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## International competitiveness, growth and socio-economic development in India

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### Abstract

The use of India as a subject for this case study is a consequence of its positive evolution caused by the reforms adopted 21 years ago. New emerging state, India aims to surpass China in terms of economic growth, standing out as the next world player. Important lessons can be learned from the economic evolution of India, lessons that can be used as examples in literature, without becoming mandatory benchmarks for other economies. Using the example of India, the analyze of its economy can draw several general actions that can be adopted by any emerging country, taking into account that the "competitiveness" concept applies differently, according to each state stage of development.

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### 1. Introduction

*"India is the cradle of the human race, the birthplace of human speech, the mother of history, the grandmother of legend, and the great grandmother of tradition. Our most valuable and most astrictive materials in the history of man are treasured up in India only!"*

*Mark Twain*

With different national characteristics, with different governance systems, but with the same growth objectives,

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BRICS countries have arisen on the world stage. Brazil, Russia, India, China and South Africa are increasing their influence by taking advantage of the twists in the economies of the former three great powers, the U.S., EU and Japan (Gregoriou, 2009). Of the BRICS group, India presents important features and elements that support its competitiveness as an economy that interests. From culture and history, to technology and outsourcing, India has evolved regardless of the global economic situation. By registering annual growth rates of 7% after 1991 before the crisis, and with projections of 9% for the coming years, India aims at exceeding China. Even if its economic growth is constrained by inadequate infrastructure, a cumbersome bureaucracy, corruption, labor market rigidity, strict controls and regulation of FDI and fiscal deficits, India continues to advance, based on the economic reforms initiated in 1991. A case study on an emerging country like India will highlight the importance of certain pillars that support international competitiveness, but also its role in growth and socio-economic development of the country.

## **2. The economic leap - major reforms of the '90s**

The reform process in India has been launched to accelerate the pace of economic growth and to eradicate poverty. Although economic liberalization in India can be dated back to the 1970s, the economic reforms started in July 1991. The balance of payments crisis at that time paved the way for a program of the International Monetary Fund (IMF), program that led to the adoption of a major reform package. Although reserves were quickly recovered and the efficient temporary influence of the IMF and the World Bank ended, the reforms continued (Panagariya, 2001).

Only in 1991 the government reported a systemic shift towards a more open economy, with greater reliance on market forces, a greater role of the private sector, including foreign investment, and a restructuring of the role of government.

After independence from Britain in 1947, India launched its own development strategy. In response to what was considered a colonial exploitation, the government has developed a very autarchic, inward-oriented strategy. The major elements of this strategy were import substitution, a large public sector with central planning, strong intervention in the labor and capital markets and over-regulation of business, including reservation of 1,500 elements for the small industry.

Economic growth in India has started at the beginning of the 1980s, while economic reforms did not take place before 1991. Instead, the initial increase has been preceded by significant public investment in infrastructure in the 1970s and early 1980s, and the gradual transition to a more open political business environment (Ahmed et al, 2009).

India's economy grew very slowly between 1950 and 1980 with what became known as the "Hindu rate of growth" of 2-3% per year, in contrast to growth rates of 5-10% for many other Asian economies. However, one of the great successes of this period was the green revolution. Efforts of the Indian agricultural research institutions in collaboration with other public research institutions worldwide have led to a significant improvement of wheat varieties with higher productivity. Dissemination and use of new improved varieties have transformed India from an importer of grain with a periodic famine into a net agricultural exporter (The Economist, 2011).

In the 1980s pro-business reforms were introduced, initiated by Indira Gandhi, continued by Rajiv Gandhi. These included easing restrictions on capacity expansion for large companies, eliminating many price controls and profit tax reduction. These were followed in 1991 by a significant liberalization of the economy. These reforms included the liberalization of imports, reducing licenses for investment, privatization of state enterprises, allowing automatic approval of FDI in certain sectors and reducing the number of products reserved for small industry. Overall, the economic reforms initiated in 1991 have included measures of scale which changed the functioning of the economy (Sujatha, 2006). These changes included the following:

- The dominance of the public sector in industry
- Discretionary controls on industrial investment and capacity expansion;
- Trade and exchange controls;
- Limited access to foreign investment;
- Public ownership and financial sector regulation.

Reforms have come a long way for the release of the national economy under the control. An important feature of India's reform program consisted of gradualism and evolutionary transition rather than rapid restructuring or "shock therapy".

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