

Exploration of the Process and Impact of the Rao's Government Economic Policy Reform on Indian Modern Industrial Development

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Abstract. Taking a survey of Indian modern and contemporary history, the reforms implemented during Rao's administration played an extremely important role in the development of Indian modernization. From 1980s to 1990s, liberalization, marketization, globalization and Neoliberalism had become the world main trends of economic development. During this period, the evolution of the social systems of the Soviet Union and Eastern European countries, the rapid rise of the four Asian tigers and Chinese achievement in reform and opening up made Indian government realized that under such circumstances, reform is particularly important. This paper discussed what process and impact (pros and cons) included in Rao's reform by using the approach of literature reading. The paper got a significant conclusion that Rao's new policies provided an effective path for Indian development, broke the traditional closed economic model by changing the structure of enterprise ownership and other scientific approaches. Finally, helped India open the door of Neoliberalism. This study provided experience for developing countries to choose policies and formulate targets.

Keywords: Rao; Industrialization; Policy Reform; Economic Development; Nehru model.

1. Introduction

1.1 Research Background and Significance

After the World War II, the status of the secondary industry generally rose in a global range, accounting for more than 30% of the employed population and GDP in most countries. Industry plays an important role in a countries' economy, which is the key and fundamental to promote the high-speed and high-quality development of social economy, and is a powerful tool to improve the national living standards and realize economic modernization.

India has always dreamed of improving its international competitiveness, becoming a hegemon in South Asia and even a world power, and building the nation as the new world factory by developing a complete industrial chain. From a long-term perspective, Indian path of industrialization is tortuous and lengthy, but it has also made great progress. The level of industrial development is the economic foundation of a modern country and India is one of the countries with the fastest economic growth in the world currently. In 2021, Indian GDP growth rate was as high as 8.95%, surpassing many high-growth countries and ranking the fifth of the all [1]. In the meantime, in order to solve the problem of insufficient industrial proportion in the economy (Since 1980, the proportion of Indian manufacturing industry in GDP had always hovered between 16% and 17%, while the proportion of other major Asian economies were as high as 25% to 34%), the Indian government actively promoted the all-round development of the manufacturing industry [2-3]. According to *National Manufacturing Policy (NMP)* announced by the Government of India Ministry of Commerce & Industry in 2011, the nation will enhance the share of manufacturing in GDP to 25% within a decade and create 100 million jobs under the background of insufficient basic conditions, complex management environment and lack of talents, which offered a general objective for achieving industrial revitalization [4]. Since President Modi came to power in 2014, to inspire the huge potential of the markets in India and exploit the advantages of human resources to the full, he put forward the key plan of "made in India" for Indian economic recovery, also represented that India is moving towards becoming an important economic and industrial portion in the world.

India was one of the most backward countries in the world because its history of becoming a colony was plundered a large amount of natural and labor resources and a deep-rooted caste system that is not conducive to the balanced development of society. In the past, India had almost no industrial base of its own while since the independence, after fifty years development, the country had built an advanced industrial chain and undertaken extremely significant production functions in the world. They could not achieve the surge of the secondary industry without continuous exploration and reform in the economic territory made by successive leaders. After the independence, founding Premier Jawaharlal Nehru drew on the experience of Soviet Union socialism in both politics and economics because of the difficult national conditions in the early period, implementing nationalization in ownership and using planned economy in management system, which constructed the preliminary foundation of national industrialization based on alleviating agricultural problems. However with the change of the international economic environment and the reshuffle in the powerful forces, Nehru mode no longer applicable to the trend of Neoliberalism. Narasimha Rao, one of the new generation of Indian Prime Ministers, decided to change the industrial model and carry out the reform of state-owned enterprises. Throughout the entire history of Indian modern development, Rao's reform to the change in the direction of India's economic development is fundamental. He emphasized providing a fair-trading environment for private enterprises, breaking the monopoly position of the public economy, and greatly improving the efficiency of industrial production. So what specific processes did Rao's reform go through and what impact did it have on the subsequent industrial development and social progress?

The significance of this paper lies in: By combining the international economic environment in a specific period and comparing the policy changes before and after, exploring the scientific nature and necessity of policy selected in the Rao's reform process. Understanding the general laws of economic and industrial system reform in developing countries. Provide reform experience for countries that were also affected by the economic model of the Soviet Union and were impacted by the new international pattern.

1.2 Research Topics, Organization and Methods

Since independence, India has changed its economic policies many times and influenced kinds of aspects. Various policies have adapted to various stages of Indian industrialization development at different times. This paper will introduce Indian industrialization road in the period from 1947 to 1996 when Rao left office in chronological order, analyze the characteristics and effects of different policies, compare them and then explore the impact and significance of Rao's reform on India.

Part 2 is the main body of this paper. The first little two titles of the main body are about social development in Nehru period, briefly introducing the Nehru model and the problems it caused, so as to lay a foundation for and contrast with the Rao reform below. Next is about problems in industry before Rao's election (2.1.3), listing the contradictions in society and indicating the problems that Rao needed to solve. Then, this paper explains Rao's reform policy in detail, especially in state-owned enterprises. Eventually, the advantages and disadvantages of policy influence are illustrated.

The main method used in this paper was literature reading. Based on extensive reading, the paper integrates and summarized the information in existing research and finally analyzed the benefit and detrimental impact of the results of the reform.

1.3 Literature Review

At present, the articles in academic journals about Rao's reform and Indian economic development are mainly divided into three categories. The first kind and also the most common academic papers directly described the steps of policy reform and its social influence. In this type of article, the authors mainly described from the perspectives of agriculture, industry, economy, commerce, foreign trade and others. Understanding the comprehensive impacts of new policies on the whole society through deep analysis. This approach is also conducive to reflecting the all-round nature of policies made by Rao.

The second kind of article usually adopted quantitative research methods. To begin with, extensively collected objective information and data from authoritative databases such as the National Bureau of Statistics and the World Bank. Secondary, used the method of data analysis to intuitively view the development of various sectors of society, and then evaluated the effect of reform and put forward reasonable suggestions in the end.

The third one compared Rao's policies with the previous reform process and achievements, trying to find the different effects between Rao's and the reform before, and finally summarized its advantages and disadvantages.

2. Indian Policies Reform and Impact on Industrial Development

2.1 Reform Process and Policies Content

2.1.1 Establishment of economic direction in Nehru Period

The decade after Indian independence was a period when the development of industry was neglected. The partition of India and Pakistan seriously disrupted Indian imbalanced national economy. After the partition, industry was mainly distributed in India, while agriculture and raw materials were mainly distributed in Pakistan. Therefore, in the early days, India mainly relied on imported agricultural products to maintain domestic agricultural demand. Having said that, approach of import not only did not solve the domestic food and clothing problems, but also caused a high financial burden. Therefore, in the first Five-Year Plan of India, Nehru decided to give priority to the development of agriculture and strive to complete the import substitution of agricultural products. At the same time, the India-Pakistan war caused inflation, food panic and industrial retrogression in the nation, meaning that the road to industrialization stagnated.

2.1.2 Problems caused by neglecting industrial development

Even though agriculture had developed to a certain extent, its development speed is always slow due to backward science and technology, weak industrial foundation and low urbanization level. (The urban population accounts for only about 20%) Although more than 80% of the country's population live in rural areas and engage in traditional agricultural production, however, because of the poor production technology, the inefficient agricultural output value only accounts for 40% of GDP [5]. The small-scale peasant economy dominated agriculture and lacked large machines with high production efficiency. Realizing the disadvantages of policy, Nehru put industrial development on the agenda, entrusted state-owned enterprises to control and produce transportation tools (including aircraft, automobiles, tractors, etc), chemicals and fuels, steel, power engineering and other industrial parts that are vital to national interests. What he did promote industrial development in a specific historical period and laid the foundation for further industrialization in the future.

2.1.3 Problems in industry before Rao's election

By the 1990s, the scale of the public economy had grown even larger, not only controlling the commanding heights of the entire national economy, but also monopolizing almost all the heavy industrial bases. The position and proportion of the public economy in the national economy were as follows: "In 1991, there were 244 public enterprises directly controlled by the central government of India, with a total investment of 1020.8 billion rupees and 2.4 million workers. There were also more than 1000 public enterprises invested and operated by the state government, with a total investment of more than 300 billion rupees. The public economy was dominated by large-scale enterprises with large investments and large number of employees. The top 100 private companies in India were much smaller than the top 100 public companies in terms of production size, investment volume and profits [6]." The development level of state-owned enterprises is almost equal to the development quality of Indian economy. However, because Indian public economy could not adapt to the changes of the times, stick to the rigid Nehru model and lacked innovation consciousness, By the 1980s, the development momentum of the public economy was getting worse and worse, and the economic

efficiency was low. Many enterprises were completely dependent on the government's financial subsidies. According to the data of the Indian Bureau from economic development statistics, in 1990, all the industries controlled by public enterprises in India were in a loss state and needed government subsidies to support operations except the petrochemical industry, which was in a profit-making state.

2.1.4 The policy reform of Rao government -- promoting the development of private enterprises

Before the reform of the Rao government, Indian private sector was dominated by retail, clothing, food processing and some other light industries that for people to consume. The Indian government had too many restrictions on the development of private enterprises and they intervened in enterprises in many aspects such as investment amount, product output and even the address of the factory, which seriously hindered the development of enterprises [7]. In order to change the stagnation of the private economy and promote rapid development, the Rao government has adjusted from many approaches including policies and market mechanisms.

The first step was to relax the management of private enterprises. The government no longer stipulated the business scope, investment site, production scale and product quantity of private enterprises. At the same time, the price of private enterprises' products controlled by the government had also been greatly adjusted -- transforming economic control into economic induction. On July 24, 1991, the Rao Government pointed out in the report on the work of macro planning for India's economic development that in order to stimulate private enterprise investment and encourage private economy development, the government should minimize the administrative procedures in the work with private enterprises.

Secondly, the Rao Government has increased financial support for private enterprises, helped break the monopoly of state-owned enterprises in some heavy industries, and encouraged enterprises to enter the international market. Rao also reduced the capital supply to state-owned enterprises. According to the statistics of the Economic Commission of India, after the reform, "the total investment in the public economy from 1994 to 1995, in the national economy, accounting for 43% of the total investment. The investment of the private economy has greatly increased, accounting for 57% of the all. Before the reform of the Rao Government, the investment of the public economy accounted for 55% and the private accounted for 45% [8]." It can be seen clearly from Table 1 below that with the reform promoted, the number of state-owned enterprises divesting was increasing, the impact of reform on Indian economic system had also climbed year by year. So, the function and position of state-owned enterprises in the national economy was gradually falling.

Table 1. Divestment of Indian state-owned enterprises (Unit: ten million rupees) [9].

Particular Year	Budgetary Divestment	Actual Divestment	Accumulative Divestment
1986	170	150	150
1987	200	220	443
1988	320	380	745
1989	680	670	994
1990	760	780	1080
1991	4600	810	11252
1992	5100	5371	16623
1993	11000	1860	18483
1994	10000	1871	20354
1995	12100	5658	26012
1996	12000	3348	29360
1997	14400	15547	44907
1998	15100	15770	45809
1999	15600	16200	47508

Through increasing support for the private economy, the production enthusiasm of Indian private enterprises had been mobilized, the production quality and efficiency of various industries had been rapidly improved. Under Rao's policy, Indian industrialization had made great achievements. The small and medium-sized enterprises full of motivation gradually occupied a dominant status and this general mood in society also accelerated the national innovation.

2.2 Impact of Rao's Policies on Indian Development

2.2.1 Positive effect

It quickly stabilized the situation of Indian economy. The fiscal deficit problem and the national balance of payments crisis generated in the Nehru model had been overcome in the middle period of the administration of Rao government, and economic stability was basically realized in 1993. The ratio of the national fiscal deficit to GDP dropped from 8.5% in 1990 to 5.7% in 1992 (the lowest point) [10]. Foreign exchange reserves had also risen sharply.

The reform improved the surge of Indian industrial output and the GDP, helped India become one of the countries that had the fastest economic development rate in the world. The rapid growth of GDP in this period has played a guiding role in the industrial rejuvenation of the nation in the 21st century. According to Fig. 1, in Rao's period, the GDP growth rate reached its peak around eight years.

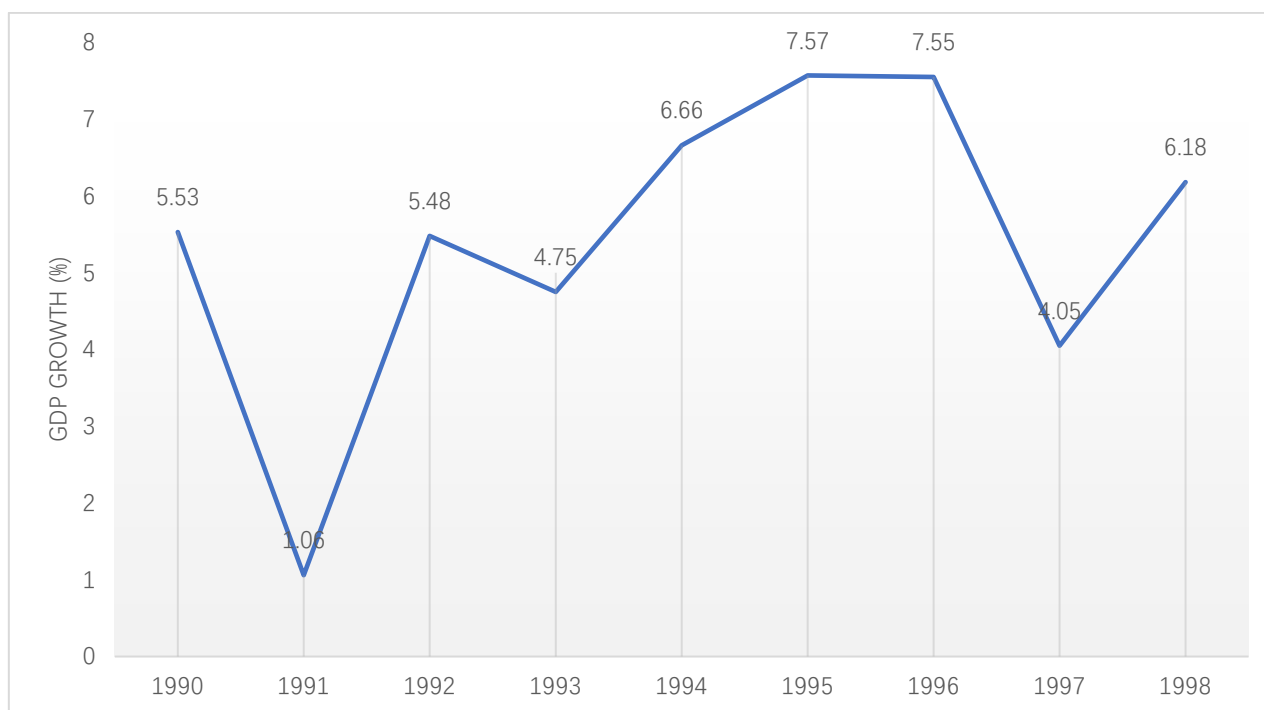


Figure 1. Indian GDP Growth Rate from 1990 to 1998 [11].

In particular areas, industry and service industries had grown rapidly. The proportion of manufacturing in GDP increased to approximately 17% in 1995, which formed complete industrial production chain in most basic fields. The growth rate of small industries is also considerable. Not only it accounted for 40% of Indian GDP, but also absorbed a large number of social labor and provide employment, also increased citizens' income. What is more, the outsourcing service industry represented by the software industry had developed rapidly. These policies had laid a foundation for the development of high-tech industries based on promoting the country's industrialization.

2.2.2 Negative effect

The reform of public enterprises had achieved very little. During Rao's administration, the reform of state-owned enterprises mainly took the form of divestment, which helped the government reap

high income. But the reform of Indian public enterprises has only turned them into semi-public enterprises, and few had been fully privatized. Besides, Those morbid and loss-making enterprises could not be sold at all and were still a burden to the government. The reform of public enterprises had touched many interest groups, so the reform was difficult. There were also many corruption phenomena in the process, resulted the stagnation of the reform in the later period.

The reform only focused on national industry, especially the heavy industries, while neglecting the construction of infrastructure. Imperfect infrastructure was not conducive to improving people's living conditions, but also seriously affected the country's future economic development potential and attraction of foreign capital. Many unfavorable factors affected the governance of the Rao government and eventually led to its downfall.

For many small enterprises, the policies did not make them have a significant promotion. Because in fact, the government was only providing welfare, not really lifting the productivity of small enterprises.

Under the background and pressure of national balance of payments crisis, the reform did not fully achieve the goal of reducing inflation. During the six years of Rao's power period, the national inflation rate only declined from 13.87% in 1991 to 8.98% in 1996, which was still a very high number [12]. What is more, there was also a huge gap although progress had been made in reducing the fiscal deficit. The fiscal deficit remained above 6% in most years and it became a problem constrained Indian social boosting, which produced a serious consequence that investment in areas related to the national economy and people's livelihood was not beneficial.

3. Conclusion

Reform is the way to strengthen the country and the inevitable regular pattern of national social development. No policy is permanent and the formulation of policies must conform to the current national conditions and international trends. The Nehru model is only applicable to India just after independence, because the centralized economic system could effectively gather a large number of production resources in a short time, pooled the humans and materials of the whole country to develop the economy and lay the foundation for industrialization. With the development of economy, the Nehru model not only lost its dominant role in the national economy, but also led to a variety of problems such as extremely low industrial production efficiency, unbalanced resource allocation and serious waste. Overall, the root of the problems is that the public economy gave state-owned enterprises too much power while it was difficult for the democratic system and parliament to supervise them. Rao's reform handled well with this issue because he took the adjustment of state-owned enterprises as the breakthrough of industrial reform, changing the influence of big enterprises by helping private enterprises make progress and declining the investment in the companies that got too much preferential treatment and power, which also effectively curbed corruption. However, although his policies had made great achievements in the economic aspect and helped the country realize industrialization rapidly, they had not fundamentally completed the historic task. First of all, his reform had received strong opposition from some officials whose interests had been harmed. So far, there were still a lot of hidden dangers in Indian economy. Secondly, Rao's reform neglected to improve people's livelihood, which led to his early resignation. Indian happiness index today can only rank at the bottom of the world.

Having said that, Rao's reform was very significant to Indian development, not only in economic sphere, but also in political field. Since privatization, it was widely recognized that among Indian senior officials, civil servants in the economic sector must have professional knowledge and skills, officials in agriculture, industry, health care, education and other sectors also must turn into specialization. What is more, Civil servants also needed to maintain an independent federal character. They could not yield to political pressure and must be loyal to their profession, which could greatly improve the effectiveness of administrative costs. Privatization had changed the proportion of the public economy in the whole national economy. The relationship between government, enterprises

and traditional labor had formed a new pattern that got much more fair competition in society. In a gesture to adapting the new economic environment, administration must be managed with enterprise characteristics. Under neoliberalism, the government should improve its service quality and efficiency, ensure the correct direction of policy-making and implement them successfully by using new management structures and more efficient management strategies. In a word, Rao's policies played a crucial and constructive role in Indian economy, industry, agriculture and administration.

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