



The economic reforms — looking back to look ahead

A critical reading of reforms

- Evidence shows that the economic reforms which were launched in a major way in 1991 — and from time to time, subsequent interjections for liberalisation of economy and trade — have enabled some credible gains for the country.
- Over a period of 30 years, burgeoning foreign exchange reserves, sustained manufacturing contribution in GDP, increased share in global exports (from a mere 0.6% in the early 1990s to 1.8%), robust information and communication technology software exports, and sustained economic growth in the range of 6%-8% are clear hallmarks of success.

The economic reforms — looking back to look ahead

The fundamentals need to be set right with a focus on human capital, technology readiness and productivity



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The criticism by the world economic powers in the country and at global level has led to a debate about fresh thinking and new approaches to manage the economy and the future of humanity. Globally, it has underscored the need for policies to instil resilience in the economy and create a robust health system, together with research and development, in India, various of them are under way to enhance economic growth.

A critical reading of reforms

History stands in the complex economic system. In, it is important to look at the economic reforms of the last 30 years. Evidence shows that the economic reforms, which were launched in a major way in 1991 — and from time to time, subsequent interjections for liberalisation of economy and trade — have enabled some credible gains for the country. Over a period of 30 years, burgeoning foreign exchange reserves, sustained manufacturing contribution to GDP, increased share in global exports (from a mere 0.6% in the early 1990s to 1.8%), robust information and communication technology software exports, and sustained economic growth in the range of 6%-8% are clear hallmarks of success.

The economic reforms, so far, have been more focused on the technical nature of the economy than the system, process and people. As a result, quite a few primary drivers of the economy — human capital, technology readiness, labour productivity, disposable income, capital expenditure, process innovation in setting up businesses, and institutional capacity — have not got enough recognition.

ing up businesses, and institutional capacity — have not got enough recognition. In the context of a global competitive environment, some basic issues deserve close examination.

The human resource capital (HRC) includes, a good demand-side of labour productivity, has been kind waiting over the years of quality education, low skilled manpower and technologies in basic health care have enabled in low HRC. The HRC rank for India stands at 103, 141 Latin America at 21, China at 36, and South Korea at 25, as brought out by the Global Human Capital Report, 2021.

An updated World Bank database on GDP for 2018, the low per capita GDP in India, at \$2,044 (at PPP) as compared to \$10,000 (at PPP) globally against the world average of \$6,429 (at PPP) in 2018 has driven India to low per capita family income. Globally, the report by Deloitte Global Manufacturing Competitiveness Index in 2019 reflects that the family index in India has been 11.7, way an \$18, \$24, \$203, and \$2.3 for the United States, Japan, South Korea, and China, respectively. Low wages have a direct bearing on the disposable income of families and lower life expectancy for the majority of household to have enough disposable income to purchase consumer durables or to start a business, affecting demand.

Low research and development expenditure at 0.8% of GDP, as 4.1% higher value for other low emerging economies such as South Korea (3.9%), China (2.5%) and Taiwan (3.1%), is resulting in lower capacity for innovation in technology and reduced 'high-tech' industry 'machines', especially the manufacturing.

Labour productivity

The lack of R&D and low technology readiness have impacted labour productivity adversely in India.



labour productivity in manufacturing is less than 10% of the advanced economies including Germany and South Korea, and is about 40% of China, as reflected in a World Bank publication of 2018. The Factor of Manufacturing Development, Low productivity has undermined competitiveness, manufacturing growth, exports and economic growth.

In addition, due to a lack of capital investment and investment capacity, and inefficiency in business service processes, there are difficulties in acquiring land for businesses, in efficient utilisation of economic infrastructure, and in providing business services, leading to a long time and costly cost in setting up enterprises, resulting in a loss of creative energy of entrepreneurs.

The fundamental deficiencies, as highlighted above, are at the heart of the problem. For years, the economy has been hit internally due to low household income as a result of low household income as well as externally on account of lower competitiveness and trade supply chain for trade. A human capital (HRC) approach is resulting in a technology system.

Paradigm shift

In order to drive the economy, there needs to be fresh thinking to address the underlying issues comprehensively in an integrated

manoeuvres. The new reform will require a holistic approach. The approach should be systemic and address structural issues — HRC, skills, research and development (R&D), land management and institutional capacity. The focus should be on quality of business services, technology readiness, to have productivity and per capita income.

First, to attract investment in manufacturing and advanced services, at a basic level, investment in human capital and early entry in a programme. Having HRC by way of enhanced public sector equity to 5% of GDP, from current about 2%, for education, skill development (including advanced technological and public health), is another first step.

The reports by McKinsey and the Asia Economic Forum on advanced manufacturing suggest that Industry 4.0 will be defined by new technologies such as 3D printing, artificial intelligence (AI), the Internet of Things (IoT), etc., which could usher in rapid changes of a higher order up to 10X or more in speed, scale and scope. Technology obsolescence of economic infrastructure, and in providing business services, leading to a long time and costly cost in setting up enterprises, resulting in a loss of creative energy of entrepreneurs.

There is a need to seek an approach in evaluating per capita income by using wages for workers through higher skills and enhancing minimum wages, besides increasing social security net. This calls for a concerted effort and approach through collaboration of government, industry and workers unions. On the issue of increased cost of labour, it can be compensated by higher productivity, some safeguards in the initial period of wage reform as possibly for India, South Korea and Brazil in their process, besides reducing

transaction costs in business and improving infrastructure within the efficiency.

Systemic approach: Every country from the week of Nobel laureate (1996) to (2000) North on the role of institutions in advancing the economy in countries, it is necessary to build the capacity of public institutions to create a good environment for business and industry. The process of reform, as an important as the content. Policy reform should be an emphasis on process innovation and provide a business-centric approach to implementing pre-determined service quality levels (SQC), to create a friendly ecosystem by having a state-of-the-art planning and control for new enterprises, and for efficient lower cost supply chain management to integrate with the global supply chain.

Finally, largely absent in the 1990s, apart from capital glut and rising corruption, the future of the economy should be rapidly viewed in the backdrop of a digital and innovative shift in terms of a reliance on the global supply chain as a result of the knowledge-intensive nature of business and exponential of innovation in advanced technologies under Industry 4.0 since the 2010s. Therefore, the strategies adopted since the 1990s will not only ensure adequate returns, and call for innovative approaches in public policymaking.

In sum, it is essential a systemic approach — encompassing interconnected basic factors of the economic system — the policy reform for setting the economic fundamentals right, in order to unlock growth and innovation in the economic system, raise the total factor productivity (TFP), as a measure of production efficiency, and to achieve higher growth.

Systematic reforms lacking:

- The economic reforms, so far, have been more focused on the technical nature of the economy than the system, process and people.
- As a result, quite a few primary drivers of the economy — human capital, technology readiness, labour productivity, disposable income, capital expenditure, process innovation in setting up businesses, and institutional capacity — have not got enough recognition.





<p><i>Primary drivers of the economy that have not got enough recognition</i></p>	<p><i>Human capital, Technology readiness Labour productivity Disposable income Capital expenditure Process innovation in setting up businesses Institutional capacity</i></p>
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Human capital

1. The human resource capital (HRC) formation, a good determinant of labour productivity, has been found wanting over the entire period of reforms. The lack of quality education, low skilled manpower and inadequacies in basic health care have resulted in low HRC.
2. The HRC rank for India stands at 103; Sri Lanka is at 70, China at 34, and South Korea at 27, as brought out by the Global Human Capital Report, 2017.

Disposable income

1. As indicated in the World Bank database on GDP for 2019, the low per capita GDP in India, at \$2,104 (at \$6,997 in PPP terms, ranked 125th globally) against the world average of \$11,429 (at \$17,678 in PPP terms) has direct links to low per capita family income.
2. Closely linked, the report by Deloitte (Global Manufacturing Competitiveness Index in 2016) reflects that the hourly wages in India have been \$1.7; they are \$38, \$24, \$20.7 and \$3.3 for the United States, Japan, South Korea, and China, respectively.
3. Low wages have a direct bearing on the disposable income of families and leave little room for the majority of households to have enough disposable income to purchase consumer durables or industrial products, affecting demand.

Technology readiness

1. Low research and development expenditure at 0.8% of GDP, vis-à-vis higher value for other fast-emerging economies such as South Korea (4.5%), China (2.1%) and Taiwan (3.3%), is resulting in lower capacity for innovation in technologies and reduced 'technology readiness', especially for manufacturing.



Labour productivity

1. The lack of HRC and low technology readiness have impacted labour productivity adversely. Low productivity has unfavourable consequences for competitiveness, manufacturing growth, exports and economic growth.
2. In India, labour productivity in manufacturing is less than 10% of the advanced economies including Germany and South Korea, and is about 40% of China, as reflected in a World Bank publication of 2018, The Future of Manufacturing-Led Development.

Lack of capital expenditure and institutional capacity

1. In addition, due to a lack of capital expenditure and institutional capacity, and inefficiency in business service processes, there are difficulties in acquiring land for businesses, in efficient utilisation of economic infrastructure, and in providing business services, leading to a long time and more cost in setting up enterprises, resulting in a loss of creative energy of entrepreneurs.

The fundamental deficiencies, as highlighted above, are at the heart of the problem.

Need a Paradigm shift

1. In order to drive the economy, there needs to be fresh thinking to address the underlying issues comprehensively in an integrated manner. The new reforms will require a distinct departure.
2. The approach should be systemic and address structural issues — HRC, skills, research and development (R&D), land management and institutional capacity. The focus should be on the quality of business services, technology readiness, labour productivity and per capita income.

Way forward:

1. First, to attract large investment in manufacturing and advanced services, at a basic level, investment in human capital and technology is a prerequisite.
2. Raising HRC by way of enhanced public sector outlay to 8% of GDP, from the current about 5%, for education, skill development (including for advanced technologies) and public health, is another first step.
3. The World Economic Forum report on advanced manufacturing suggest that Industry 4.0 will be defined by new technologies such as robotics, 3-D printing, artificial intelligence (AI), the Internet of things (IoT), etc., which could usher in rapid changes of a higher order up to 10X or more in speed,

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scale and scope; technology obsolescence will be much faster than ever before.

4. Consequently, efforts for technology readiness are very essential to stay competitive. It demands enhancing public research and development expenditure to 2% of GDP over the next three years.
5. There is a need to work on strategies to enhance per capita income by more wages for workers through higher skills and enhancing minimum wages, besides improving the social security net.
6. On the issue of the increased cost of labour, it can be compensated by higher productivity, some tax benefits in the initial period of wage reforms especially for Micro, Small and Medium Enterprises, besides reducing transaction costs in business and improving infrastructure utilisation efficiency.

In sum, India needs a systemic approach — encompassing inter-connected basic factors of the economic system — for policy reforms for setting the economic fundamentals right, in order to unlock creativity and innovation in the economic system, raise the total factor productivity (TFP), or a measure of productive efficiency, and to achieve higher growth.

**Mains
Answer
Writing
Practice**

Discuss Human capital, Technology readiness, Labour productivity and Disposable income as determinants of economic growth. Account for the dismal Indian situation in these factors and suggest remedies.

The idea of South Asian solidarity still has the potential to detoxify the legacies of 1947

When SAARC was mooted in 1985, it created the hope that trade, cultural activity and intellectual exchange would gradually diminish the political legacies of Partition by nourishing a regional fraternity.

SAARC dream

1. The dream is still relevant, but SAARC has remained incapable of responding to the unabated rise of identity-based aggression and violence.
2. Along with this, a remarkable degree of indifference to others' woes has grown. That was manifested in the paralysis of sympathy to the violence faced by the common public of Myanmar since the beginning of this year.

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3. Now when Afghanistan is going through a convulsion, a similar spectator-like attitude is in evidence among other South Asian countries, barring one that has a known vested interest in the Afghan transition.

Cultivating a new age:

1. Numerous declarations were made in the early years of SAARC. One of them created the hope that the school curriculum in the different countries would be examined by a joint team.
2. Had that exercise been done, a seedling of hope might have germinated, that the children would not acquire a prejudiced view of others.
3. Nothing contributes to enmities among nations more than the perpetuating of a mindset that acquires comfort from hostility towards others. Socialisation into prejudiced views maintains continuities of hatred and enmity, of war.
4. The children growing up in our part of the world, irrespective of the country they live in, need explanatory help from adults as to why there is so much turmoil all around.
5. The socialisation of the mind is a long and complicated process. Ushering the young mind into a culture of peace demands some reduction of the long backlog of turmoil.



Hopes of a regional perspective

1. The idea of a South Asian consortium has frayed over the years. As a term, "South Asia" is now mainly heard in weather reports on international channels.
2. The hope that a regional perspective would gradually encourage regional consciousness and identity has receded. We can view this as the receding of an educated imagination in our region.

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3. It offered the only sustainable proposal to mute and replace conflicts inherited from the past with the help of a larger frame of regional interests.
4. Three-quarters of a century after Partition, South Asians are no closer to consigning its multiple fallouts to history. The idea of South Asia is relatively young, and SAARC's attempt to promote it has not been a great success so far. But that is no reason to abandon the attempt.
5. After all, it is the only hope we can currently entertain, especially after the tumultuous events that have engulfed Myanmar and Afghanistan. Myanmar first applied for SAARC membership 13 years ago. Afghanistan became the eighth member of SAARC in 2007.

It feels strange that South Asia's sole forum for collective deliberation has maintained silence over a tumultuous turmoil known to every child.

**Mains Answer
Writing
Practice**

Discuss factors that led to failure of SAARC in infusing regional perspective in the countries of the region. Critically discuss its ramifications.