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SOME REFLECTIONS OF ECONOMIC REFORMS IN INDIAN ECONOMY

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ABSTRACT

Several earlier studies have attempted to analyze the impact of the economic reforms on Indian economy. In one of the earlier studies Nambiar et al. (1999) started from the expectation that trade liberalization “encourages economic activity and hence raises production and employment”; he then asked whether this was also true in the Indian case. Although this expectation may be justified in the long run, it seems somewhat unrealistic to expect immediate benefits since trade liberalization always implies increased foreign competition, which in turn may lead to the closure of less competitive firms and therefore job losses and income reduction in the initial phase following trade liberalization. One may argue, however, that by 1999 it was possible to expect the longer-run impact of increased productivity, competitiveness and accelerated growth. This raises questions about the timing of the reforms and about the time lags necessary to achieve the longer-run changes. Nambiar et al. (1999) concluded that “trade has over the years shrunk India’s manufacturing base, both in terms of value addition and employment”. Although the authors admit that “this ‘high protection-high cost-poor quality’ syndrome needed to be corrected by import liberalisation”, their assessment of the reform impact is rather pessimistic.