

India's Uneven Road to Economic Recovery

Haochen Zhang *

Beijing Haidian International Shiyuan School, Beijing, China

* Corresponding Author Email: zhczhc0708@163.com

Abstract. Since the 1980s, India has pursued a strategic policy of going east, which was upgraded to going east in the 2014 Action policy. Through these strategies, India's economy and overall national strength have increased through the progress of time and changes in world conditions. And in this, there are also a lot of difficulties and obstacles. Since pioneering economic reforms in the 1990s, India has come a long way from being a poor former British colony to a giant among emerging economies. For now, Modi's government is firmly in power and the economy is still growing at a decent rate despite the impact of inflation. So, the Modi government is expected to seize the opportunity to make a big push for its vision. However, the challenges should not be ignored. The risks will arise as it changes the shape of India's economy and its industrial structure in many ways. With the change of policy, India's attitude and relations with other countries, especially those around India, have also changed significantly. At the same time, the differences between the traditional Indian regime and the current economic system can also cause problems when it comes to policy evaluation since Indian laws and policies have inherited the British system. These British Rules also make it difficult for India to implement the new policy. This paper studies the policy development background of India in the past 40 years, analyzes India's policies in different periods to judge and put forward opinions and then puts forward possible suggestions.

Keywords: India; Modi government; Economy; Policy evaluation.

1. Introduction

Since the liberalization of India's economy in 1990, successive governments have tried to promote the country's economic development through economic reforms. And since the Modi government came to power in 2014, the goal of India's national economic development also revolves around the core theme of "economic liberalization". India's economic growth rate surpassed China's for the first time in the second quarter of 2015, according to parameters from the Indian Bureau of Statistics [1]. During its rule, the Modi government launched a series of policies that tried to solve the limited economic development in India, since the general economic environment in India has made the dividends of the new policies slowly disappear. Prime Minister Narendra Modi announced India's "LookEastPolicy" at the 12th ASEAN-India Summit in Myanmar on 12 November 2014. LEP will be formally transformed into an "ActEast" policy (AEP)2.

India is the second largest developing country in the world, and its international status and policy developments are also of global interest. India is also the sixth largest economy in the world and has the highest growth in the field of computer software, so India's economic policy changes have implications for many developing countries.

Against the backdrop of the global economic recession, India started the second round of economic reforms in 2014, and this paper will analyze in detail the logic behind the second round of reforms. Firstly, a brief overview of the background of the Modi government's economic reforms is given, followed by an analysis of the logical reasons behind the second reform policies introduced by the Modi government, and finally, the new reform policies are evaluated and recommendations are made [3].

2. Change Bring By the Reform In India

2.1 The legacy of the first round of economic reform

India underwent its first round of policy reforms in the 1980s and 1990s, with a policy of economic liberalization of the then market. The foreign payments crisis of 1990-1991 pushed India's economy to the brink of collapse.[1] At one point, its foreign exchange reserves fell to \$1 billion, less than a week's worth of imports, and it had to airlift gold to the Swiss Federal Bank to borrow as collateral. [4] The reforms allowed India's economic development to break through the limitations of previous development, and India's internal environment was created as a business environment with relaxed conditions and less government interference in the market economy. Strengthen economic and trade cooperation with ASEAN countries. Economic and trade cooperation was the focus of Indian policy during this period. According to rough statistics, India-ASEAN trade increased from \$2.9 billion in 1993 to \$10 billion in 2001, accounting for about 12% of India's total foreign trade. Before 1991, ASEAN investment in India was minimal.

It was almost negligible, but in the 11 years to 2002, its cumulative direct investment in India reached \$4 billion, accounting for 6. 1%. [4]The industry development was more inclined to the development of the computer industry, and the general environment was at the time when the global Internet was taking shape, and India's vigorous development of the computer industry made the overall economy improve. India's external economic development was amid a significant reduction in tariffs, a low threshold for foreign investment in India, and an expanding global economic environment. The first round of reform policies made India's economy very prosperous in the early stages. Singapore, Malaysia, Indonesia, and Thailand are the four largest trading partners. Taking 2000 as an example, the four countries accounted for as much as 94% of the trade volume between ASEAN and India, which were 40%, 25%, 17%, and 12% respectively [5].

But the boom after the first round of economic reforms lasted only for a while, and the reform dividend all but disappeared in the 2110s.In 2011, India's GDP growth rate dropped from a peak of 8.5% to 5.2%, a figure lower than the GDP growth rate at the beginning of the 20th century, and a bold conclusion can be drawn here that the Indian economy has regressed for a decade. In addition to the GDP growth rate reflecting the first round of economic policies not applicable to the present Indian development, in terms of livelihood issues, the poor development of India's economic environment has left a large number of people unemployed and many even homeless [1]. Social security problems are more threatening to ordinary people, and many people are no longer optimistic about India's future development, and many conflicts between people gathering and the government have broken out. In the process of the first round of policy implementation, there was a huge economic crisis in India, inflation, and government deficit at the same time, a series of economic warning phenomena makes economic reform imminent. At the same time, the Indian government at this time's official corruption, collusion between business and government, and the Indian state fiscal spending are no way to save the precarious changes in the Indian economy.

2.2 Domestic and international environment dramatically changed

The people of India at this time had a high call for economic policy reform, and the first round of economic reform followed the trend.

However, in India's current domestic environment, the disappearance of the dividends of the first round of reforms made the Indian people less confident in the reforms (despite their poor knowledge of economics) and the internal environment was not as supportive of another economic reform as it had been in the past. At the same time, economic changes have had an impact on the growth of the labor force population, and although the increase in India's population has shown more in absolute terms, the newborn population is also slowly decreasing compared to the rate of population growth in the previous decade.

The international situation has also undergone radical changes. The eastward policy began when the international system experienced major shocks at the end of the Cold War. At that time, India

hoped to shake off the self-imposed boundaries of the Cold War through policy adjustments and seek new goals in its efforts to re-establish an independent foreign policy framework.[Gehongliang] In the early 1990s, the end of the Cold War and the collapse of the Soviet Union made India's version of economic imitation disappear, and the planned economic system of the Soviet Union could not be imitated, so India had to learn from the Western model of free economic development, which was the direct cause of the first round of economic reforms. On the other hand, the establishment of the Washington Consensus in the United States made the trend of free trade blow to India and lacking the Soviet template, India seized the opportunity for reform and development. During the first economic reforms, India reduced tariffs and granted preferential policies in several cities to attract foreign direct investment to India, and the inflow of foreign capital into India was enormous during this period. At the same time, India's largest competitor, China, was also vigorously reforming and opening up, and the sense of competition in the international environment made India's economic development very rapid.

However, after 2010, India's economic development fell into the "medium country development trap". Unlike the economic crisis of the 1990s, the Indian economy has been in a phase of rapid development over the past decade, defining the country's development strategy as the development of a large country, and considering more an internationally renowned economy [5]. India is more Considering how to develop to improve the international discourse, which has long moved far forward compared to the needs of India's economic development in the last century. At the same time, the winds of global economic development have changed, global trade protectionism has begun to rise, and the pace of economic globalization has slowed. India's economic development can only depend on having a complete economic base at home, but India's development over the past decade cannot support the continued improvement of the Indian economy for a super large population base.

2.3 India's industrial structure has changed significantly

The industrial structure of India has become a classical object of analysis in the history of the economy and industry because it does not conform to the "Paddy-Clark" theorem. The "Paddy-Clark theorem" states that as the economy grows and the per capita national income rises, the relative share of national income and labor in the primary sector decreases, the relative share of national income and labor in the secondary sector rises, and as the economy grows further, the relative share of national income and labor in the tertiary sector also begins to rise.

In the first economic reform, the then-Indian government believed that the development of the computer industry could have a great impact on future economic development. The initial development of the computer industry in the 1990s made sense for any country in the world to increase research into new industries, and India's development in the computer industry made it one of the few countries in the developing world with a high-end industrial system.

However, India's industrial development pattern skipped the second stage directly after the first stage. The tertiary sector emerged first, and after 1980, its GDP share began to exceed that of the primary sector. Since 1999, India's tertiary sector has been operating at a high level of over 50%. The logistics, retail, hospitality, and public service sectors have become the traction of the tertiary sector in India [6].

Although India is known for its IT and aerospace industries, its software development industry has entered a long-term bottleneck after its golden period in the 1990s. In 2012, India's financial services sector accounted for 29.43% of the tertiary sector, while the IT sector accounted for 11.64% [1].

So the subsequent economic development process found that too much development of the computer industry makes India lack manufacturing development, especially the specificity of India's geographical conditions, the country does not have any fuel resources, the whole country in the conditions of water and land resources rich survival. Therefore, the advantages of the development of the computer industry have also become a disadvantage, the service industry can not carry a large labor force, and the development of the Indian industry has fallen into a deadlock.

3. Policy reform content and evaluation.

3.1 The logic of the second round of economic reforms

Fundamentally, the Modi government's reform policy reinforces both political and market logic. On the one hand, it uses administrative means to break up small independent kingdoms and bring the power occupied by small bureaucratic groups to the central government. On the other hand, it devolves part of the regulatory functions to the market, so that the market can play a more efficient regulatory role, thus leveraging the potential resource endowment. If people put the phrase "Make in India", abolition of banknotes, and GST reform together, we can see that Modi's reforms are aimed at India's national economic capacity [2]. If implemented smoothly, this will give the Indian government greater economic governance capacity, allowing it to deal comfortably with infrastructure, land acquisition compensation, labor policies, and other shackles that limit India's industrial takeoff.

India's chaotic market system and model of government can lead to ineffective policies. Since India has neither the profit orientation of the market economy of the West nor the administrative command orientation of the socialist countries of the East, and thus a worst-case scenario emerges: due to the constraints of a planned economy, India's spontaneous economic activity is severely constrained, and bottom-up market regulation is almost dysfunctional [4]. At the same time, since India also does not have a political system above the bureaucracy, this leads to a situation where the bureaucracy, which occupies a large number of resources, works separately. The top-down administrative orders also almost failed because India did not have a political system above the bureaucracy.

In addition, the lack of complete land reform, social transformation, and penetration of grassroots power has greatly limited India's ability to mobilize resources compared to China and the Soviet Union. For example, although India, like China, implemented the policy of industrial-agricultural scissors in its early five-year plans, it was unable to focus its resources on industrialization as China did. The problem of insufficient resource mobilization was not obvious in the early stages of industrialization, but as the scale of industry expanded, India experienced a lack of backward momentum [7].

The second round of economic reforms essentially replaced the National Planning Commission, which was mainly responsible for approving allocations, with the Transformation Commission, which was mainly a think-tank advisory body, and replaced the five-year plans with recommended plans. Although Modi claims to be making planning more "bottom-up," his reforms in effect transfer the authority of the Planning Commission bureaucrats to departments under his control, such as the Finance Ministry and the Treasury Board [2]. As a result, Modi was able to allocate financial resources more flexibly among states and to set central capital expenditures more freely, thereby increasing central control. Following the reform of the Planning Commission, the newly established Transformation Commission leaped from a rigid and closed bureaucratic independent kingdom.

3.2 Policy Evaluation

First, the serious imbalance between the formal and informal sectors is a fundamental problem. For institutional reasons such as labor, land, and administrative inefficiencies, India's formal employment sector has been sluggish for a long time, leaving the labor force heavily employed in the informal sector, which is disorganized, small-scale, and difficult to regulate. Faced with inefficient, rigid financial institutions that lack network coverage, the informal sector naturally chooses cash transactions, which are flexible in payment methods and can avoid regulation and taxation. Therefore, if there is no fundamental reversal in India's economic structure, cash transactions, which Modi has temporarily cracked down on, will still slowly flourish, except that new banknotes will replace the old ones [8].

Second, the lack of financial infrastructure is a fundamental problem. Lack of infrastructure has always been a challenge for India, and financial infrastructure is no exception. In 2014, more than 40%

of Indians still did not have a bank account due to a severe lack of financial infrastructures such as bank branches, ATMs, and card swipe scenarios in urban and rural areas. These people who do not have access to financial facilities are at the same time often the extremely poor groups who lack electricity and water. Therefore, if we don't start from the bottom and meet their more fundamental needs, the hard push to go cash will become a source of water without a foundation, which is not sustainable at all [3].

Third, India's laws and policies that go against the laws of society and the economy are systemic problems. Although India's economic base is weak, in the superstructure is largely inherited from the system of the British suzerain state. The result of this serious disconnect between the superstructure and the economic base is the emergence of a large number of laws and policies that are incompatible with the conditions of India's social and economic development. While this hindered the healthy development of the Indian economy, it also gave rise to a large-scale shadow and the underground economy. For example, the Industrial Disputes Act requires employers larger than 100 people to obtain government permission to lay off or close; the Factories Act caps overtime at 50 hours in a quarter. Most of these laws originated in Britain, where the industrial economy is already more developed, and are the result of more than 100 years of repeated struggle between the British working class and capitalists, but they create serious problems once they are transplanted to India: because Indian businesses are unable to keep running if the laws are strictly followed, illegal employment of zero-hour workers and the use of cash wages to circumvent regulation become the norm [9]. In addition, India, like many developed countries, imposes high taxes on real estate transactions, but cannot afford to support the vast regulatory systems of developed countries, with the result that people complete real estate transactions with boxes of paper money [10]. If these laws and policies are not corrected, cash transactions are bound to return after a short period of receding.

In addition, India's bureaucracy, state capacity, and government enforcement will not be able to support Modi's long-term plans. Comparisons between different countries, especially strong countries in the world have been made. The Chinese government's policy is based on the principle of "macro policies should be stable, micro policies should be active, and social policies should support the bottom", but it seems that Modi is simply doing the opposite [3]. Although the policy of cashlessness is tight and strict on the micro level, it is risky on the macro level and will create a lot of variables and uncertainties, and there is a lack of contingency plans and social policies to protect people's livelihoods, which seriously interferes with their daily lives. In India, it becomes a macro policy to risk, because not risky enough to pry powerful interest groups; a micro policy to die, because not dead enough to circumvent the customary ills and corruption; social policy nothing can manage, because without the corresponding human and material resources pockets is nonsense. If the Indian government's execution and resource mobilization capacity cannot be improved accordingly, this combination of Modi's policies will be difficult to maintain because the established administrative, tax, financial and banking sectors are simply unable to cope with the steep increase in workload.

On April 17, 2020, the Indian government suddenly updated its FDI (foreign direct investment) policy, changing the "automatic approval route" to the "government approval route" for investments from countries bordering India ". This policy is believed to be aimed at China [11].

For India, many industries need to import raw materials or key components. For example, components for electronic devices such as smartphones and computers. Currently, the added value of the Indian electronics industry is limited to assembly. According to the Confederation of Indian Industry, about 88% of the components used in the cell phone industry are imported from abroad, with China being the largest importer. In addition, India is also strongly dependent on imports for solar power components, medical equipment, APIs, dyes, etc [9].

Some of these key products, such as semiconductors, displays, and other capital-intensive electrical equipment, cannot be manufactured in the short term. If policies and resources are consistently tilted toward local companies over the long term, Indian companies will be able to start producing some of the less complex components [12]. To integrate into global supply chains, the

Indian industry also faces problems with input costs such as electricity and logistics costs, and the transformation of the industrial structure will be difficult in the future.

4. Suggestions

4.1 Accelerate industrial restructuring

India's economic growth prospects largely depend on the transformation of India's development model, which is traditionally driven by domestic demand growth, a model that relies heavily on energy and commodity imports.[7] During the global economic downturn, India's economic growth is mainly due to the significant downward adjustment of energy and commodity prices, which has reduced India's inflation and deficit rate, thus enhancing the people's spending power and the space for the Modi government's economic stimulus policies. In the short term, the global economic slowdown seems to have brought benefits to the Indian economy. However, in the long run, if energy and commodity prices recover or rise, the favorable factors for India's economic growth will be greatly cut. Therefore strong development of energy-based industries is necessary for the long run[13].

4.2 Strengthen international cooperation

The Modi government also needs to seek greater linkages and cooperation with the global economy. In the traditional Indian growth model, the driving force comes mainly from domestic demand and the service sector. After years of development, the power source of this growth model began to gradually deplete, India not only needs to improve the software and hardware environment to attract foreign investment and develop manufacturing but also needs to continuously expand the development of foreign trade space and increase total foreign trade, especially total merchandise trade. This requires India to accelerate the pace of opening up to the outside world and actively participate in bilateral, peripheral, and global international economic cooperation.

5. Conclusion

This paper studies India's economic changes and reforms from the 1980s to the modern era, combing the eastward movement, economic reforms, and the Modi government's policies. India's economy fell into recession during the development of the second economic reform because of the peculiarities of its conditions. On the one hand, it was caused by the impact of the New Coronary Pneumonia epidemic, and as a country with a large population, India was greatly affected by the New Coronary Pneumonia epidemic. The Modi government must move faster to integrate into the regional economic integration in East Asia and the Asia-Pacific region while steadily advancing domestic economic reforms. [Gehongliang] Moreover, in the initial stage, the Indian government did not react strongly to the epidemic and did not effectively contain the spread of the virus, and the domestic socio-economy came to a standstill. On the other hand, it is mainly attributed to the problems in the structure and growth model of the Indian economy. The pillar of India's economic development is the service industry, but its service industry is located downstream of the international industrial chain and lacks technological advantages. At the same time, India's manufacturing base is weak and economic growth is dependent on the demographic dividend, which has diminishing marginal benefits. As the demographic structure changes, the demographic dividend declines and economic growth is not sufficiently dynamic. The second economic reform can make the Indian economy improve in the short term, but in the long term, everything is unknown. Judging by current trends, Modi and the BJP are favored to win the 2024 election. A third term for President Modi would not only be a blow to India's family political tradition but would further define his regime.

References

- [1] Zhang Quan." India's Dream of a Great Power: Opportunities and Challenges ", Jiefang Daily, 2022-08-16,006, International.
- [2] Wang Tongjie. Study on the "East Action" Policy of Modi Government in India.2022. Xinjiang Normal University,MA Thesis.
- [3] Wang Lina." India Modi Government's Strategic Assessment of Indo-Pacific." Contemporary Asia Pacific.03(2018):90-114+159.Fangfang. Research on power load forecasting based on Improved BP neural network. Harbin Institute of Technology, 2011.
- [4] Ning Shengnan." Modi's Economic Reform." Modern International Relations.10(2021):55-62. Ma Kunlong. Short-term distributed load forecasting method based on big data. Changsha: Hunan University, 2014.
- [5] Shi D H, Huang Z L. "Analysis of Internal Constraints of Modi Government's economic reform." Indian Ocean Economic Studies.06(2020):121-138+157-158. doi: 10.16717/j.cnki.53-1227/f.2020.06.007. Fangfang.Research on power load forecasting based on Improved BP neural network. Harbin Institute of Technology, 2011.
- [6] Yang Yishuang. "the government of India the political logic of economic policy." south Asian studies, 3 (2021): 128-153 + 159-160 DOI: 10.16608 / j.carol Carroll nki NJ. 2021.03.07.
- [7] Li Li." India's Eastward Strategy and Indo-Pacific Diplomacy." Modern International Relations.01(2018):37-45. Fangfang. Research on power load forecasting based on Improved BP neural network. Harbin Institute of Technology, 2011.
- [8] GeHongLiang. "Mr Modi government policy of" east to action "theory." south Asian studies. 01 (2015) : 62-79 + 156-157 doi: 10.16608 / j.carol carroll nki nyj. 2015.01.006.
- [9] Zhang Runyi. Analysis on the Motivation of the Modi Government's China Policy Evolution (2014-2021).2022. China Foreign Affairs University,MA Thesis.
- [10] Zhao GanchENG." THE DEVELOPMENT AND SIGNIFICANCE OF India'S EASTWARD POLICY." CONTEMPORARY Asia Pacific.08(2007):10-16+64.
- [11] Hou SONGLING." India'S EASTWARD POLICY AND THE DEVELOPMENT OF INDIA-ASEAN RELATIONS." CONTEMPORARY Asia Pacific.05(2006):37-42.
- [12] YE DELI." TRADE DEVELOPMENT POTENTIAL AND TRADE POLICY REVISION OF China AND India." INTERNATIONAL ECONOMIC AND TRADE EXPLORATION.05(2005):32-35.
- [13] Wu Zhaoli. "India's asia-pacific strategy development, objectives and implementation path." South Asia research. 4 (2015): 98-121 + 156-157 doi: 10.16608 / j.carol carroll nki nyj. 2015.04.07.