CHAPTER III
THE ECONOMIC CONDITION IN INDIA

In this chapter, the author will discuss more detail the economic condition in India before reforms and after reforms. This condition is quite different from a different period of governments. There are many differences at that time and the progress that exists until India occupies the current conditions.

Tabel 3. 1Economic Policy in India

Economic Policy in India	
Pre-Reform era (1951-June 1991)	Reforms era (1991 onwards)
Import-substitution	Export-led Industrialization
Inward-looking trade policy (closed economy)	Outward-looking trade policy (open economy, globalization), competition and knowledge-driven society
Restrictions of FDI	Removal of restrictions of FDI for the entry of MNCs

Source: (Dutta, 2015)

There are many differences among the pre-reforms era and reforms era where, the condition of economic in India is unstable. Through this thesis, the author would like to explain some points from the differences of conditions in India at that time. India known as a parliamentary system country where the prime minister takes control of decision in government including the economic field.

A. The economic condition in India before reforms

India is a country in Asia which has the second largest population in the world which is also the second most populous country. Indian population in 2012 was recorded at 1,220,200,000 (1.22 billion) people. Thus, it shows that India represents almost 17.31% of the world's population, which means that one in six people on this planet lives in India (Vynom, 2012).Based on the population in the country of more than one billion people, India also known as the seventh largest country based on the size of a geographical area with an area of 3.28 million km^2. India's population has grown rapidly since the mid of 1980s.

India is one of developing countries in the world which has high population and poverty levels since its independence. In 1947, after India gained independence from Great Britain, India still experienced considerable problems, such as widespread poverty and crises in agriculture and industry. The economic conditions in India were running very slow at that time. This is because India has chosen an economic system that tends to be closed and difficult to penetrate the market so that there is no interference with other countries, including in foreign investment matters. The closed economy system is an economy that does not involve with the international trade and services also capital from other countries. It means that the country is trying to be independent and reach its own needs. Same as with India at that time, the Indian government tried to meet needs of the country independently without interference from other countries. It was implemented an economic system that is not pro-market where the government has interference and strong control in every ongoing economic activity. Moreover, for reaching domestic needs, India also relies on import substitution, which means the replacement of imported goods with manufactured goods domestically or with makeshift goods.

The closed economic system is a legacy of the teachings of Mahatma Gandhi known as swadeshi (the movement of love for products in the country). The system applies with the possibility of trauma that is still present in Indian citizens when they were colonized. Therefore, they did not want any interference from other parties, especially countries that had colonized India and tried to build their own country. In this condition, almost 80% of the Indian population lives in rural areas where one-third of the population lives below the poverty line (Prasodjo, 2013). Some factors poverty in India at the beginning of independence was the growth of an unbalanced human population with limited natural resources. Besides, the level of illiteracy in India is due to the lack of education as well. The lack of infrastructure to reach Indian communities in various rural areas is also one of the factors that make the distribution of goods or services in the economy and decent education difficult to reach. Thus, the economy, infrastructure, and education are quite difficult for Indians to earn, so at that time there was a high level of poverty (Suqma, 2010).

In the same year as India's independence, Jawaharlal Nehru became the first prime minister since independence and ended in 1964. In Nehru’s administration he tried and carried out various types of actions specified in the economic field, such as planning the economy and economic control by creating an Indian planning commission. He is also made a five-year plan in 1951. Nehru carried out development in several sectors such as agriculture and industry during his administration. In fact, there are some problems that still occurred such as hunger, unemployment, and poverty in India. Nehru is the supporter of socialism that wants the equality which can be accepted by every community with the aim of making India a prosperous country because they get their right and have the equal life.

In Nehru's administration, he made the first Five-Year Plan which was launched in 1951 which mainly focused on the development of the primary sector such as, irrigation and energy, agriculture and community development, transportation and communication, industry, social services, and other service sectors. The most important thing in the first five years is the active role of the state that spreads across all economy sectors, especially in the primary sector. The first prime minister made this plan after Indian independence immediately. India was facing a fundamental and important problem, such as lack of capital and low capacity to save (Nayar, 2001). This plan is still running until now and always updated every five years with plans that are not much different according to the initial goals of this plan to make India more advanced especially in the economic field. This five-year plan which was officially carried out in 1951 had quite clear objectives. These objectives are:

1. Growth

This is the first and most basic goal of economic planners in India. Economic growth focuses on increasing the country's Gross Domestic Product (GDP). The role of GDP is the most important every country can measure its economic growth. The higher the GDP, the more the general public can benefit from the country's economic policies. Over the years, India's focus in the agricultural sector has been that the government in India has seen growth occurring every five years.

2. Modernization

In this point refers to technological progress in the economy. The existence of innovations and discoveries can make technological progress. It can improve the Indian economy by increasing output. As we know, this modernization arises every year with new developments or technologies that shape modern Indian society.

3. Independence

Post-independence India tried not to depend on other countries, so they tried to build their own country including import and export relations. This basically means that anything India can produce domestically as much as possible does not import. Especially food products and agricultural products as much as possible they do not import. This is to ensure that India not only becomes independent but also to protect its sovereignty.

4. Justice

Justice focuses on ensuring that all citizens in our country meet their basic needs such as food, clothing, etc. It also looks to reduce the wealth gap and inequality in our society. India at that time used a socialist and capitalist system so that the prime minister wanted equality between Indian citizens (Toppr, 2018).

Unfortunately the plan is not retain until five years because every year India experiences some changes. The 5-year plans that India continues to run until the years before reforming even after reforms still exist. On the other hand, Gandhi and Nehru also had dreams to make India as an independent country. Nehru did not want India to be as old as it was when it was colonized. He made it difficult for foreign companies to invest in India during the period. Likewise, it is difficult for Indian companies to export goods, and it takes high cost for India to import goods from other countries.

B. Economic condition of India during reforms

The economic crisis that occurred in 1991 made India aware that their economy at that time was very critical India no longer has adequate foreign exchange. The condition of India was bankrupt, at that time one hundred and ten million people fell into poverty in just the previous two years. Until mid-1991 there were around 330 million people or two out of every five people in India living below the poverty line, government finances collapsed as the result, India faced a severe crisis at that time. Then, the next few months right on July 1, 1991, historic reforms in India began. India's economic growth continued to increase at that time, during the government of Prime Minister Pamulaparthi Venkata Narasimha Rao where there were very significant economic changes. In 1991 India tried to open its economy to the global economy and formulate a New Economic Policy (NEP) with the aim of advancing economic growth in India (Saragih, 2006). This is also due to the balance of payments difficulties that year which forced India to carry out reforms both in the economic and non-economic fields.

In New Economic Policy (NEP) the Indian government has changed their economic system into economic liberalization which means free. Therefore, they reform the economic policies in their countries. It has a purpose of making the economy more market-oriented and service-oriented, and expanding the role of private and foreign investment. It means the Indian government changes their economic system which used to be closed economy and tried to fulfill its own needs without interference from other countries. The economic changes from closed economy to an open economy, the Indian government has opened their global markets and other countries have participated in the economy in India. Hence there are cooperation imports and exports by the Indian government and other countries. There are many goals of this change in economic policy in India. The Indian government wants the economy in India to be more global or can participate in cooperation in the international world, to improve their economy. Besides, the Indian government did not want to experience the same incident as in early 1991 where the government did not have a foreign exchange in the form of capital so then, they could not advance their country.

Economic improvement in this policy has been changed through cooperation with other countries. The influx of foreign capital, one of them is through FDI (Foreign Direct Investment). The progress of liberal policies adopted in this regard has led to an increase in the inflow of foreign investment in India (BBC, 1998). Then, the change of liberalization has three essential points can be made a positive impact on changes in economic liberalization in India, namely:

1. Increasing foreign investment

In this economic change, the government of India has made their economy pro-market. Then, Indian government opened their global market so that a large number of foreign investments entering India made India have more capital because of the many funds that went through this foreign investment.

2. Increasing Production

Then with this increase in foreign investment, India can encourage their production in various sectors. This increase the production, there is also an automatic increase in consumers so then India improves their economy too.

3. Technology advances

The entry of foreign investment or foreign companies as a result of cooperation from the Indian global market held with various countries. Making technology in India increasingly sophisticated and advanced. On the other hand, there is also a modernization that comes every year so that India can make its country more advanced in the field of technology where India can compete with developed countries (Kapil, 2014).

In addition does Liberalization exist in the New Economic Policy (NEP) but there is also privatization and globalization. The three points of Liberalization, Privatization, and Globalization (LPG) are the core of this new policy in reformation. Privatization is the process of transferring ownership of the public property to private property. It state-owned enterprises change hands into private or individual property. The lack of efficiency in the public sector, this privatization has occurred. There is a positive impact from the act of privatization as private companies can minimize the cost and become more efficient, as well as increasing competition. Short globalization is the process where people and goods move easily across borders. Globalization can also interpreted as reducing or eliminating government restrictions on the movement of goods, services, capital or others (Gray, 2017). At a time when India had not reformed at that time the economy was not yet free where all forms of activities carried out were always under the supervision of the government. In Globalization, it has a positive impact on India after reforms, namely the expansion of free markets, the development of infrastructure, and a higher standard of living with international cooperation (Kapil, 2014).

On the other hand, there is export-led industrialization or Export-Oriented Industrialization (EOI) to accelerate the process of industrialization of a country by exporting goods. Growth driven by export actions opens up the domestic market to be able to compete with foreign countries with the aim of gaining international market access. Besides, the Indian government may aim to protect new industries so that they grow and can compete with the global markets (Krainara & Kandidat, 2007). This export-led policy, the industries in India are maintaining quality of the products they produce. Economic growth in India especially export-driven for several reasons that export-led economic growth can create more profits, it allows India to balance their finances and pay off the debt that they have. The existence of export-led that increase export growth could trigger greater productivity. Thus will creates more exports that later would be beneficial for India.

After reforms, Indian government allowed MNCs to enter India with the aim of boosting the economy and turning India into a better country. The presence of MNCs in India can help their economy as a result of corporate. MNCs that enter India were from various fields such as food, clothing, and many more.