian economy turned in a stellar performance (8.40 per cent) in 2009 can be justly regarded as an outstanding performance.

Growing at 5.1 per cent, the global economy recovered strongly in 2010. The advanced industrial economies grew at a rate of 3.0 per cent (IMF, 2012a). As India was not affected much by the Great Recession, there was little concern regarding recovery. Until this juncture the economy was being run relatively well. India was still being seen as another possible global powerhouse economy like China. In some quarters there were even hopes of India overtaking China (*The Economist*, 2010).

1.4 Upgrading Economy and Rising Global Standing

During the 2000s India established itself as the second fastest growing economy after China. In 2011, India's GDP in nominal terms was in the vicinity of $2 trillion (Table 2). Slow but steady improvements in India's growth performance enhanced its international status. It became a founding member of the Group-of-Twenty (G-20). Good economic performance also attracted a great deal of scholarly attention. It was seen as another rising global powerhouse EME (Lin and Rosenblatt, 2012). One line of thought was that China with a strong and competitive manufacturing sector and India with a strong and competitive services sector would develop into the newest contributors to global growth. Terminology like 'emerging economic giants' was coined to refer to China and India and comparisons of different facets of their economies became frequent in academic research (Das, 2006; Chatterjee, 2009; Huang and Tan, 2012).

Table 2 Indian Economy: GDP and GNI Growth (1990–2011)

Year	GDP in billions of $ (current $)	GNI per capita (PPP/current international $)	GNI per capita (current $)
1990	317.46	860	390
1995	356.29	1,130	370
2000	460.18	1,510	450
2005	834.04	2,190	730
2010	1,727.11	3,340	1,260
2011	1,846.98	3,620	1,410

Source: World Bank, 2012.

Over two decades between 1990 and 2011, Indian GDP increased almost six-fold, per capita gross national income (GNI) in terms of PPP increased over four-fold and GNI in current dollars increased over three-and-a-half times (World Bank, 2012). Remarkable increases in the size of the GDP and the GNI in a period of two decades pulled millions out of poverty and directly affected consumption and employment in a favourable manner. India now has a middle-class population—a driver of economic growth—of significant size. Rapid rise in income also increased revenue collection of the government, which financed large increases in social spending, infrastructure development and poverty alleviation programmes.

Measured by nominal GDP, India's global ranking was upgraded from 50th in 1980 to 9th in 2011. In 2010 it overtook Spain and in 2011 both the Russian Federation and Canada. In terms of GDP, measured in PPP, India became the third largest economy in 2011, after the United States (US) and China. Japan (4th) and Germany (5th) followed (World Bank, 2012). According to the 2011 statistical data India accounted for 5 per cent of the world GDP in PPP terms and 18 per cent of the world population.

As the economy has been liberalizing, its increasing openness and outward orientation began turning India into an important regional and global economy. As a result the interest and attraction of foreign investors also began to rise. Although impressive, these remarkable improvements are not comparable to those of China over the same period. According to the 2011 statistics, nominal per capital income in India is still the lowest among its BRIC cohort (Table 3). China's nominal per capita income is four times higher than that in India. In 2011, the size of the Chinese GDP in nominal terms was also four times larger than that of India. It was $7.29 trillion in comparison to $1.85 trillion for India (World Bank, 2012). If long-term (1979–2009) averages are compared, China's per capita income grew almost twice as rapidly as that of India.

Table 3 2011 Per Capita Income of BRICs Economies in Nominal Dollars

Brazil	$12,594
Russian Federation	$13,089
India	$1,489
China	$5,430

Source: World Bank, 2012.

2. Macroeconomic Reforms and Restructuring

Notwithstanding the moderate and partial reforms undertaken in the 1980s, the Indian economy continued to remain highly distorted and over-regulated. Methodical and comprehensively designed systemic reforms were launched in mid-1991. They were premised on 'a wider play of market forces, gradual liberalization of the financial sector, and opening of the economy to world trade and capital flows' (Ahluwalia, 2011: 88). The Indian economy turned away from its age-old dedication to socialism, near autarky and agriculture and endeavoured to integrate both regionally and globally. At this juncture, Indian policy mandarins attempted to adopt pro-market and pro-free trade policies.

The inward-oriented policy mindset of India's policy-makers was gradually turning to outward orientation. For the first time there was appreciation of the achievements and rapid growth of the 'miracle' economies of Asia and the phenomenal rise of China. There also was a desire to learn from their success and adopt an outward-oriented growth strategy. An overly protected Indian industrial sector had become cost-inefficient, technologically obsolete and exceedingly uncompetitive. Unpromising results of three decades of inward-oriented protectionist policies necessitated a change in the policy framework of growth. The anti-export bias of the pre-1980s era was abandoned. Attempts were also made to address the long-standing problem of twin-deficit, budget and current accounts. The other economies that are being persistently plagued by twin deficits include Greece, Ireland, the US and the UK. The policy shift towards an outward-oriented market-based policy framework was evident in the July 1991 budget. The macroeconomic policy framework and economic structure began transforming conspicuously after 1991. In general, the macroeconomic reform program was wide-ranging and long overdue and went some way in ameliorating the distortions. In particular, the external sector was significantly and systematically liberalized. A large part of draconian import licensing policy structure was dismantled and tariffs were reduced by gradually compressing the top tariff rates.

Despite the trade reform measures of the 1980s and more during the 1990s, the Indian economy was still a highly protected economy. In 1991 the highest tariffs stood at 355 per cent. They were reduced to 85 per cent in 1993, and to 50 per cent in 1995. According to the World Bank (2012) indicators, applied tariff rates (simple mean) declined from 82 per cent in 1990 to 32 per cent in 1999 and 12 per cent in 2009. Tariff rates on manufactured products declined from 83 per cent (simple mean) in 1990 to 33 per cent in 1999 and 10 per cent in 2009. Tariff rates on all products declined from 54 per cent (weighted mean) in 1990 to 29 per cent in 1999 and 8 per cent in 2009 (World Bank, 2012). These statistics show a considerable liberalization of the external sector. Also, non-tariff barriers (NTBs) began to decline, reducing irrationally high protection for the manufacturing sector. Export controls were lifted and so was stringent foreign exchange control. Quantitative restrictions (QRs) over imports of capital and intermediate goods were removed. Trade expanded rapidly, particularly in the services sector.

Implementation of the 1991 reform program was far from swift, effective, well-organized and meticulous. Criticisms over implementation progressing in a slow, hesitant manner and in fits and starts were frequent and just. Instead of a gradual pick up in the pace of reforms and liberalization they slackened after 1995. The environment during the ninth FYP (1997–2002) was distinctly different. Progress in reform implementation slowed and so did growth momentum (Das, 2009b, 2011). GDP growth for the ninth FYP declined to 5.5 per cent. Numerous other domestic and external factors affected the economy adversely during this period. To name the principal factors: large public pay increases were instrumental in the relapse into the old malaise of fiscal deficits, the agriculture sector performed poorly due to poor monsoons and a variety of other reasons and the industrial sector output also went into a decline. India suffered two major droughts in 2000 and 2002. The regional and global economic environment increasingly became a drag. During 1997–98, the Asian financial crisis broke out, oil prices spiked and the global economy suffered from the dot-com recession in 2001. One positive factor for the Indian economy was the inexplicably robust growth performance – 8.2 per cent – of the services sector during the ninth FYP period. It contributed to GDP growth in a significant manner.

Tardiness in the implementation of macroeconomic reforms and liberalization was in stark contrast to that of China. There were frequent periods of stagnation and retreats in reform implementation. There have been cases where after announcing growth-enhancing reforms the government made a U-turn. One perennial problem was that reforms and their pressing need were poorly understood by both Indian politicians and people in general. Consequently, there was/is no broad constituency for reforms in India.

2.1 The Tangible Outcome

The policy measures that were taken for the first time to deregulate an over-regulated economy had a discernible impact on trade, industry and financial sectors. Due to liberalization of the external sector, export growth rate jumped to 20 per cent per year for a short period in the early and mid-1990s. It was lent a hand by sharp currency depreciation. In 1991, the rupee was devalued by 22.8 per cent relative to a basket of currencies. The real effective exchange rate (REER) of the rupee had declined by 16.3 per cent.

Even the incomplete liberalization and poorly implemented reforms and deregulation managed to show notable beneficial results in the erstwhile over-regulated Indian economy (Table 2). They had a welfare enhancing impact over the economy and GDP growth rate surged to 6.7 per cent in the eighth FYP period (1992–97) and per capita income by 4.6 per cent. Both were discernibly higher than during the seventh FYP period (1985–90), 5.8 per cent and 3.6 per cent, respectively. This acceleration in growth occurred across the board; it was reflected in the agricultural, industry and services sectors. One essential shift that the tardy reform process caused was making the economy more market-oriented. It reduced the ubiquitous interference of the government and stifling bureaucracy.

3. Acute Deceleration in the Economy in 2011

The general expectation was that India would efficaciously complete its market-oriented reforms by 2010 and then enter an era of sustained development (Bajpai and Sachs, 2011). As noted, India turned in a healthy economic performance during the 2000s, particularly since 2003 (section 1.2). However, India not only did not complete its market-oriented reforms by 2010 but also began growth deceleration in 2011. Incongruously, Indian GDP had grown well before and after the global financial crisis (2007–09). After performing well during a challenging period for the global economy, the Indian economy faced onerous domestic political and economic predicaments. Consequently the angle of India's economic trajectory dropped. Prolonged political disarray, policy paralysis in the government, spate of large corruption scandals, stalled reforms and mired implementation and serious macroeconomic mismanagement were not the only sources of deceleration. The sovereign debt crisis in the Eurozone, the largest (20.5 per cent in 2011) buyer of Indian exports, and sluggish recovery in Japan and the US, also took their toll.

It is easy to answer the question regarding what should be blamed for the plight of the Indian economy. The answer is squarely based on the fact that like the successful trading economies of Asia, the Indian economy is not excessively dependent on the external demand, thanks to its significant domestic market and early emphasis on inward-oriented growth. Therefore it is domestic factors that contributed far more to the slowdown of the Indian economy.

GDP growth slumped in 2011 to 6.88 per cent (Table 1). Soon the economic situation worsened and gloom deepened during the first quarter of 2012, when India recorded a GDP growth of 5.3 per cent, the slowest for nine years. It was essentially the industrial sector that was responsible for the slump in GDP growth, not agriculture or services. At this juncture the budget deficit of the government also overshot the target of 4.6 per cent of GDP and was much higher at 5.9 per cent. Government debt was estimated at 67.6 per cent of GDP, compared to 22 per cent for China. Once again the Indian economy was considerably underperforming relative to its potential. In its July 2012 update of the *World Economic Outlook* the IMF lowered India's growth forecast by 0.7 per cent for 2012, to 6.1 per cent, the steepest cut for any nation. Projections for 2013 were also reduced to 6.5 per cent (IMF, 2012b). In early 2013 IMF further reduced GDP growth rate for 2013 to 5.9 percent (IMF, 2013). It is not inappropriate to regard this as yet another shift in India's growth trajectory, this time downwards.

The other accompanying syndromes were rapid drying up of investment activity both in public and private sectors and by domestic and foreign companies. This process began in fiscal year 2010.[3] Investment was one of the main drivers of Indian growth before the global financial crisis. However since 2010 it lost momentum. Corporate investment (or fixed capital formation) growth was 14 per cent before the crisis. It declined to 10 per cent in 2010 and further declined and went into the negative quadrant in 2011. High frequency data of the International Monetary Fund (IMF) indicated further decline in investment in 2012 (IMF, 2012c; Tokuoka, 2012). The causal factors behind contraction in investment were high inflation, tight monetary policy and an adverse macroeconomic environment. Also, exports began falling and consumer demand and spending weakened. Furthermore, the chronic current account deficit persisted. It widened to $53.7 billion, or 4 per cent of GDP, at the end of 2011. At the end of 2010 it was $39.6 billion, or 3.3 per cent of GDP. At the end of the first quarter of 2012 the current account deficit deteriorated further to 4.5 per cent of GDP.

Usually surplus in services trade and remittances are supportive of the current account. However, during this phase lower exports and higher imports resulted in higher current account deficit. India's high reliance on imported oil was a large drain on forex earnings. Decline in the inflows of portfolio capital had caused an overall decline in external capital inflows in comparison to the previous year. Therefore forex reserves had to be drawn down. The increasing current account deficit resulted in downward pressure on the currency and worsened the macroeconomic environment. The REER depreciated by 9 per cent in 2011, reflecting the nominal

3 See Government of India, 2012: Chapter 1.

depreciation of the rupee by 13 per cent. In 2011, the rupee depreciated the most among the Asian currencies as well as the EMEs. In early May 2012 it was 57.32 to the dollar, a record low.

In the second quarter of 2012, global credit rating agencies like Fitch and Standard and Poor's (S&P) downgraded India's sovereign credit rating from 'stable' to 'negative'. The factors they cited included a worsening twin-deficit, the large debt load of the government, policy inertia and political indecision and an impasse in much-needed reforms. Of these the two ratings agencies were particularly concerned about the worsening twin-deficit and a complete freeze in reform program. There has been an imperious need for eliminating the large subsidies particularly on fuel and fertilizers, introducing a nationwide goods and services tax (GST) and easing restrictions on foreign investment in retail, aviation, banking and insurance. India has not had its sovereign debt rating downgraded since 2001. This downgrade will adversely impact the ability of Indian banks to borrow in the international capital markets and make it more expensive. The ratings agencies put India on a credit-watch. The government was also warned that there was a one-in-three possibility of a downgrade in India's debt rating from the lowest possible 'investment grade' rating to 'junk grade'.

4. Summary and Conclusions

India is an important economy, the third largest in Asia and one of the two emerging Asian giants. The objective of this paper is to examine the rises and falls in the Indian economic performance in the backdrop of its belatedly launched economic reform and liberalization program as well as changing macroeconomic policy framework. Indian economy has had a long history of underperformance. After independence in 1947, Indian policy makers strongly believed in Prebisch-Singer hypothesis and adopted an inward-oriented growth model. Policy makers belatedly learned economic lessons from a prolonged period of low growth and economic failure. Indian economy is that in the early 1980s moderate and partial macroeconomic reform measures were taken and the policy framework began to change in diminutive stages, but the GDP growth took off. Preliminary or partial trade reforms were undertaken in the mid-1980s. Consequently economic performance began to improve. A clear two-economy trend can be seen in India's economic growth performance. The two periods are the pre- and post-1980s. In the latter period growth was broad-based and all the three sectors of the economy performed relatively better. Indian economy also became less volatile during the latter period.

A severe economic and balance of payments crisis struck in 1991, which called for a more methodical and comprehensive set of market-oriented reforms than those of the early and mid-1980s. A comprehensive package of thoughtful macroeconomic reforms and liberalization was adopted in 1991, a first for the Indian economy. Although its implementation was tardy and slipshod, there was a discernible impact on economic growth. Economic performance during the 2000s was noteworthy. The GDP growth picked up in 2003. During the 2000s India established itself as the second fastest growing EME after China. A high growth period followed and the economy posted 9+ percent GDP growth for three consecutive years. At this juncture, India seemed ready to move up to a new China-like growth trajectory. However doubts were raised about the sustainability of 9+ percent GDP growth rate. The Great Recession did not affect the Indian economy very much, although second round effect did impact the real economy adversely.

Implementation of reform and liberalization measures was always deficient, inadequate, inefficient and tardy. However, even the incomplete liberalization and poorly implemented reforms and deregulation managed to show notable beneficial results in the erstwhile over-regulated Indian economy. They had a welfare enhancing impact over the economy and GDP growth rate. Indian economy had not completed its market-oriented reforms by 2010. Indian GDP had grown well before and after the global financial crisis (2007–09). After performing well during a challenging period for the global economy, the Indian economy faced onerous domestic political and economic predicaments. Marked GDP deceleration began in 2011 and the angle of India’s economic trajectory dropped. Situation worsened and gloom deepened in 2012. Investment dried up in both public and private sectors. The causal factors behind contraction in investment were high inflation, tight monetary policy and an adverse macroeconomic environment. Global credit rating agencies downgraded India’s sovereign credit rating from ‘stable’ to ‘negative’. The government was warned by them that there was a one-in-three possibility of a downgrade in India’s debt rating from the lowest possible ‘investment grade’ rating to ‘junk grade’. The IMF slashed India’s 2013 GDP growth projections. Indian economy returned from stellar growth to underperformance.

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