Literature review – Indian Political Economy

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Executive Summary

The following paper is aimed at analyzing the political economy in India. It has highlighted various issues and components that have revolved in all the transitions that it has undergone since attaining independence. The various governments have been influential in selecting and adopting the best practices over the years.

Through the government, India transformed from traditional farming and adopted modern methods that helped it attain a stable food supply mechanism. The central government has worked closely with the regional governments to oversee various policies being implemented.

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Review on Indian Political Economy

Introduction

India has transitioned over three crucial stages to become economically viable and place itself on the world map. It has been identified as the “Hindu rate of growth”. The first phase started in 1956 to1974 (Ambirajan, 1978). During this period India had lost a war to China. It formed a defensive strategy to build itself. The second phase commenced from 1974 to 1990s(Krueger, 1974). The economic growth at this time was relatively faster compared to the previous period. The last phase was from the 1990s to the present time. This period has seen India emerge as a strong economic power and ranked the second fastest growing economy in Asia, after China, in 2012. India has a well established system aimed at the Direct Foreign Investments (FDI) to lure foreign investors. The purpose of this paper is to analyze the structure of FDI in India in relation to the county’s political, legal and economical system.

Political Economic Analysis of India

Political Economic analysis is the study how political and economic power is distributed in the society. India has a decentralized form of governance. This is the central and regional governments. The central government holds all the powers of the country where as it delegates some of the duties to be carried out by regional government (Harris-White, 1996). The regional government further divides down its duties and responsibilities to effectively deliver at the local level.

Political economy is used to give a clear analysis on the progress made by India. The system contains the three main players in the industry, political system, Economic system and the legal system. The three systems work closely to create an ample environment for economic growth. The political system makes laws while the legal system enforces them (Jha, 1980). The government adopts policies that are aimed on boosting the current of future economy. The perfect timing guarantees maximum outcome.

The adoption of FDI has being the largest boost in growing India economy. There are three approaches in these type of investments. You can decide to enter through a joint venture, acquisition of assets and the Greenfield ventures (Attwood, 1992). The joint ventures are carried out by foreign investors in conjunction with the government or organizations in the private sectors in exercising business operations. In acquisition of assets foreign investors infiltrates the market by adopting infrastructures and engaging in business just like other business personalities in the country (Bardhan, 1999). The Greenfield ventures accommodates for expansion of large foreign companies to operate in India.

India has a large economy and population to manage. The middle class accommodates majority of the population with a deciles dominating the upper class. The upper class is the most influential in all the government wings (Joshi and Little, 1994). They have links with the political leaders who make laws. The elections are held after five years but some individuals still retain their potions despite not being productive in their areas. They are elected in multidimensional platforms that bring little or no desired change. The table below shows brief relationship between the political, economic and the legal systems.

Political Economy Analysis	BENEFITS	RISKS	COSTS
Political System	Makes laws	security	hierarchy
Economic System	Gives the people better lives	competition	Luring investors
Legal System	Independence from the other branches of the government	corruption	Distributed infrastructure

Indian Political system

India has a strong government through its constitution. The president heads the state and the prime minister is the head of the government. India has adopted a bicameral legislative system. The upper house also known as the Rajya Sabha, it has representatives from its states (Benerjee and Somanathan, 2007). The lower house, Lok Sabha, has individuals who represent all the Indian people. The government has adopted effective taxation policies that have been influential in realizing its goals.

The taxation structure is well demarcated detailing all the procedures to be followed when collecting tax from the various avenues. The central government has the concentrated authority to allocate funds to its regions (Agnew and Crobridge, 2002). This is a well balanced strategy that has been effective over the years. There are advanced regions which enjoy more privileges than the less developed ones, backward regions. These regions have continuously fallen back in development agendas. The gaps between the two have been increasing ever since India became a global figure.

India consumers and business people are subjected to various types of taxes depending on the situation they are faced with (Agnew and Crobridge, 2002). The central government has been mandated to issue levies on income, central excise, customs duties and service tax. On the other hand the state government levies taxes on Value Added Tax (VAT), state exercise, land revenue, stamp duty and professional tax. The government has various organs and organizations that check on the progress made by these set structures of the government.

The Indian Budget is read after each physical year. The budget estimates are managed by the internal revenues generated in the past year. The government expenditure has steadily increased resulting to increase in population and the people settling for better life. The IT system has been influential in archiving data and providing sufficient tools for the government to monitor economic growth at any given time. This has provided for proper auditing mechanisms to be implemented and ensure growth.

Residents and foreigners are equally taxed in India. The government has put up measures to ensure that if the income has been generated using the country's resources it will be subjected to tax. The government has provided a flexible FDI system to attract international investors (Agnew and Crobridge, 2002). This has been the building bridge between saving and investing. When investors choose India as their destination to carry out their transactions, the government posts positive returns. They invest by depositing cash into the Indian banks; they attract tax for any income made and provide employment to the people.

The government has come up with incentives aimed at attracting foreigners in India. Some of the strategies used is establishing joint ventures. The government can aim at providing the infrastructure needed or merge to provide for support. This will be a government sponsored initiative that will get support from all the government sectors (Agnew and Crobridge, 2002). The country is suffering in terms of capital investments. The foreign companies come as a major boost in realizing the economic goals set by the current regime.

The domestic market has flourished over the years, especially after the last transition phase. The second transitional phase saw the government putting more pressure on its citizens to engage in domestic farming. The US gave India a major boost in this program, it provided for seeds are research facilities (Frankel, 2005). The research facilities proved instrumental in indentifying how various crops would perform at different geographical areas. This was a relief to the country which was facing food security issues.

Economic system

Indian economic system has seen two successful transitions since it decided to be a major economy in the global world. There are three major powers that push the Indian economy, agriculture, industry and services. India has huge labor force, estimated at over 487.3 million by 2013, and ranked at number two globally after China (Frankel, 2005). The labor force is dominated by the agriculture sector with 49% followed by services at 31% then industrial sector occupies the remaining 20%.

Concentration on agriculture and agricultural infrastructure has ensured a strong food basket to constantly supply India with its own food. This sector has seen enamors success, farmers can heavily rely on their efforts for living (Rudolph, 1987). The transition from the traditional methods of farming was slow as most famers were illiterate. The government pumped a lot or resources to ensure the farming methods are updated to maximize the arable land in the country (McDowell, 1997). This has provided employment and income to all the stakeholders involved. Some of the farms produce are, rice, wheat, cotton, oilseed, jute, sugarcane, lentils, onions sheep, dairy products and many more.

The industry growth has placed India in the global map. There are many industrial companies in India, foreign and domestic. The foreign companies invest in India to exploit the readily available labor. The country has a huge labor force, skilled and unskilled. The people are intelligent and hardworking. It is very hard to find a perfect combination in other countries in the world with so many readily available resources. The industries give the people opportunities to prove their prowess in the international arena. FDI incentive further attracts foreign investors who come to share their knowledge, services and products to the people.

The economic system's risks are at the international level. The country faces competition from emerging and developing economies in the world. The Asian countries place a stiff competition in luring international investors. The competition exists resulting from the perceived returns that the host country will receive when an investor lands in their home country. This is a direct profit interpretation, the government will incur an investment and savings model (Besley and Bugess, 2002). The investors will be accustomed to taxation and will further infiltrate the market by expanding and hiring personnel from the home country.

The country has an 8.8% unemployment rate, by 2013. This is a low number compared to the general population (Frankel, 2005). The country has a low disposable income in the international banks reserves.

The legal system

The legal system enforces the law according to the constitution. The judiciary is the main arm of law which is mandated with these duties. The central government installs the structures used in the legal system (Besley and Bugess, 2002). It comprises of the legislatures who enact laws, the police force which exercises authority to the people and the judiciary which hears and determines cases.

The legal system in India enjoys various benefits at the state and regional level. The judiciary is an independent branch of the government. It enforces the law of the land. This gives it immunity from any interference from the executive which runs the country.

There are various laws that the legal system has to always check on and update from time to time. They include the competition, contract, employment, health and safety, product safety, property and private or public violation (Tsai, 2004). The competition law states the conditions that must be upheld by two or more competing companies without violating the rights of the other. Contract law has the terms of work or services written on them showing the duration and other factors. Health and safety is signed by the insurance companies and the organization in question (Tomlinson, 1979). Property law shows the boundaries of ownership between the company and the employee. Public or private violation law lists the requirements that must be met by an organization to enjoy either status.

Corruption is the major risk associated with the legal system. There are instances of corruption in many organs of the judiciary. The police are the most affected department. This halts many operations when collecting evidence and nabbing offenders.

Conclusion

The Indian political economy has transverse through three generations since its independence. The huge population has provided the country with an huge labor force to be used in the business ventures. The FDI has been the key economy spinner in India. It has brought benefits that could not have been realized in a cheaper means. The government should improve on their incentives to attract many corporate and individual investors.

Appendix

Table-4: FDI and Portfolio Investment in India
(in % age)

Year	FDI in % age	Portfolio in% age	Total
1992-93	56.35	43.65	559
1993-94	14.11	85.89	4153
1994-95	25.57	74.43	5138
1995-96	43.83	56.17	4892
1996-97	46.00	54.00	6133
1997-98	66.05	33.95	5385
1998-99	102.54	-2.54	2401
1999-00	41.59	58.41	5181
2000-01	59.34	40.66	6789
2001-02	75.20	24.80	8151
2002-03	83.72	16.28	6014
2003-04	27.53	72.47	15699
2004-05	39.38	60.62	15366
2005-06	41.77	58.23	21453
2006-07	76.52	23.48	29829
2007-08	56.09	43.91	62106
2008-09	157.77	-57.77	23983
2009-10	53.84	46.16	70139
2010-11	49.12	50.88	61851

Source:Report of RBI
Negative (-) sign indicates outflow

Table 10: Foreign investment inflows Industry wise in India (in % age)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Services (financial& non Financial)	-	-	24.57	18.50	53.57	45.06	35.20	30.32	29.23
Computer (Soft&Hard)	-	-	29.82	47.66	30.71	9.60	9.62	6.40	6.73
Telecommunications (radio paging cellular mobile, Basic telephone services)	61.21	47.70	5.42	5.44	-	-	17.36	17.79	14.30
Housing & Real Estate	-	-	-	1.31	5.36	14.84	16.06	19.81	9.68
Automobile Industry	-	-	6.75	4.95	3.17	4.60	7.82	8.41	11.43
Power + Oil Refinery	24.37	40.22	6.14	3.01	1.80	6.59	6.68	10.00	10.75
Metallurgical Industries	-	-	10.07	5.09	1.99	8.01	6.52	2.83	9.49
Petroleum & Natural Gas	-	-	6.25	0.48	1.02	9.72	2.79	1.89	4.93
Chemicals (other than Fertilizer)	14.40	12.06	10.95	13.51	2.35	1.56	5.08	2.52	3.42
Total	100	100	100	100	100	100	100	100	100

Source:-RBI Annual Report 2006-07to 2010-11.
Note: brackets show the percentage.
(--) data is not available.

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