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ECONOMIC HISTORY OF INDIA: IT'S CONTRIBUTION IN MODERN CULTURE

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ABSTRACT
During the 17th and 18th century, India maintained a favorable balance of trade and had a steady economy .Self-sufficient agriculture, flourishing trade and rich handicraft industries were hallmark of Indian economy. During the last half of the 18thcentury, India was conquered by the East India Company. Along with the consolidation of British political hegemony in India, there followed colonization of its economy and society. Colonization no longer functioned through the crude tools of plunder and tribute and mercantilism but perpetuated through the more disguised and complex mechanism of free trade and foreign capital investment. The characteristic of 19th century colonialism lay in the conversion of India into supplier of foodstuff and raw materials to the metropolis, a market for metropolitan manufacturer, and a field for investment of British capital. In the same way, Indian society in the 19th century was caught in a inhuman web created by religious superstition and social obscuration .Hinduism, has became a compound of magic, animation and superstition and monstrous rites like animal sacrifice and physical torture had replaced the worship of God. The most painful was position of women .The British conquest and dissemination colonial culture and ideology led to introspection about the strength and weakness of indigenous culture and civilization.

Key words: Foreign Capital Investment

INTRODUCTION

India is an original member of the IMF. Its bustling democracy and reform-oriented leadership always received support from the Fund management. As a member of the G 20 and G 24 member countries, with a chair at the IMF since 1944, India's contribution to the IMF has been phenomenal. India lends a powerful voice of support for African member countries on PRGF programs in the IMF Board. It acts as a bridge between the G 7 member countries and Emerging Market economies, a supporter for reforms in the CIS member States and above all a voice for economic progress and development in all of South Asia. India's quota was the fifth largest in 1945. There were serious concerns in Parliament over the utility of membership of the IMF especially when the whole system of quotas worked as to give predominance to the United States of America while undermining the economic significance of India. That said, it was felt that India should lend its support to an Institution which was intended to put an end to the disastrous practices of competitive depreciation of currencies by establishing exchange rates. India's membership to the Fund was duly ratified by the Legislative Assembly on 29th October 1947. Following the 7th Quota review India lost its nominated seat on the IMF and had to settle for an elected seat. India's position on the elected category was further eroded when the Government of the People's Republic of China sought to re-enter the Fund in April 1980. Today, China has the 3rd largest quota on the IMF and India has the 9th position.

ROLE OF THE INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF), in its lending practices "seeks to help member countries to attain over the medium term a viable balance of payments position in the context of reasonable price and exchange rate stability, a sustainable level and growth rate of economic activity and a liberal system of multilateral payments." (Guitian, 1981). The Executive Board of the IMF of which India is an Original member, has developed broad policies for Fund lending. The IMF staff has developed the theoretical and empirical underpinning for Fund conditionality. The Fund's approach in program countries is aimed at reducing domestic expenditure to a level commensurate with national income. The Fund hypothesis is excess domestic spending directly by Government or indirectly by monetary expansion would worsen the current account balance. In 1956, Jacques J. Polak Director Research IMF developed a dynamic general equilibrium model which is the foundation of all programming in the Fund.

A basic tenet of the Fund's approach to macroeconomic stabilization is that countries should maintain a competitive exchange rate. In all cases where the exchange rate is overvalued, it is reduced by depreciation. A great majority of the countries borrowing from the Fund undertook to depreciate their exchange rates, before the beginning of a stand-by arrangement. At times, the initial gains from depreciation were frittered away through subsequent wage and price inflation. In many cases, the country authorities announced a large devaluation to restore international competitiveness after an extended period of erosion of competitiveness resulting from a combination of loose monetary and fiscal policies and an inflexibly managed exchange rate. Adjustment of economic policies from unsustainable causes was always extremely difficult. In this regard, the Fund laid down structural conditionality covering macroeconomic variables and conditions necessary to implement the specific provisions of the articles of agreement. Further the Fund has also laid down standards for fiscal policy. The Fund pays a lot of attention to the quality of Government spending and revenue practices, without explicit conditionality. Reduction of inflation is critical to the success of an adjustment program and external viability cannot be ensured unless the overall budget deficit is reduced. In this regard, the Fund lays down external debt limits limiting the overall amount of external debt that a country could take while undertaking a Fund supported program. The Fund also insists on prior actions which are in the nature of corrective actions before drawing on Fund resources.

FASTEST GROWING MAJOR ECONOMY IN THE WORLD

On February 28, 2017, India's quarterly estimates of Gross Domestic Product (GDP) growth rate have projected the Q3 GDP estimates at 7 percent. India remains one of the fastest growing emerging market economies driven by key structural reforms, normal monsoon and reduced external vulnerabilities. Inflation has declined from 6 percent in July 2016 to 3.4 percent in December 2016. The Government has continued to adopt the path of fiscal consolidation and the Reserve Bank of India has maintained an accommodative monetary stance. The current account deficit remains manageable and international reserves standing at US$360 Billion are at their highest levels. External vulnerabilities remain subdued. It also appears that the post-November 8, 2016 decision to withdraw the legal tender character of all Rs. 500 and Rs. 1000 notes and the re-monetization initiative has not undermined the growth momentum.

The macroeconomic scenario looks quite bright with the Union Budget adopting a fiscal consolidation path having achieved the fiscal deficit target of 3.5 percent of GDP in 2016-17 budget. Fiscal deficit is projected to further decrease to 3.2 percent of GDP in 2017-18. The revenue deficit is envisaged to reduce from 2.1 percent of GDP in 2016-17 to 1.9 percent of GDP in 2017-18. Continued progress in reforms provides a healthy environment for a marked improvement in medium-term prospects.

The Union Budget 2017 has identified the external uncertainties around commodity prices, especially crude oil, and signs of retreat from globalization of goods, services and people as pressures for protectionism as future challenges. Further the Union Budget noted that the US Federal Reserve's intent to increase policy rates in 2017 could lead to lower capital inflows and higher outflows in emerging market economies. That said, the economic risks are titled on the downside. With the key domestic risk of currency exchange initiative being successfully negotiated, the prospects for significantly stronger growth in coming months have brightened.

The transformational reforms launched by Government in 2016 include the passage of the Constitution Amendment Bill for GST and the progress in its introduction, demonetization of high denomination notes, enactment of an insolvency and bankruptcy code, amendment to the RBI Act for inflation targeting, enactment of the Aadhar bill for disbursement of financial subsidies and benefits. Further the Union Budget

has made major reforms in merger of the Railway budget with the Union budget and the removal of plan and non-plan classification to facilitate a holistic view of all allocations for sectors and ministries.
Astute food management and price monitoring by the Government has helped to contain inflation. A number of measures have been taken by Government to control inflation and restore price stability. The steps taken include increased allocations for the price stabilization fund, creation of buffer stock of pulses, announcement of higher MSPs to incentivize production, imposition of export duties and reduction of import duties on certain commodities.

In 2016, amongst the significant steps for monetary management and financial intermediation was the amendment in RBI Act. This amendment provides for an inflation target to be set by Government in consultation with the Reserve Bank of India once every 5 years. It also provides for a statutory base for constitution of an empowered monetary policy committee (MPC). The Government has fixed an inflation target of 4 percent with a tolerance level of +/- 2 percent for the period 2016-2021. The RBI has maintained an accommodative policy stance, which is duly reflected in the money markets. The Union Budget has reiterated its deep commitment to fiscal consolidation. Such a commitment is critical for lowering the cost of credit to private sector and help price stability. The fiscal consolidation strategy envisaged further subsidy reforms. Significant efforts in this direction have been made with the oil subsidies and Aadhar linkages for better targeting of subsidies. There has been considerable progress on structural reforms with continued efforts to reduce poverty, increase financial inclusion and further trade liberalization. On October 8, 2016 the Indian Finance Minister addressed the International Monetary and Financial Committee (IMFC) during the Fund-Bank Annual Meetings presented India as the fastest growing major economy globally with GDP growth at 7.2 percent, foreign exchange reserves of USD 372 billion, current account deficit of (-) 1.1 percent and CPI inflation at 5.05 percent. The economic transformation from an IMF program country to the world's fastest growing major economy in a period of 25 years represents a significant success story for IndiaIMF relations.

INDIA'S ECONOMIC TRAJECTORY SINCE INDEPENDENCE

Before getting into a discussion of India's trajectory, let us begin with a quick overview of where India stands among the Asian economies. This is captured in Table 1. In the cluster of 10 Asian countries on display, India is the eighth poorest in terms of per capita GDP, ahead of Pakistan and Bangladesh. At least two nations in this group, South Korea and Singapore, are actually high- income nations. Given that all the countries in this cluster were roughly in the same per capita income band in the 1950s, this shows what persistent good growth and the magic of compounding can do.

Table 1: The Asian landscape, 2017

Country	Population (million)	GDP (billion current US$)	GDP per capita (current US$)	GDP per capita PPP (US$)	GDP growth rate 2016–17 (%)
Singapore	6	324	57,714	93,905	3.6
Korea, Rep.	51	1,531	29,743	38,260	3.1
China	1,386	12,238	8,827	16,807	6.9
Thailand	69	455	6,594	17,871	3.9
Indonesia	264	1,016	3,847	12,284	5.1
Philippines	105	314	2,989	8,343	6.7
Vietnam	96	224	2,343	6,776	6.8
India	***1,339***	***2,598***	***1,940***	***7,056***	***6.6***
Pakistan	197	305	1,548	5,527	5.7
Bangladesh	165	250	1,517	3,869	7.3

Source: World Bank World Development Indicators, 2017

It is heartening to see that there is some catching-up taking place now, because the poorer nations seem to have the higher growth. The economies growing at the fastest rates in 2016–17 are Bangladesh, with a growth rate of 7.3 per cent, followed by China (6.9 per cent), Viet Nam (6.8 per cent), Philippines (6.7), and India (6.6). Singapore and South Korea now have the slowest growth rates in this cluster, as is only to be expected of countries that have become rich.

Barring the growth spike in 1975 mentioned above, the nation chugged along at a fairly steady low-growth rate, of around 3.5 per cent per annum, for the first three decades. Given that India's population was initially growing at over 2 per cent per annum, this meant a snail's pace growth of barely over 1 per cent for per capita income. The annual GDP growth rate, averaged over decades, shows India growing at 3.91 per cent, 3.68 per cent, and 3.09 per cent over the 1950s, 1960s, and 1970s, respectively. In decadal terms, the big break was in the 1980s, when the growth breached the 5 per cent mark for the first time.

Table 2: India's decadal GDP growth and investment rates

Year	Annual GDP growth rate	Investment rate	Savings rate
1951–61	3.91	11.82	-
1961–71	3.68	14.71	9.03
1971–81	3.09	17.86	12.96
1981–91	5.38	21.04	17.32
1991–2001	5.71	24.14	24.27
2001–11	7.68	32.44	31.42
2011–18	6.61	35.78	31.17

Source: Economic Survey 2017–18, Government of India, 2018.

The crisis of the 1990s enabled India to do what China had been able to do in the 1960s and 1970s, and South Korea in the 1970s—experiment with policy shifts and reforms, and the rewards were visible. The economic reforms of 1991–93 in India have been analysed extensively (see Nayyar 1996; Ahluwalia 2002; Mohan 2002). They caused many changes, most notably in India's international sector, best captured by India's foreign exchange reserves, which increased exponentially after 1993, as depicted in Figure 1. There was also the removal of India's notorious licensing system; this drew attention to the larger subject of the costs of doing business, which in India were (and still are) very high. I shall return to this later.

Some parts of the reform were commonsensical but we do know that in democracies, with the complicated dynamics of group decision-making, even the commonsensical is often hard to implement, the current gun-control challenge in the United States being a good example. In the case of India, since foreign exchange reserves used to be so low, it had become standard wisdom that people and corporations should not be allowed to take foreign currency out of the country

Table 3: India's foreign exchange reserves

Year	Total Reserves	
	Rs. billion	US$ million
1954–55	9	1,873
1959–60	4	762
1964–65	3	524
1969–70	8	1,094

1974–75	10	1,379
1979–80	59	7,361
1984–85	72	5,952
1989–90	63	3,962
1994–95	798	25,186
1999–00	1,659	38,036
2004–05	6,191	141,514
2009–10	12,597	279,057
2014–15	21,376	341,638
2017–18	27,930	405,810

Source: Reserve Bank of India & Centre for Industrial & Economic Research

Of course, at the time of such a policy shift there is a risk of crisis, because once the restrictions to take foreign exchange out are lifted, the first instinct of people will be to take their foreign reserves out and this can cause a sudden balance of payments crisis. India reached out to the IMF for support at the time of the reforms, to ensure that there would be a back-up in the event of a sudden currency haemorrhage. Once that immediate risk of crisis was overcome, the benefits were visible. The country's foreign exchange reserves began to rise exponentially from the mid-1990s and the level, which used to hold steady roughly at $5 billion, now stands at over $400 billion

CONLUSION

The world can get there and India can play a leadership role in ushering in such an age. With its early investment in the political institutions of democracy, secularism, and openness to ideas, as well as in good universities and institutes of higher learning, including science and engineering, and in its more recent improvements in savings and investment rates, India, with its enormous size, has the potential to be in the frontline. There are policy corrections to be made, there are pitfalls to be avoided, as discussed in this paper, but, with all those caveats, the prospects look good for what lies ahead.

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