WASHINGTON CONSENSUS AND ECONOMIC GROWTH IN DEVELOPING ECONOMIES: THE INDIAN EXPERIENCE

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Abstract

This paper takes a long-term look, (forty-three years; 1980-2023) at macroeconomic management in India in the context of the Washington consensus prescriptions. The study reveals significant structural breaks in India's economy at different integration orders, indicating that liberalization policies and economic reforms in general have long-term impact on the Indian economy. The Indian economy seems to have experienced a structural break in 2007 due to rapid economic growth and increased global integration stemming from reforms before then. Policy reforms, for example, liberalizing FDI, trade openness, taxes, and exchange rate reforms. Good governance policies by, successive Indian governments further supported these outcomes. Pre-2007 empirical evidence showed that exchange rates, foreign direct investments, and tax revenues supported economic growth, but not significantly. The Indian economy faced challenges due to limited export competitiveness, high import dependency, fluctuating capital flows, and a mismatch between the skills available within the Indian labour force and those required by foreign companies. Post 2007, FDI had significant but negative effects on India's economic growth. With the foregoing, the paper submits that many of the Washington consensus variables have played an important role in India's economic growth performance during the period under study. Whether India has deliberately or unconsciously adopted the Washington Consensus Prescriptions should not be of much importance to economic development researchers. This study suggests that India's economic growth has been significantly boosted by exchange rate reforms since the 1990s. The Reserve Bank should monitor the forex market, build foreign exchange reserves, and promote exports. Accelerating economic growth could be achieved by consolidating fiscal management, improving governance and expanding social spending. Simplifying FDI policy, enhancing private sector attractiveness, and strengthening institutional frameworks are also recommended.

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1.   Introduction

India's economic journey before 1990 was marked by sluggish economic growth and other challenges; resulting in significant, inconsistent policy shifts. Indian economic management history can be divided into three (i) the pre-independence era up to 1949; (ii) the post-independence era 1947 up to 1990; and (iii) 1991-2023. The economic management strategies adopted by India during these periods were influenced by historical and domestic needs and global economic trends. India has a rich history of economic activity that dates back to ancient times. By the late 17th century, under the Mughal Empire, India became one of the world's largest economies. British colonial rule had a profound impact on India's economy, leading to deindustrialization and a decline in traditional craft industries. India's share of the world economy fell from 24.4% in 1700 to 4.2% in 1950 because of exploitative colonial policies that prioritized British economic interests over Indian development. In the post-independence era (1947-1990), India faced immense challenges, such as low literacy rates, low life expectancy, and widespread poverty. To address these issues, India's leaders adopted a strategy focused on rapid industrialization through centrally planned five-year plans. The first Prime Minister, Jawaharlal Nehru, emphasized creating large state-owned enterprises (SOEs) producing basic and heavy industrial goods like steel, chemicals, machines, tools, locomotives, and power but was mostly inward looking.

In 1989, John Williamson identified ten (10) policy variables suggested as economic reform variables or ingredients favoured by Washington; with Washington implying international financial institutions, especially the IMF and World Bank, (Williamson, 1990). However, as Williamson (2005) reveals, these prescriptions quickly adopted a strange identity as the Washington Consensus. With the not-so-successful outcomes of the reform agendas in Latin America; especially Argentina and many other less developed countries, the Washington Consensus Prescription (WCP) confronted major criticism from various quarters, including the Titans, on development economics; for instance; (Woo, 2004; Stigliz, 2007; Rodrik, 2006; & Krugman, 2007), among others.

Following these, many countries with a not-so-firm belief in these prescriptions, described as neo-libral market fundamentalism, (Todaro & Smith, 1999), began to renege on their reform programs. In fact, in several countries, there were clear tendencies to return to central or semi central planning paradigms, which were described as quasi-socialist policies, (Abdul-Maliq, 2024).

On the other hand, across the oceans, it will appear that some countries; China, The Philippines and India, among others; which embarked on similar economic reforms in the early to late 1980s; after apparent better commitment and persistent adherence to their reform agendas have achieved some enviable results, especially as the 21st Century progresses.

With the foregoing background, this paper examines the developmental trajectory of one of these three apparent successes with a view to answering the following questions: (i) why or how did these Asian countries seem to have succeeded whereas the Latin American and (SSACs) countries have failed, as presented by many researchers; (Woo, 2004; Rodrik, 2006; Stiglitz, 2007; & Krugman, 2007), among others. The issue therefore arises: (i) did India adopt the Washington Consensus Prescription, (WCP) consciously or inadvertently; or (ii) did it adopt the Contra-Washington Consensus (CWC) policies? If India adopted the WCP, did it succeed because she had faith in the course of actions; was patient to see her reform agendas through on long-run bases as economic reforms are meant to be; or (iii) did something quite different happen? Many countries, (notorious for this are Sub-Saharan African countries) seem to have had little or no faith ab-initio in the veracity of economic theory; resulting into what The World Bank (1995) described as inconclusive reforms; Abdul-Maliq and Abubakar (2018) described a unique species hypothesis. Under this state of mind, countries embark on economic reforms and do not allow them to continue their course.

First, for instance, India is currently on the 14th edition of its 5-year national plan (Planning Commission Government of India, 2023). While some Sub-Saharan African and some Latin American countries do not seem to have followed any economic plan for any known length of time, could this 'keeping faith'; allowing programs to run their gestation and growth periods—have been responsible for the success as against those that are impatient.

Second, Abdul-Maliq and Bature (2017) proposed that economic growth factors can be classified into four categories: (a) pedestal variables; which are necessary, (inevitable), but not sufficient for economic growth. These include reforms of government, good governance, peace, and security, and what not. (b) Economic growth variable; capital formation, exports, FDI, flows among others that directly participate in production and other economic activities. (c) Bait variables; those variables or factors that help attract and/or retain capital, such as control over inflation, (price stability), exchange rate management, and the like, and (d) The last set of variables they called catalytic variables, include taxes and other incentives. Similar policies and reward systems.

Considering that India is currently in the 14th edition of its 5-year national planning, (Planning Commission Government of India, 2023); could it be that India understood the context of its development agenda and systematically addressed these; crafting or tactically as it might seem, rather than adopting the speedy approach (hasty policy transplant) that some other developing countries have adopted? Or; what did India do that other less successful countries did not know?

This study therefore takes a long-run (43 years/1981-2023) approach to examine the key success variables, their interaction among themselves, as well as the periodic inflection and turning points, (structural brakes) in the developmental history of India.

The study seeks to identify: (i) development strategies adopted by India since the 1990s (ii) identify key political and economic reforms embarked upon by India in the last forty-three years (iii) confirm the economic growth ingredients or variables that made positive and significant contributions to India's economic growth outcome, and (iv) attempt to locate major inflections and or turning points; (structural brakes) in Indian economic development history.

## 2. Literature Review

2.1 The Washington Consensus

As previously mentioned, the Washington Consensus is a set of ten economic policy prescriptions developed by John Williamson in 1989, aimed at promoting economic growth and stability through market-oriented policies (Moosa & Khatatbeh, 2023). The Washington Consensus is a set of ten recommendations for economic policy that came forth as a result of the economic and debt crisis that many developing nations faced in the 1980s. Poor economic management, which included high inflation, excessive government spending, and significant public sector deficits, was frequently blamed for these disasters. Several market-oriented changes were promoted by international financial institutions in an attempt to stabilize economies and encourage growth. Ten broad sets of relatively specific policy recommendations were included in the original formulation of the Washington Consensus: tax reform, trade liberalization, foreign direct investment (FDI) liberalization, property rights, privatization of state enterprises, liberalization of interest rates, reordering public expenditure priorities, fiscal discipline, and a competitive exchange rate.

The implementation of these policies has had varying degrees of success across regions and countries worldwide (Saray, 2019), but there is broad agreement that they have contributed positively toward global economic development overall by promoting growth, reducing poverty levels, enhancing competitiveness, improving efficiency within public sectors, attracting foreign investment flows, fostering technological innovation and diffusion, spurring entrepreneurship and innovation ecosystem development, and more (Ekpo, Yua, & Iorember, 2024). However, it is recognized that these policy recommendations are not one size fits all solutions due to contextual factors such as country-specific institutional capacity constraints and political economy considerations.

In response, India's economic reforms in 1991 aligned with the principles of the Washington Consensus, aiming to liberalize the economy, reduce fiscal deficits, and attract foreign investment (Kotwal et al, 2011). The government implemented measures to reduce public spending and increase revenue generation through tax reforms. These principles influenced India's economic policies in areas such as trade liberalization, privatization, deregulation, and fiscal discipline. Privatization initiatives in telecommunications, banking, and infrastructure have been undertaken to improve efficiency and competitiveness. However, privatization efforts have faced challenges due to corruption, regulatory hurdles, and political opposition. Deregulation is another key component of the Washington Consensus. It reduces bureaucratic red tape, simplifies regulations, and creates a more business-friendly environment to attract investment and promote entrepreneurship. However, achieving fiscal discipline has been challenging because of factors such as subsidies, social welfare programs, infrastructure spending needs, and political pressures (Sood, 2022).

India has undergone significant economic reforms since the early 1990s, moving away from a centrally planned economy toward a more market-oriented approach (Kotwal et al, 2011). The idea behind this policy ideology is to improve economic productivity and, eventually, economic growth in Asia. Per capita income in India is a crucial metric for understanding the economic well-being of the population and is typically expressed in current US dollars. India's economy has undergone significant changes since independence in 1947, initially following a Soviet-style planned economy with state intervention and protectionist policies. In 1991, India adopted broad economic liberalization measures to transition the economy toward a market-based system, reduce state control, and encourage private enterprise (Sood, 2022). Since then, India's economy has experienced substantial growth.

Figure 1: India's Average Economic Outlook (GDP per capita, $)
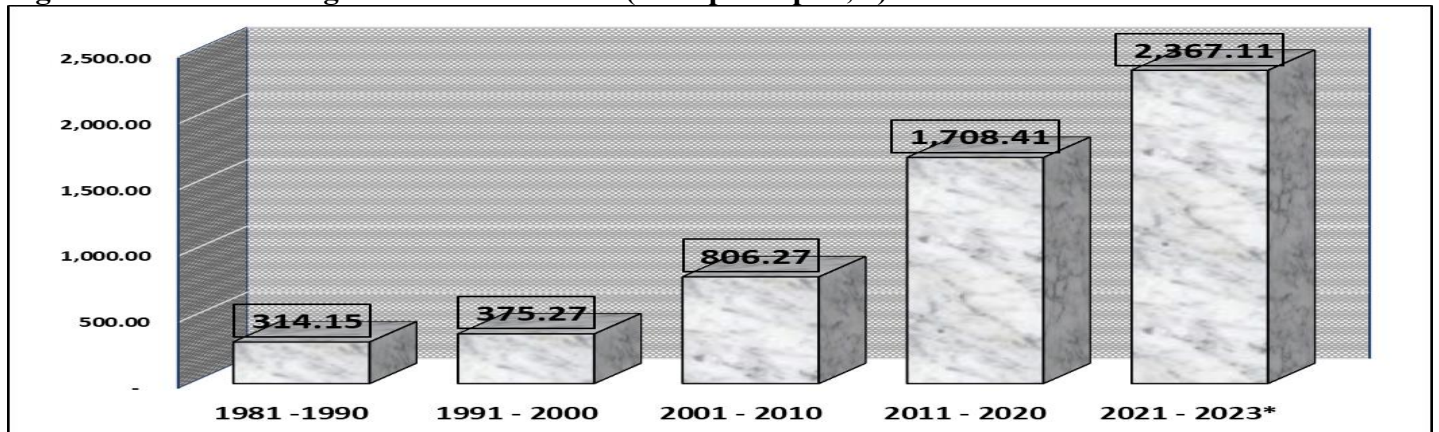
Source: World Bank Development Data, 2023

The Indian economy experienced a challenging economic landscape from 1981 to 1990, with low per capita income due to historical legacies, structural inefficiencies, and policy decisions. However, from 1991 to 2000, economic income increased to $375.27. The implementation of economic liberalization policies in 1991 led to significant transformations, such as increased per capita income. From 2001 to 2010, per capita income increased to $806.27 and from 2011 to 2020 to $2,367.11. Economic liberalization reduced tariffs, trade barriers, deregulated industries, and encouraged foreign direct investment, leading to substantial economic growth. India's economic liberalization has transformed the country from the 17th largest to the 5th largest today. The government has also implemented structural reforms like the Goods and Services Tax, the Insolvency and Bankruptcy Code, and the Make in India campaign to improve the business environment and boost economic activity.

2.2   India's Adopted Reforms based on The Washington Consensus Prescriptions.

2.2.1   Tax Reforms in India

The historical context of India's tax system dates back to the colonial era when the British introduced various forms of taxation to fund their administration. Post-independence, the Indian government inherited a complex and inefficient tax structure, which led to the need for reforms. This informed the tax reforms that were conceived and implemented. India's tax system has undergone significant changes over the years, aiming to improve

efficiency, increase compliance, and foster economic growth. These reforms can be broadly categorized into direct and indirect taxes (Samantara, 2021). Direct Tax Reforms include the Income Tax Act of 1961, which consolidated and amended laws relating to income taxes. Economic Liberalization (1991) marked a turning point in India's tax policy, introducing several measures to simplify the tax structure and reduce rates. The key recommendations included tax rate reductions, broadening the tax base, and introducing the minimum alternative tax (MAT). The Kelkar Committee Recommendations (2002) suggested measures for simplifying direct taxes, including reducing exemptions and deductions, aligning corporate tax rates with global standards and encouraging electronic returns filing. The Direct Taxes Code (DTC) was proposed to replace the Income Tax Act of 1961 and seek to simplify and rationalize direct taxes. Recent reforms include the Corporate Tax Rate Cut (2019), Faceless Assessment Scheme (2020), and Vivad se Vishwas Scheme (2020).

Figure 2: India's Average Tax Revenue to GDP (%)
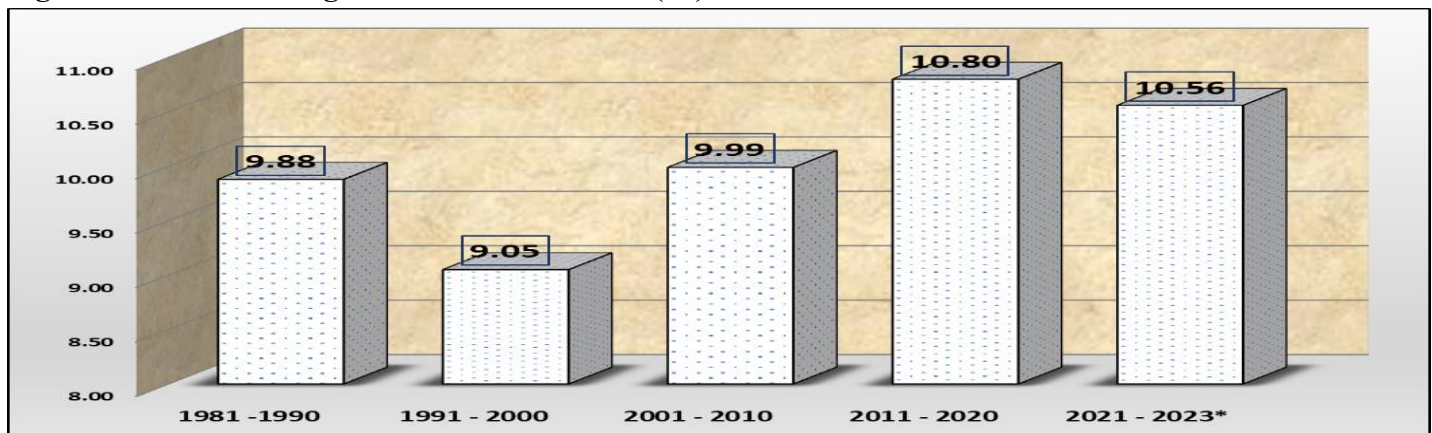
Source: World Bank Development Data, 2023

On the part of indirect tax reforms, the Goods and Services Tax (GST), implemented on July 1, 2017, is one of India's most significant indirect tax reforms, subsuming multiple indirect taxes into a single unified system (Deshmukh et al, 2022). Indirect Tax Reforms before the introduction of the Goods and Services Tax (GST) led to cascading effects where taxes were levied on top of other taxes, increasing business and consumer costs. The key features are the dual GST model, the input tax credit mechanism, and the four-tier rate structure. The implementation of GST had far-reaching impacts on India's taxation system, such as ease of doing business, increased revenue collection, and formalization of the economy through mandatory registration thresholds (Rao et al, 2019). However, both direct and indirect tax reforms have faced challenges, including complexity, tax evasion, and litigation, initial issues with GST, multiple rate structures, and state autonomy concerns.

In response to various tax reforms, India's tax to GDP ratio has recorded noticeable increases. From 1983-1990, before economic and liberalization reforms, tax revenues to GDP ratios averaged 9.88%. This ratio reduced to 9.05% from 1991 to 2000. This is clearly evident because tax reform was an ongoing process that continued until 2017. The average tax ratio to GDP increased to 9.99% from 2001 to 2010. An impressive record of 10.80% was recorded for the period 2011 to 2020, which further dropped marginally to 10.56% for the period 2021 to 2023. The recent drop is connected to the lag effect of the 2020 COVID-19 pandemic. However, there have been appreciable increases in the ratio of tax revenues to GDP. India's marginal increases in the tax revenue to GDP ratio are attributable to growth in direct taxes, which are expected to increase annually. The government has also worked on simplifying and rationalizing tax regimes to reduce disputes and enforce compliance. with the Indian economy growing per capita income, it is expected that tax revenues will increase. This trend is observed in other

countries where the tax-to-GDP ratio also rises. The Goods and Services Tax (GST) Council also aims to rationalize GST rates on various items to optimize collection without major disruptions.
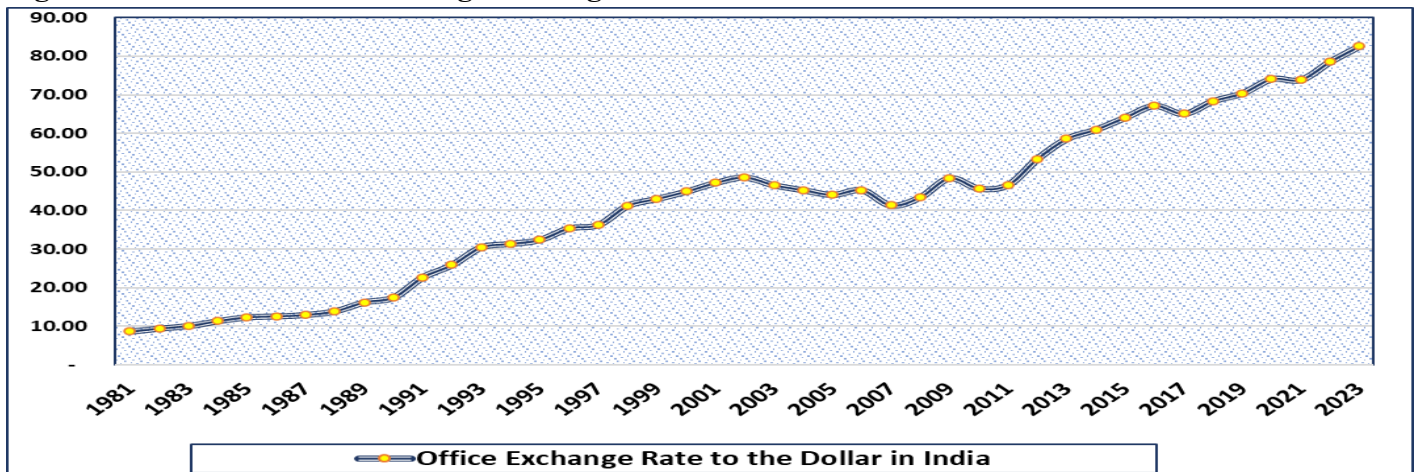
2.2.2 Exchange Rate Reforms in India

India's exchange rate policy has evolved through various phases, reflecting the changing economic landscape and policy priorities. In the post-independence era, India adopted a fixed exchange rate system pegged to the British Pound Sterling, which was part of a broader strategy of import substitution industrialization aimed at reducing dependence on foreign goods and promoting domestic industries. However, by the late 1960s and early 1970s, the system faced significant challenges from external shocks, such as oil price hikes, and internal issues like fiscal deficits and inflation. These factors led to periodic devaluations of the Indian Rupee (INR) to maintain export competitiveness.

In the pre-liberalization phase, India maintained a fixed exchange rate regime with periodic adjustments to ensure stability in international trade and payments while protecting domestic industries from foreign competition. Key events during this phase included the devaluation of the currency in 1966 and the shift from the Pound Sterling to the United States dollar peg in 1975. The liberalization phase (1991-2000) marked a watershed moment for India's economic policy, with comprehensive reforms aimed at liberalizing trade, investment, and financial markets. The balance of payments crisis (1991) necessitated significant economic reforms, leading to the introduction of a dual exchange rate system in 1992 under the Liberalized Exchange Rate Management System (LERMS). This system required exporters to convert 40% of their foreign exchange earnings at an official rate determined by the Reserve Bank of India (RBI), while the remaining 60% could be converted at market-determined rates.

In 1993, India moved toward a unified market-determined exchange rate system, allowing market forces to play a more prominent role in determining INR values. Full current account convertibility for INR was achieved in 1994, facilitating greater ease in international transactions related to trade and services. The post-liberalization phase saw further refinements in India's exchange rate policy, aimed at enhancing flexibility while maintaining macroeconomic stability. Since adopting a unified market-determined exchange rate system in 1993, India has followed a managed float regime in which RBI intervenes occasionally to curb excessive volatility without targeting any specific INR level. India's journey toward establishing an effective framework for managing its currency in the face of dynamic global economic conditions underscores both achievements made thus far and ongoing challenges requiring vigorous policymaking efforts.

Figure 3: India's Official Exchange rates against the US Dollar
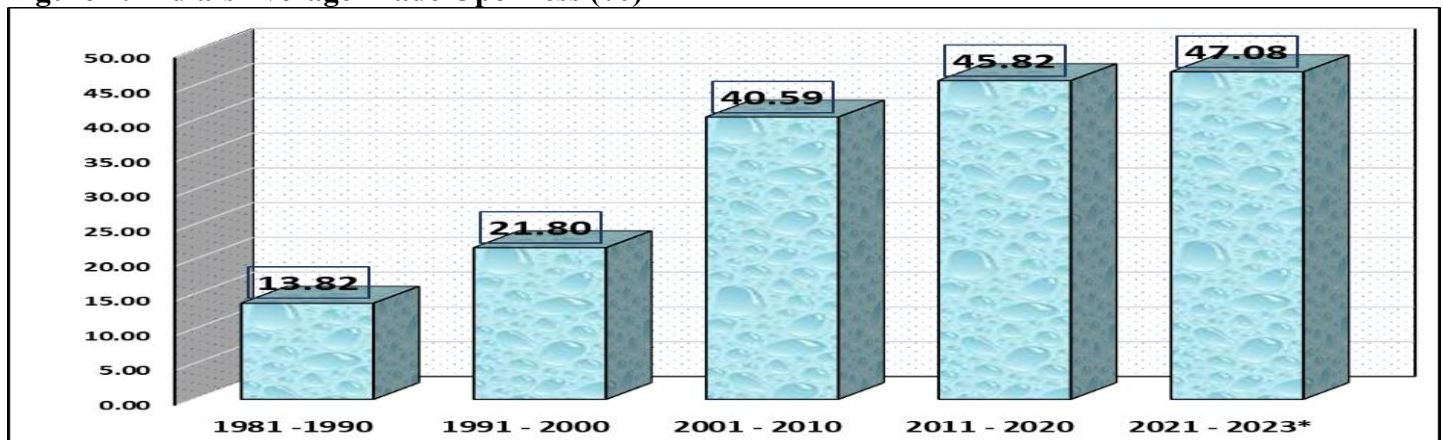

Source: World Bank Development Data, 2023

In response to various exchange rate reforms, India's exchange rate has continued to depreciate against the USD. From ₹8.66/$1 in 1981, the rupee depreciated to ₹17.50/$1 in 1990. The continuous depreciation continued until 2000 when the rupee exchanged ₹44.94/$1. A marginal appreciation was observed in 2007 when the Indian rupee exchanged ₹41.35/$1. In 2007, the Indian Rupee experienced appreciation primarily due to depreciation of the US Dollar. This was a result of the US economy, and other developed country's economies, was entering the Global financial crisis of 2007-09. Consequently, the US Dollar depreciated against several currencies, including the Indian Rupee. This kind of appreciation was purely exogenous and very short-lived. From there on, the rupee exchanged at ₹67.20.35/$1 in 2016 and further to ₹81.60/$1 in 2023. Despite the intervention of the Reserve Bank of India (RBI) to stabilize the rupee. The RBI may intervene in foreign exchange markets to stabilize the Indian rupee; however, long-term trends are primarily shaped by broader economic policies and fiscal discipline.

2.2.3 Trade Reforms in India

Trade reforms were among the many liberalization policies initiated in the early 1990s as part of a broader strategy to modernize and liberalize the Indian economy (Goldar et al, 2020). One of the key drivers of trade reforms and liberalization in India was the balance of payments crisis in 1991. This crisis was triggered by a sharp increase in oil prices, a slowdown in remittances from Indians working abroad, and a decline in foreign exchange reserves. To address this crisis, the Indian government, under Prime Minister P.V. Narasimha Rao and Finance Minister Dr. Manmohan Singh embarked on a comprehensive economic reform program known as the "New Economic Policy". The policy included several key elements aimed at liberalizing trade and promoting exports, such as devaluing the Indian rupee to boost export competitiveness, reducing import tariffs, dismantling licensing requirements for many industries, and opening up several sectors to foreign investment (Gupta, 2021). Another important aspect of trade reforms in India was the simplification and rationalization of trade procedures, which included measures to streamline customs clearance processes, reduce bureaucratic red tape, and improve ports and airport infrastructure to facilitate smoother trade flows.

Further, India also signed several international agreements and treaties aimed at promoting free trade and facilitating cross-border commerce, including the establishment of the World Trade Organization (WTO) in 1995. India actively participated in WTO negotiations and committed to reducing import tariffs, eliminating nontariff barriers, and adhering to international trading rules. The impact of trade reforms and liberalization in India has been significant across various sectors of the economy, with a rapid expansion in exports to sectors such as information technology services, pharmaceuticals, textiles, automotive components, and agricultural products. However, there have also been challenges associated with trade reforms in India, such as widening income inequality between urban centers that have benefited from globalization and rural areas that struggle to keep pace with economic changes. Balancing economic growth needs with social equity considerations remains a key challenge for policymakers.

Figure 4: India's Average Trade Openness (%)

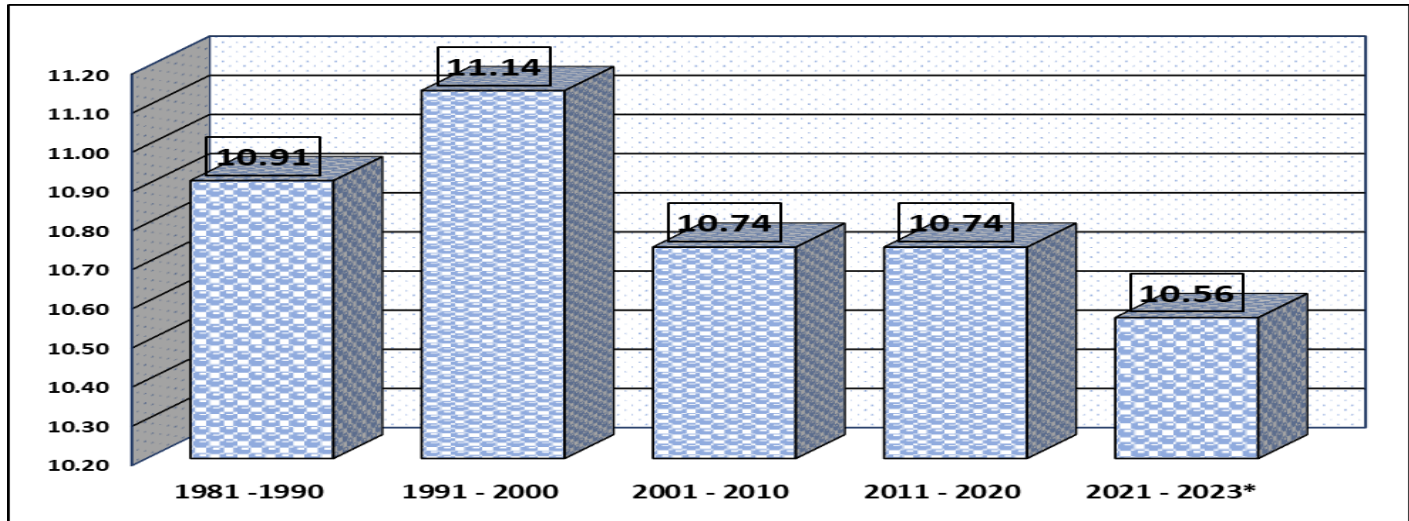**Source: World Bank Development Data, 2023**

In response to the various trade reforms implemented, India's trade openness has increased continuously from 1981 to 2023. For instance, average trade openness was 13.82% between 1981 and 1990. This increased further to 21.80% from 1991 to 2000. Further increases were observed from 2001 to 2010, with an average of 40.59%. India's average trade openness further increased to 45.82% between 2011 and 2020 and 47.08% between 2021 and 2023. Since 1981, India has experienced a growth in trade openness, primarily due to a series of economic liberalization measures that began in the early 1980s and expanded in 1991. These initiatives were aimed at integrating the Indian economy into global markets, reducing trade barriers, and fostering foreign investment. The shift toward a market-driven economy was a pivotal factor, as the government acknowledged that a closed economy with extensive protectionism was not conducive to sustained growth. The reforms encompassed a reduction in tariffs, elimination of import quotas, and streamlining of export-import procedures, all of which contributed to heightened trade openness.

2.2.4   Fiscal Policy and Public Expenditure Reforms in India

India's government spending policy has evolved significantly since independence in 1947, with a focus initially on building a self-reliant economy through heavy investments in infrastructure and industrialization. Five-Year Plans were introduced as a strategic framework for economic development, emphasizing public sector-led growth with substantial government expenditure on large-scale projects (Herd & Leibfritz, 2008). Government spending in India can be broadly categorized into two main types: revenue expenditure and capital expenditure. Revenue expenditure refers to recurring expenses required for the day-to-day functioning of the government, including salaries and pensions for central and state government employees, subsidies, pensions, interest payments on debt, interest payments on domestic and external debt, and grants-in-aid. Capital expenditure involves spending on infrastructure projects like roads, bridges, schools, hospitals, defense equipment, etc., which leads to asset creation or a reduction in liabilities.

The Indian government's spending policy prioritizes several key sectors crucial for national development: education, healthcare, agriculture, and public enterprises (Singh, 2013). Education receives substantial funding aimed at improving literacy rates, enhancing the quality of education, and promoting skill development programs like the Skill India Mission. Higher Education Funding Agencies provide grants for research and development activities. Healthcare spending focuses on improving access to medical services across urban-rural divides through initiatives like the Ayushman Bharat—Pradhan Mantri Jan Arogya Yojana (PM-JAY), National Health Mission (NHM), and the Ayushman Bharat Scheme. The agriculture sector provides subsidies on fertilizers, seeds, and electricity, minimum support prices (MSP) procurement, irrigation projects, crop insurance schemes like Pradhan Mantri Fasal Bima Yojana (PMFBY), Pradhan Mantri Krishi Sinchai Yojana (PMKSY), and the Kasan Credit Card Scheme.

As seen, India's governmental spending policy focuses on various sectors, such as social welfare programs, fiscal policies, and regional disparities. These programs provide wage employment to vulnerable groups such as women, children, senior citizens and differently abled persons. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) guarantees 100 days of wage employment annually for rural households willing to work unskilled manual labour. The Pradhan Mantri Awas Yojana-Gramin/Urban (PMAY-G/U) scheme ensures affordable housing for poor households in both rural and urban areas. Financial policies also play a crucial role in shaping government expenditure. The Fiscal Responsibility Budget Management Act (FRBMA) was enacted in 2003 to ensure intergenerational equity and long-term macroeconomic stability by reducing fiscal deficits. The Goods Services Tax (GST) was introduced in July 2017 as a landmark indirect tax reform that simplifies compliance, boosts revenues, and enables higher public outlays.

Figure 5: India's average central government consumption expenditure per GDP (%)

Source: World Bank Development Data, 2023

In response to the various fiscal policy reforms, India's government spending-to- GDP ratio is shown in figure 5. The ratio increased from 10.91% to 11.14% from the cluster of 1981-1990 and 2000, respectively. Government consumption spending averaged 10.74% in the periods covering 2001-2010 and 2011-2020. This category of government spending dropped further, on average, to 10.56% from 2021 to 2023. On average, the Indian government's consumption spending has continued to drop since 1991, as part of its economic and liberalization reforms. The structural reforms in India have led to a reduction in government consumption spending as a result of fiscal consolidation mandated by the IMF and World Bank. This required India to reduce its fiscal deficit by cutting down on government expenditure, including consumption. Liberalization policies encouraged a shift from a state-controlled economy to a market-driven one, reducing government intervention in various sectors and allowing private enterprises to take over traditionally held state-owned roles. Many state-owned enterprises were privatized or opened for foreign investment, reducing the need for government spending. Austerity measures were implemented to stabilize the economy and restore investor confidence. The focus is now on investing in infrastructure and development projects to spur long-term economic growth.

Despite efforts to address developmental challenges, several impediments persist, such as fiscal deficit management, leakage and corruption issues, and regional disparities. Recent government spending policies reflect evolving socioeconomic landscapes and global dynamics. Digital infrastructure has been a significant focus, with investments directed toward expanding broadband connectivity, promoting digital literacy, e-governance initiatives, transparency, efficiency, and governance processes. The health care sector has also seen increased allocations post-COVID-19, emphasizing the importance of resilient health care systems.

2.2.5   Investment Reforms in India

India, on the investment side, has been a significant focus for both domestic and international investors since its economic liberalization in 1991. The liberalization policies introduced marked a significant shift toward a market-oriented economy, dismantling many regulatory barriers, reducing import tariffs, devaluing currency to boost exports, and opening up several sectors for private and foreign investments. Key reforms in Foreign Direct Investment (FDI) policies include the liberalization of various sectors, such as telecommunications, insurance, banking, retail trading (including e-commerce), civil aviation, defense manufacturing, pharmaceuticals, and real estate (Hans & Pereira, 2024). These measures were aimed at integrating India into the global economy and fostering economic growth through increased capital inflows (Kumari et al, 2023). To attract more foreign

investment, India has undertaken numerous initiatives aimed at improving its ranking on the World Bank's Ease of Doing Business Index. Key measures include simplification of regulatory processes, introduction of online portals for business registrations, implementation of Goods and Services Tax (GST) to create a unified tax regime, and the Insolvency and Bankruptcy Code (IBC) to expedite the resolution of distressed assets.

Figure 6: India's Average Foreign Direct Investment to GDP ratio, net inflows (%)
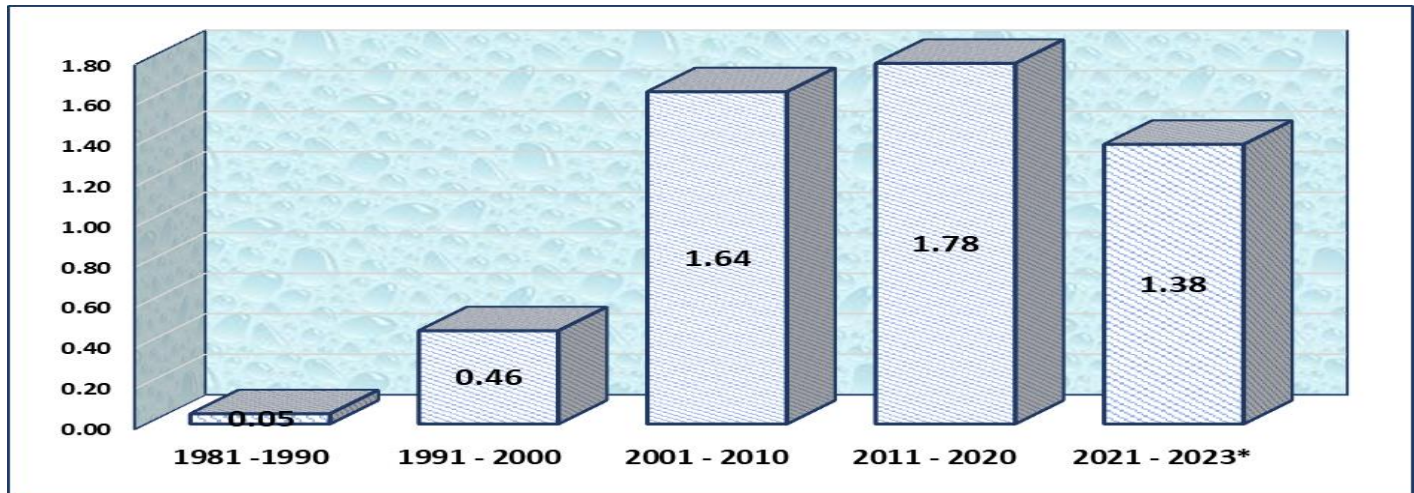
Source: World Bank Development Data, 2023

The "Make in India" campaign, launched in 2014 by Prime Minister Narendra Modi, aims to transform India into a global manufacturing hub by promoting investment across various sectors such as automobiles, textiles, chemicals, IT & BPM (Business Process Management), pharmaceuticals, electronics systems design and manufacturing (ESDM), and renewable energy sources like solar power. India's IT sector has been one of the biggest beneficiaries of FDI reforms, with a robust infrastructure supported by skilled professionals proficient in English, coupled with cost advantages compared to those globally (Hans & Pereira, 2024). Multinational companies have established their presence in the country either through wholly-owned subsidiaries or joint ventures, leading not only job creation but also technological advancements within the country itself. The automobile industry has witnessed substantial foreign investments post-liberalization era due largely because favourable policies like allowing up to 100% FDI via the automatic route along with incentives provided under schemes such as Faster Adoption Manufacturing Hybrid Electric Vehicles (FAME). Real estate, being capital-intensive, requires significant funding that often comes via FDIs, contributing to urban development and generating employment opportunities simultaneously.

In response to various investment policy reforms embarked on, India's FDI net inflows to GDP ratio increased from the 1981-1990 average of 0.05% to 0.46% average in the 1991-2000 period. By the time the reform gained momentum, the average FDI net inflows was 1.64% in the period 2001-2010, and further to 1.78% in 2011-2020 period. The COVID-19 pandemic effect lagged, affecting net FDI inflows, dropping to 1.38% in 2021-2023 period. In 1991, India faced a balance of payments crisis, leading to economic reforms and policy liberalization measures. These measures included devaluing the Indian Rupee, reducing tariffs and trade barriers, and privatizing state-owned enterprises. The government also introduced policy changes to create a more favourable environment for foreign direct investment (FDI), such as automatic approval routes, relaxation of FDI cap, and the establishment of Special Economic Zones. India's large consumer market, demographic dividend, and rapid urbanization attract foreign investors because of its vast market potential for consumer goods, services, technology, and infrastructure. Sectors like IT, software services, telecommunications, and the automobile

industry are particularly attractive. Global economic trends, such as the shift toward Asia and the "China Plus One" strategy, have also contributed to increased FDI inflows.

Despite these positive developments, investors still face challenges such as regulatory hurdles, land acquisition issues, infrastructure deficiencies, and policy uncertainty. Future prospects and recommendations for India include strengthening legal frameworks, enhancing infrastructure development, promoting skill development programs, and encouraging public-private partnerships (PPP).

3.   Data and Methods

Data for this study were obtained in the form of multivariate annual time series from the World Development Indicators (WDI) in the World Bank database. The data sets were refined using criteria similar to those in previous economic growth studies (see Yua, 2024; Epor *et al*, 2024; Epor, 2024), but exclusively on India while ensuring that data on FDI, trade openness, tax revenue ratio, government spending, and exchange rate are comprehensive from 1981 to 2023. The final dataset comprised balanced time series data for India from 1981 to 2023. This timeframe was selected to capture the influence of the 1991 economic and liberalization reforms in India, the 2007-2009 global financial crisis, and the COVID-19 pandemic, ensuring that these events would not impact the estimation results. To this end, a structural break model is most appropriate.

Structural break analysis is a crucial tool in economic reform studies, enabling researchers to identify and analyze significant changes in economic relationships over time (Aue & Horváth, 2013; Davis et al, 2006). These changes can be attributed to policy reforms, institutional changes, or external shocks. The economic and policy reforms that began in 1991 in India, such as trade, the exchange rate, and FDI liberalization policies, can impact the country's economy. Institutional changes, such as public expenditure and tax reforms can also lead to significant changes in economic relationships. The breakpoint least squares regression model is a statistical tool used to analyze structural breaks in India's economic reforms, which refer to changes in the relationship between variables due to policy changes, economic shocks, or external factors, such as the 1991 liberalization and subsequent financial sector reforms. The breakpoint least squares regression model is an extension of the standard least squares approach, allowing for changes in relationships at unknown time points, making it useful for structural break analysis.

On the other hand, the University of Chicago's dissertation (2022) on the period of 1980-2020 confirmed that there was no long-run relationship between inputs, exports, and GDP growth. However, this study reported that exports from Granger caused GDP growth without evidence of reverse causality. In addition, the study reported that although human capital development and FDI had a positive impact on GDP, during the period under review, export diversification did not Granger-cause GDP growth.

If the standard least squares are used, the model is specified as follows:

$$ECG = f(ecref)$$

Where, *ECG* represents *"economic growth"* and *screw* represent *"economic reforms"*.

The Breakpoint Least Squares (BLS) regression model is used to analyze structural breaks in time series by dividing the time series into segments separated by breakpoints. It helps identify changes in the data generation process over time. In India's economic reforms, it can help understand the impact of these reforms on various aspects of the economy. BLS regression is useful for exploratory analyses without a clear breakpoint hypothesis based on historical knowledge or theoretical frameworks. It can handle multiple breaks simultaneously without requiring ad hoc tests or adjustments.

Then, the estimation procedure of the breakpoint least squares regression model, which uses Bai-Perron tests to determine breakpoint numbers and locations, iteratively searches for optimal breakpoints by minimizing the residual sum of squares (RSS). Thus, the breakpoint least squares regression model is defined as follows:

$$ECG = f(ecref) = \begin{cases} f(ecref)_{t1} \\ f(ecref)_{t2} \\ f(ecref)_{t3} \\ \vdots \\ f(ecref)_{tn} \end{cases}$$

Where, t1, t2, t3…tn represent the individual regression for each breakpoint, which are 1, 2, 3…n. Then, the breakpoint regression is as follows:

$$ECG_{ti} = f(ecref) = \begin{cases} \propto_{t1} + TXRN_{t1} + TRPN_{t1} + GVSPN_{t1} + FDIN_{t1} + EXRN_{t1} + \mu_{t1} \\ \propto_{t2} + TXRN_{t2} + TRPN_{t2} + GVSPN_{t2} + FDIN_{t2} + EXRN_{t2} + \mu_{t2} \\ \propto_{t3} + TXRN_{t3} + TRPN_{t3} + GVSPN_{t3} + FDIN_{t3} + EXRN_{t3} + \mu_{t3} \\ \quad\quad\quad\quad\quad\quad\quad\quad \vdots \\ \propto_{tn} + TXRN_{tn} + TRPN_{tn} + GVSPN_{tn} + FDIN_{tn} + EXRN_{tn} + \mu_{tn} \end{cases}$$

Furthermore, is summarized as follows:

$$ECG_{ti} = \propto_{ti} + TXRN_{ti} + TRPN_{ti} + GVSPN_{ti} + FDIN_{ti} + EXRN_{ti} + \mu_{ti}$$

Where, ECG_{ti} is economic growth components for each breakpoint as proxied by GDP per capita, $\propto_{ti}$ is model intercepts of each breakpoints, $TXRN_{ti}$ is tax revenue component of economic reform for each breakpoint and proxied by tax to GDP ratio, $TRPN_{ti}$ is trade openness component of economic reform for each breakpoint and proxied by imports plus exports divided by GDP ratio, $GVSPN_{ti}$ is government spending component of economic reform for each breakpoint and proxied by central government final consumption expenditure to GDP ratio, $FDIN_{ti}$ is FDI component of economic reform for each breakpoint and proxied by net FDI inflow to GDP ratio, $EXRN_{ti}$ is exchange rate component of economic reform for each breakpoint and proxied by official exchange rate, and μ_{ti} is the error term components for each breakpoint.

When analyzing time series data, it is essential to identify whether the series is stationary or possesses a unit root. The Zivot-Andrew's test is useful for determining whether a time series is stationary or contains a unit root. This method allows for a single structural break in the data and uses an endogenous determination of the break point. The optimal breakpoint is selected, and critical values are adjusted to account for the search process. The proposed test has advantages, such as endogenous break point detection, flexibility, and improved power, whereas limitations, such as single break limitation and increased computational complexity, are drawbacks.

4.   Analysis and Results

To begin the estimation and analysis, we conducted Zivot-Andrews unit root tests to detect any unknown structural breaks in the series or variables. The results of these tests, which used both intercept and trend, are detailed in Table 1. The outcomes indicate significant structural break(s) in the variables at different integration orders. While exchange rates, government spending, FDI, trade openness, and tax revenue had significant unit roots with structural breaks at various levels, economic growth had significant unit roots with structural breaks at the first difference

Table 1: Results of Zivot-Andrews Unit Root Test with Single Structural Break

	At Levels			At First Differences		
	Statistics	prob	Time Breaks	Statistics	prob	Time Breaks
Variables						
ECG	-3.43	0.1733	1991	-7.72	0.0217**	2003
EXRN	-3.90	0.0155**	2004	-6.48	0.0405**	2003
FDIN	-5.87	0.0003***	2006	-8.77	0.0048***	2009
GVSPN	-5.44	0.0502**	2004	-4.34	0.1874	2008
TRPN	-3.89	0.0049***	2004	-7.19	0.0031***	2013
TXRN	-4.58	0.0020***	2005	-3.24	0.0652*	2002
Sig. Levels	**Critical Values**					
1%	-5.57					
5%	-5.08					
10%	-4.82					

Note: ***, ** and * represent significance at 1%, 5% and 10%

For the structural breaks to become significant later than 1991, this means that the economic reform and liberalization policies in India had no immediate impact on the country's economy. India's economic reforms in 1991 transformed the country's economy from a state-controlled system into a market-oriented system. However,

the impact was delayed by several factors. The initial phase focused on stabilizing the macroeconomic environment through measures such as currency devaluation and tightening of monetary policy. The liberalization process involved comprehensive changes across sectors, including trade, industry, finance, and public enterprises. The private sector initially responded cautiously, requiring time to adapt strategies and build investor confidence. Social adjustments were also necessary, as labor markets became more flexible, and skill development programs were needed to equip workers for a competitive environment.

Pre-Estimation analysis

With structural breaks in the unit root, it is necessary to assess whether these breaks alter the specified relationship between economic growth and economic reform variables. This process is critical for accurately capturing data dynamics and producing reliable results. As a follow-up, a CUSUM of Squares was used to test the model stability, as shown in figure 7. The CUSUM-of-squares test is a statistical method used to assess model stability over time. The sum of squared deviations between actual values and those predicted by the model are computed at each time interval. By tracking the cumulative total of these square deviations, analysts can detect intervals where the model's accuracy significantly differs from its established performance.

Figure 7: pre-Estimation CUSUM of Squares Test for model stability
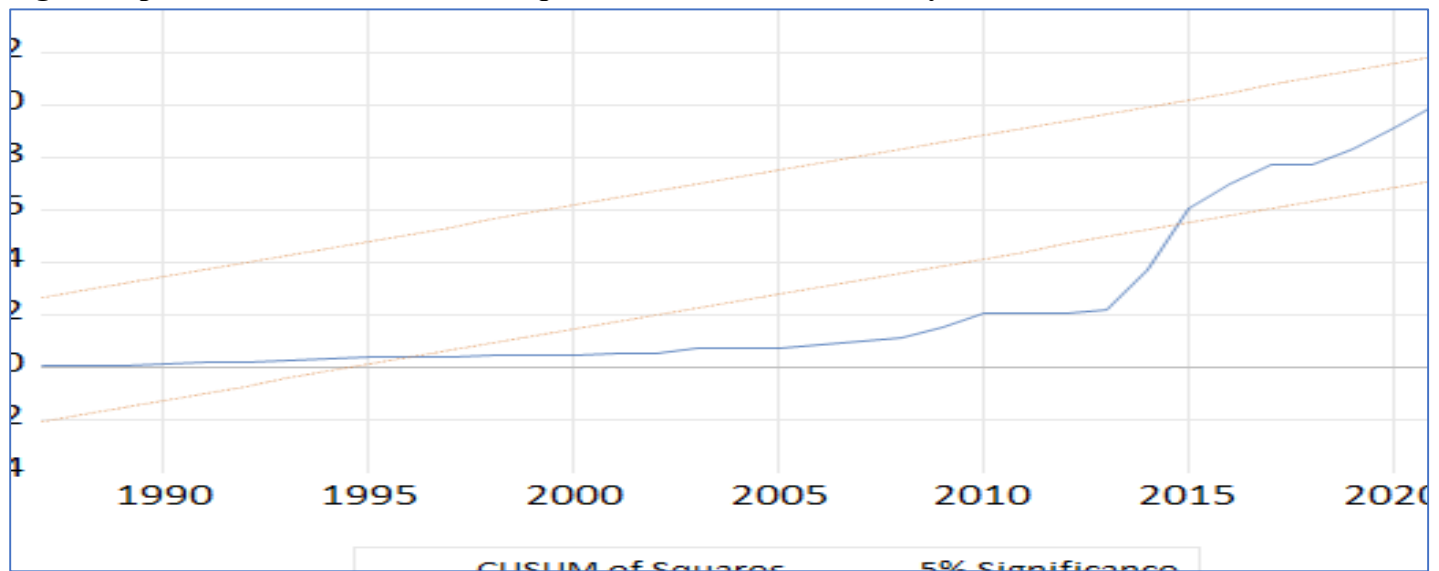
Source: Research output from EViews 13

By analyzing the CUSUM of Squares chart in figure 7, there is evidence of abrupt changes or shifts in the cumulative sum of squared residuals, which indicate instability in the model. This was demonstrated by the CUSUM of Squares plot deviating outside the 5% significance boundaries. Therefore, there is a potential structural break or instability in the model involving economic reforms and growth in India.

Model Estimation

Based on the Bai-Perron tests, the structural break date was 2007 (see table 2). With this in mind, the models were estimated in the pre-2007 (that is, 1981-2006) and post-2007 (that is, 2007-2023). The Indian economy may have experienced a structural break in 2007, with rapid economic growth and increased global integration. The GDP growth rate surged to around 9%, indicating a shift from earlier trends. The service sector, particularly IT and outsourcing, experienced rapid expansion, contributing significantly to economic growth. Policy reforms by the Indian government, such as liberalizing FDI policies, implementing infrastructure development projects, and financial sector reforms, further supported the notion of a structural break. These measures laid the foundation for long-term structural transformation of the Indian economy.

Table 2: Results of Least Squares with Breaks based on Discrete Threshold Regression

Variable	First Break Model: 1981-2006 (26 Obs)		Second Break Model: 2007-2023 (17 Obs)	
	Coefficient	Prob/Sig.	Coefficient	Prob/Sig.
EXRN	0.0000	0.9945	0.0191	0.0000***
FDIN	0.0494	0.4444	-0.1158	0.0044***
GVSPN	0.0698	0.0299***	0.1449	0.0001***
TRPN	0.0287	0.0001***	0.0049	0.1644
TXRN	0.0531	0.1036	0.0573	0.0113**
Model Diagnostics and Break Validity				
Break dates		2007		
Prob. of F-Statistics		0.0000***		
Durbin-Watson stat		2.0423		
Ramsey RESET Test (prob. of F-statistic)		0.2456		
Normality test (prob)		0.7339		
Serial correlation (prob)		0.9146		
Breusch-Pagan-Godfrey Heteroskedasticity Test (prob)		0.1494		

Note: ***, ** and * represent significance at 1%, 5% and 10%

However, empirical evidence for the pre-2007 model from table 2 showed that exchange rates, foreign direct investments, and tax revenues support economic growth in India but not significantly. The Indian economy has faced challenges in the past due to various factors, including limited export competitiveness, high import dependency, fluctuating capital flows and a mismatch between the skills available within the Indian labour force and those required by foreign companies. The Reserve Bank of India (RBI) intervened to stabilize the rupee, but the impact of exchange rates on economic growth was not significantly pronounced during this period. Foreign Direct Investment (FDI) inflows were also limited due to sectoral limitations, complex regulatory environments, inadequate infrastructure, and a skill mismatch between the Indian labour force and those required by foreign companies. Tax revenues, essential for funding public services and infrastructure projects, face several challenges, including a narrow tax base, inefficient tax administration systems, indirect tax dominance, and ongoing reforms aimed at broadening the tax base and improving compliance.

Empirical evidence from table 2 showed that government consumption expenditure and trade openness significantly boost economic growth in India. It was observed that revenue expenditure had a beneficial effect on economic growth. This indicates that government operational spending, such as on wages and subsidies, might have had a more immediate effect on boosting economic activity than long-term investments in infrastructure. In addition, India's degree of openness to international trade has played a crucial role in driving economic growth. The liberalization policies introduced in the early 1990s markedly enhanced India's trade openness, which in turn resulted in elevated economic growth rates. Empirical studies indicate that during the period before 2007, trade openness positively impacted India's economic growth. By facilitating greater access to global markets, enabling technology transfer, and attracting foreign investment, trade openness has contributed to improved productivity and efficiency in the Indian economy.

After 2007, India's economic structure may have been influenced by global and domestic factors. The 2008 global financial crisis, which had widespread effects on economies worldwide, may have contributed to subsequent economic shifts. Policy changes post-2007 aimed at liberalizing markets and enhancing growth prospects could have led to gradual structural adjustments. Additionally, continued growth in services and technology sectors may have contributed to the ongoing structural evolution without a specific breakpoint in 2007.

Evidently, post-2007 revealed that exchange rates, government consumption spending, and tax revenue ratios had significant positive effects on India's economic growth. India's exchange rate policy has been instrumental in

supporting economic growth since 2007. The Reserve Bank of India (RBI) has adopted a managed float system to maintain stability in the rupee's value against major currencies like the US dollar. This stability has attracted foreign direct investment and made Indian exports more competitive globally. Government spending increased after 2007, focusing on infrastructure development, social welfare programs, and rural development schemes. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has provided employment opportunities in rural areas, increasing disposable incomes, and stimulating demand. Investments in health care and education have contributed to human capital development, which is essential for long-term economic growth. The tax revenue ratio has also improved post-2007 due to reforms like the Goods and Services Tax (GST), which simplified the tax system and increased transparency.

The post-2007 period of FDI witnessed significant negative effects on India's economic growth, largely due to economic, social, and political factors. There are several possible arguments to support this finding. First, the 2008 global financial crisis may have reduced global liquidity and risk appetite, slowed FDI inflows, and affected sectors like manufacturing, services, and infrastructure development. High inflation rates also eroded purchasing power and increased business costs, leading to tighter monetary policies for the Reserve Bank of India. Furthermore, political factors such as regulatory challenges, policy paralysis, and corruption at various government levels further complicated the investment process. Complex bureaucratic processes, lack of transparency, and frequent changes in regulations create an uncertain business environment for foreign investors. Political instability and policy paralysis also deterred FDI inflows, creating an unfavourable investment climate.

Post-Estimation Analysis

Evidence from table 2 showed that the model estimates meet the least squares requirements of normality, no serial correlation (in Durbin-Watson and LM tests), and homoscedasticity, in that their probability values are in excess of the 0.05 threshold. The probability of the F-statistic is significant, indicating the combined significance of the economic reform variables. Also, the Ramsey RESET test, which helps identify the issue of omitted economic reform variables, generated an F-statistic of 1.4008, with a probability value of 0.2456. With the probability outcome (i.e., 0.2456) exceeding the significance level of 0.05, the null hypothesis of no omitted reform variable cannot be rejected. According to this result, there is no statistical evidence that the relevant economic reform variables in India were omitted from the model specification.

Figure 8: post-Estimation CUSUM of Squares Test for model stability

Source: Researcher from EViews 13

The CUSUM of squares test plot falling within the 5% significance boundary in figure 8 suggests that the model is stable. This indicates that there are no significant deviations or structural breaks in the regression parameters, as previously identified before estimating the breakpoint least squares. Therefore, the predictive performance of the economic reform-growth model for India remains consistent over time.

Figure 9: Model fit
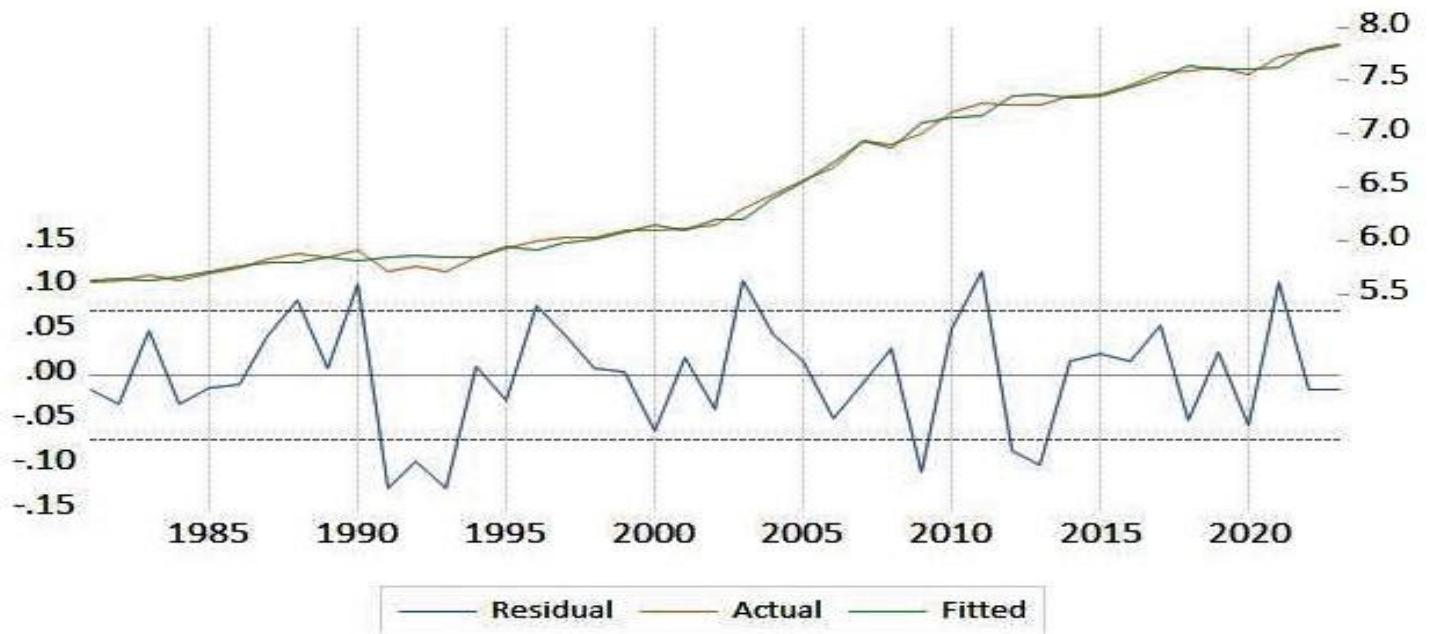
A model fit diagram, as presented in figure 9, is a visual representation of how well a model fits actual data. This includes plots of actual data points and the fitted values generated by the model. The closeness of these plots can provide valuable insights into model accuracy and reliability. The actual and fitted values are real data points collected from observations or experiments, and the fitted values are predicted by the model based on its parameters. As observed visually, the close relationship between the actual and fitted plots indicates high accuracy in predicting or explaining the observed data.

5.   Conclusions and Recommendations

Conclusion

This study attempted to determine if India adopted the Washington Consensus Prescription, (consciously or otherwise) and, if so, assess the impact of this on its economic growth for the period 1980-2023. The original Washington consensus formulation included fiscal discipline, reordering of public expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, liberalization of foreign direct investment, privatization of state enterprises, deregulation, and property rights.

Data analysis suggest that the Washington consensus variables played a significant role in the Indian success story. From the methodical and guided approach to economic management adopted by India in the period under review, it will not matter whether the adoption of the WCP was induced by the IMF or self-imposed. Data analysis shows that the Washington Consensus can be said to have been instrumental to India's economic advancement through macroeconomic stability, resulting from improvements in fiscal discipline, trade liberalization, exchange rate reforms, privatization, deregulation, and financial sector reforms.

This study reveals significant structural breaks in India's economy at different integration orders, with exchange rates, government spending, foreign direct investment, trade openness, and tax revenues showing significant unit roots. These breaks suggest that economic reform and liberalization policies had no immediate impact on the economy. The initial phase focused on stabilizing the macroeconomic environment through measures such as currency devaluation and tightening of monetary policy. The liberalization process involved comprehensive changes across sectors, and the private sector initially responded cautiously. Social adjustments were necessary, as labour markets became more flexible, and skill development programs were needed to equip workers for a

competitive environment. The CUSUM of Squares test was used to assess the impact of these structural breaks on the relationship between economic growth and reform variables, indicating potential structural breaks or instability in the relationship between economic reforms and growth in India.

Based on the Bai-Perron tests, the structural break date was 2007 (see table 2). With this in mind, the models were estimated in the pre-2007 (that is, 1981-2006) and post-2007 (that is, 2007-2023). The Indian economy may have experienced a structural break in 2007 due to rapid economic growth and increased global integration. The GDP growth rate surged to around 9%, and the service sector, particularly IT and outsourcing, experienced rapid expansion. Policy reforms by the Indian government, such as liberalizing FDI policies, implementing infrastructure development projects, and financial sector reforms, further supported the notion of a structural break. Pre-2007 empirical evidence showed that exchange rates, foreign direct investments, and tax revenues could support economic growth but not significantly. The Indian economy faced challenges due to limited export competitiveness, high import dependency, fluctuating capital flows, and a mismatch between the skills available within the Indian labour force and those required by foreign companies. Post-2007, FDI had significant negative effects on India's economic growth due to economic, social, and political factors.

Recommendations

Based on the study findings, the following recommendations can be considered imperative:

First, India's exchange rate reforms have significantly boosted its economic growth since the 1990s. The transition from a fixed to a managed floating rate regime improved currency stability and reduced volatility. To maintain these benefits, the Reserve Bank of India should continue monitoring the forex market and intervening when necessary. The Indian government should also focus on building and maintaining substantial foreign exchange reserves through prudent fiscal management, export promotion, FDI, and remittances.

Second, regarding government spending, the Indian government should focus on fiscal consolidation and improved governance to sustain economic growth. These objectives include maintaining a balanced budget, reducing deficits, and ensuring transparency in public spending. High social spending levels, such as the Mahatma Gandhi National Rural Employment Guarantee Act, can directly alleviate poverty. Expand social security programs to provide a safety net for vulnerable populations.

Third, India's tax revenue reforms have also significantly boosted economic growth by streamlining administration, broadening the tax base, and enhancing compliance. The Goods and Services Tax (GST), which was introduced in 2017, replaced multiple indirect taxes, and it has boosted revenue collection. Demonetization in 2016 led to increased digital transactions, and Aadhaar-PAN scheme linked improved taxpayer identification and compliance. Technology integration enhances efficiency and transparency in revenue mobilization and management.

Finally, India's FDI policy has been criticized for its ineffective not being as it could, in promoting sustainable economic growth post-2007. To improve the situation, India should simplify regulatory frameworks, enhance sector-specific attractiveness, improve business ease, encourage long-term investments, and strengthen institutional frameworks. These reforms should focus on infrastructure development, promoting "Make in India," modernizing labor laws, and fostering long-term investments.

All in all, it can be concluded that: (a) India adopted the Washington consensus variables considering the evident rapport between India, the IMF, and the World Bank as indicators by the latter's' various studies and reports on India's microeconomic management. (b) The exchange rate, fiscal policy, tax, and economic openness had positive and significant impacts on the country's impressive economic development outcomes in the 40 or so years under review.

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