

INDIAN ECONOMY : MOVING FROM RED TAPE TO RED CARPET

Abstract

Indian Economy has witnessed rapid growth in the last three decades, particularly after we followed the policy of economic liberalization. From being an export dependent economy with a reputation of license and permit Raj, India has transformed itself into a globally growing, liberal and inclusive economy where giant global corporations see an opportunity. Big companies across the world have made heavy investment and are reaping huge profits here. Indian companies have expanded and have become giants in their sectors. The current paper highlights the factors and indicators in India's growth story. The transition from being a 'Red Tape' economy characterized by licenses, quotas and permits to being a 'Red Carpet' economy where 'ease of doing business' matters, Indian economy has come a long way and is ready to go further with a target of becoming \$5 trillion GDP economy by 2025. The paper makes use of the following factors and indices – ease of doing business index, startup funding, corruption index, e-Governance ranking and overseas investment in India. The authors have studied these indices and factors to investigate the movement of Indian economy from red tape to red carpet. Data has been collected through secondary means; major sources of data have been online. Analysis has been done using charts and graphs. The paper makes no hypothesis and is exploratory in nature, open to further research.

Keywords: Red Carpet, Growth, Indian Economy, Ease of Doing Business, Unicorns, GDP, Startup, Corruption, Foreign Investment, E-Governance

Introduction

Thirty years ago, India liberalized its economy which was, till then running on the Soviet pattern where Government was in charge of products and services reaching the citizens. Indian economy, Pre and Post liberalization saw a vast difference in terms of choice of products and services available for the consumers, quality of products and services, expansion of markets, involvement of technology in business etc. One of the most important developments that took place after liberalization was the growth in India's GDP followed by rapid increase in white collar employment. The service sector as a whole moved towards maturity. In the pre liberalization era, the GDP growth rate was termed as 'Hindu rate of growth' by economist Prof. Raj Krishna; it was due to its sluggish growth rate, between 3 to 4 % per annum.

The impact or benefit of liberalization was not limited to the above mentioned points. India's stature and contribution in world trade also rose rapidly after liberalization. India's status as the world's IT hub could be achieved only after liberalization.

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Whereas before being liberalized, the Indian economy was characterized by red tape, permits, quotas and inspector raj before liberalization, the economy post liberalization became more open to businesses. Together with a rise in foreign investment, the ease of doing business also improved. In its totality, the Indian economy has moved towards being a 'Red Carpet Economy' rather than a 'Red Tape Economy'.

The current paper aims to study the indicators of this paradigm shift. Today's India is looked at as an investor friendly nation. A slew of measures and initiatives taken by the government of India in the last one and a half decades have made her stand vis-à-vis top economies of the world in terms of the economic growth and production capacity. In 2017, at an award function, India's leading industrialist and Chairman of Reliance Industries Ltd., Mr. Mukesh Ambani quoted that 'India is the world's biggest opportunity'. This sounds as a very prophetic and positive statement from an ace entrepreneur of the world. This statement echoes the sentiments of the industry leaders who are extremely bullish about the growth of Indian economy. Such sentiments are a result of concerted efforts made over a considerable period of time. It does not happen overnight. India's growth story is inspiring, encouraging and worth following.

Literature Review

The term red tape has been first noted in the historical records in 16th century when Henry the VIII besieged Pope Clement the VII with petitions of annulment of his marriage to Catherine of Aragon. The documents related to the petition were bound with a red tape and kept safely. In the modern sense, the term 'red tape' refers to the endless paper work in offices, especially government offices. In modern economic parlance, it became synonymous with sluggish work culture, deliberate delay in processing of files, asking for financial favors in return of work, called as 'greasing of palm' etc. here greasing refers to the lubrication of machinery i.e. after providing bribes etc, the 'machinery' would run well and work would be processed in relatively much lesser time.

In contrast to the 'red tape', the first written mention of 'Red carpet' is claimed by Aeschylus, a

Greek playwright in the play 'Agamemnon' which dates back to 458 BC. In the modern sense, red carpet is understood as a cordial and warmly way of welcoming a prominent person to an event. In the Economic sense, a 'red carpet' welcome can be understood as a open hearted welcome to an investor or industrial entity to occupy marketplace and generate production, employment etc. in the last two decades, if observed carefully, a lot many 'investor summits' have been organized by different states in India in order to woo industry leaders and investors to put up their enterprise. In those summits, a slew of tax rebates and other benefits are announced by the Governments of the respective states, this is what a red carpet welcome is. Such policies have accelerated the GDP growth and employment generation in India.

Indian economy has moved from a sluggish, low growth economy to a fast paced, high growth economy where major industrial houses of the world are eager to invest. Existing works done in this area bring out the adverse consequences red tape has for bureaucratic responsiveness (Gupta, 2012), as well as the factors responsible for its existence, including a near absence of competitive incentives in the public sector (Wilson, 1989). Because red tapism is a waste of time, it be utilized to filter out wealthier individuals with high opportunity costs of time and lower valuation of access to benefits (Nichols and Zeckhauser 1982; Alatas et al., 2016; Adholiya et al., 2022)

When implemented by bureaucrats with corrupt intentions, however, red tape can also have regressive outcomes. Presented with the opportunity to gain rents, corrupt bureaucrats will use their discretion to further enhance the level of red tape, either by extending processing time, failing to explain.

During the current scenario, when stock markets of the world are facing major volatility, Indian stock exchanges have shown reasonable stability (Dadhich et al. 2019).

Procedures or overburden citizens with unnecessary paperwork. When faced with little oversight, bureaucrats can use their discretion to eliminate existing or strategically fabricated red tape in order to maximize revenue by demanding 'speed money' for access.

Methodology and Theoretical Framework

Since the current paper is about the shift of the Indian economy from red tape to red carpet, there are many established indices available to study the same. These indices and indicators have been established by internationally recognized agencies and Government of India, which points out towards the authenticity of the data used for the study.

Data for the current paper has been obtained through secondary means using authentic sources which include websites belonging to the central government of India as well as recognized agencies across the world such as the World Bank etc.

The analysis of the data has been done using charts and tables etc. The authors have tried to the best of their ability to explain the illustrations in a simple and lucid way.

Authors have not formed any hypothesis in the current study which is basically exploratory in nature and opens up avenues for further research. For the purpose of the study, the authors have made an extensive study of the following indicators and indices:

1. India's 'Ease of doing business' rankings
2. Startup ecosystem in India
3. India's ranking on world competitiveness index
4. Overseas investment in India over a period of two decades.

The analysis of data obtained from the above indicators and indices has helped the authors to develop the 'overall picture' and showcase the movement of the Indian economy from red tape to red carpet.

1. India's Ease of Doing Business Rankings

Ease of doing business' is measured by doing business organization related to the World Bank. Each year, a report is published which includes rankings of countries on 'ease' of doing business index apart from other related data. In 2020, India stood at 63rd position among 190 economies in the

world. The report was published in 2019 in the month of October.

The methodology for measuring the 'ease' of doing business is an extensive one. It covers the details with respect to the following aspects of a new business:

1. Starting a business
2. Dealing with construction permits
3. Getting electricity
4. Registering property
5. Getting credit
6. Protecting minority investors
7. Paying taxes
8. Trading across borders
9. Enforcing contracts
10. Resolving insolvency.

India's performance on the doing business ranking has been impressive. Indian economy has shown an upward trend in the last one decade in the doing business rankings. The ranking data has been summarized below in the Table 1.

Table 1 : Ease of Doing Business Rankings - India (2008 - 2020)

S.No.	Year	Ranking
1	2020	63
2	2019	77
3	2018	100
4	2017	130
5	2016	131
6	2015	131
7	2014	134
8	2013	134
9	2012	131
10	2011	132
11	2010	139
12	2009	133
13	2008	132

Source: www.financialexpress.com

Table 1 shows the year wise ranking of India from 2008 to 2020, a period of thirteen years. A clear improvement in the rankings can be seen after 2014, while considerable improvement can be observed after year 2017. In 2019, India jumped 23 positions up to occupy 77th rank, while in 2020; its rank was 63 among 190 economies in the world. The performance of India on this index has been phenomenal in the last 4 years.

Ease of doing business is one of the four indicators considered for this study, which clearly show how Indian economy is rapidly moving from red tape to red carpet scenario. India has been envisaged as a \$5 trillion economy by 2025, without improvement in its doing business ranking, it is an impossible feat to achieve. In the last ten years, Indian economy has shown more than 100% improvement in this area. From rank 139 in 2010 to rank 63 in 2020, it has come a long way. More thrust is required here. In the next ten years, Indian economy should target a rank among top 10 in this index. For that, strong 'willingness' from the government machinery is needed. Single window clearance system will have a large role to play here together with strong e-governance.

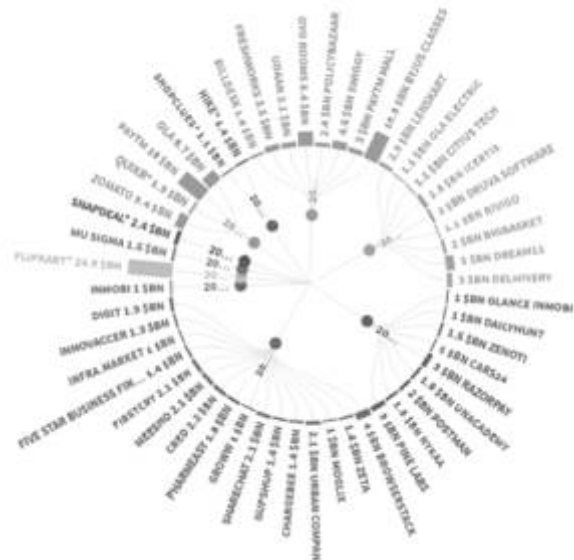
2. Startup Ecosystem in India

Today, India proudly stands as the 3rd largest startup ecosystem, the only countries ahead of India are United States of America and China. Improving investment climate, availability of talent and encouragement from the government have been the main driving forces behind India's startup success story. In September 2021, the total count of 'unicorn' startups in India has crossed 50.

The number of Unicorns in US is estimated to be around 396 while that of China is estimated to be around 277. India occupies the 3rd place. The encouraging factor is that number of future unicorns, called 'gazelle' and 'cheetahs' are increasing at an exponential pace. It is worthwhile to mention here that a unicorn startup is one which is valued at \$1 billion. India has seen rapid growth of startups become unicorns.

In 2021 alone, around 16 companies entered the unicorn club in the first six months. Over the next three years, around 150 startups are estimated to enter the unicorn club. The figure below shows the Indian unicorn startups with their valuation.

Figure 1 : Indian Unicorn Startups with Valuation



Source: www.moneycontrol.com

Most of the unicorn startups in India are based in – Bangalore, Delhi, Mumbai, Noida and Gurgaon. Some are located in Pune and Chennai also. The rapid increase in the number of unicorn startups in India clearly points out to a favorable business climate. This reinforces the idea that India is moving towards being a red carpet economy.

3. India's Ranking on World Competitiveness Index

Institute of Management Development (IMD), Lausanne, Switzerland publishes World competitiveness rankings. In 2020, India occupied 43rd position in a list of 64 countries. The list was led by Switzerland. The IMD competitiveness rankings measure the extent to which 64 economies of the world make effort to increase economic competitiveness and rank them in an order. The rankings are being published since 1989.

According to IMD, India has maintained its position for the last three years but this year, i.e. in 2020, India had significant improvement in Government efficiency.

"India's improvements in the government efficiency factor are mostly due to relatively stable public finances (despite difficulties brought by the pandemic, in 2020 the government

deficit stayed at 7 percent) and to the positive feedbacks we registered among Indian business executives with respect to the support and subsidies provided by the government to the private companies," - IMD.

Among the BRICS nations, China occupies the first position while India occupies the second. India is followed by Russia, Brazil and South Africa. The Table 2 below summarizes India's ranking in the world competitiveness index.

Table 2 : India's Ranking in World Competitiveness Index

S.No.	Year	India's Ranking
1	2021	43
2	2020	43
3	2019	43
4	2018	44
5	2017	45

Source: business-standard.com

In 2015 India's rank was 55 while in 2014 it was 71. It can be very clearly observed that India's rank has improved YoY. Improvement of competitiveness ranking points towards more business enterprises which can happen only by creating a business friendly climate. Improvement in India's ranking in World Competitiveness index is concrete evidence that the country's economy is moving from red tape to red carpet.

4. Overseas Investment in India

Over the last three years, the net inflow of FDI in term of % of GDP in India is on an increase. Table 3 present the data for the last 15 years.

Table 3 : Net Inflow of FDI in Terms of % of GDP

S.No.	Year	Net inflow of FDI (% of GDP)
1	2019	1.763127508
2	2018	1.559263523
3	2017	1.507316581
4	2016	1.937363198
5	2015	2.092115758
6	2014	1.695658786
7	2013	1.516275965
8	2012	1.312934337
9	2011	2.002065552
10	2010	1.635034274
11	2009	2.651593127
12	2008	3.620521897
13	2007	2.073395746
14	2006	2.130168425
15	2005	0.88610072

Source: data.worldbank.org

Looking at the table carefully, we will find that the peak net inflow of FDI in percentage of GDP occurred in 2008, it was more than 3% of GDP.

However, in the three consecutive years i.e. 2017, 2018 and 2019, it is again on a rise, which is a positive indicator.

Table 4 : Summing Up

S. No.	Indicator	Trend observed from the data
1	Ease of doing business ranking	India's ranking is improving since last 5 years
2	Startup Ecosystem in India	India has become 3rd largest startup Ecosystem in the world
3	India's ranking of world competitiveness index	India's ranking is maintained since last 3 years, improving since last 5 years
4	Overseas Investment	Net inflow of FDI as a % of GDP has increased in the last 3 years.

Conclusion and Limitations

After going through the data on the four indices with respect to the Indian Economy, the authors have concluded that Indian economy has performed very well in the last two decades. There are many factors which can be attributed to this performance. Government of India's push for making India as manufacturing hub, incentives for startups, creating an investor friendly climate, impetus to e-governance and rise in consumer spending can be talked of as main causes.

It can be concluded that the Indian Economy has moved from 'red tape' to 'red carpet'.

The authors present the paper for further research. The current paper involved secondary data. Time was a constraint. Most of the data was gathered from authentic online resources.

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Sources of Tables and Figures

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